Investing can intimidate a lot of people because there are many options and it can be hard to figure out which investments are right for your portfolio. This guide walks you through ten of the most common types of investments, from stocks to commodities and explains why you may want to consider including each in your portfolio. If you're serious about investing it might make sense to find a financial advisor who can guide you and help you figure out which investments will help you reach your goals.

What Are the 3 Main Investment Categories?

While the types of investments are numerous, it is possible to group them into one of three categories, equity, fixed-income and cash or cash equivalents.

The term "equity" covers any kind of investment that gives the investor an ownership stake in an enterprise. The most common example is common stocks. Other examples are preferred shares, funds that hold stocks, such as exchange-traded funds and mutual funds, private equity and American depositary receipts.

The term fixed-income covers any kind of investment that entails the investors essentially loaning money to an enterprise. The most common example is bonds, which come in various forms, including corporate and government, whether local, state or federal. Some fixed-income securities have equity-like characteristics, such as convertible bonds.

Cash and cash equivalents comprise a third type of investments. Besides bills such as you might keep in a wallet, this type includes checking accounts, savings accounts, certificates of deposit and money market accounts. Money market funds are sometimes considered cash equivalents because it�s easy to withdraw from such accounts, but they are technically fixed-income securities � albeit extremely secure securities.

11 Types of Securities:

While it is possible to put investments into one of three categories, as described above, there are many types within

1. Stocks

Stocks, also known as shares or equities, might be the most well-known and simple type of investment. When you buy stock, you�re buying an ownership stake in a publicly-traded company. Many of the biggest companies in the country are publicly traded, meaning you can buy stock in them. Some examples include Exxon, Apple and Microsoft.

How you can make money: When you buy a stock, you're hoping that the price will go up so you can then sell it for a profit. The risk, of course, is that the price of the stock could go down, in which case you'd lose money.

2. Bonds

When you buy a bond, you're essentially lending money to an entity. Generally, this is a business or a government entity. Companies issue corporate bonds, whereas local governments issue municipal bonds. The U.S. Treasury issues Treasury bonds, notes and bills, all of which are debt instruments that investors buy.

How you can make money: While the money is being lent, the lender or investor gets interest payments. After the bond matures, meaning you've held it for the contractually determined amount of time, you get your principal back.

The rate of return for bonds is typically much lower than it is for stocks, but bonds also tend to be a lower risk. There is still some risk involved, of course. The company you buy a bond from could fold or the government could default. Treasury bonds, notes and bills, however, are considered very safe investments.

3. Mutual Funds

A mutual fund is a pool of many investors� money that is invested broadly in a number of companies. Mutual funds can be actively managed or passively managed. An actively managed fund has a fund manager who picks securities in which to put investors� money. Fund managers often try to beat a designated market index by choosing investments that will outperform such an index. A passively managed fund, also known as an index fund, simply tracks a major stock market index like the Dow Jones Industrial Average or the S&P 500. Mutual funds can invest in a broad array of securities: equities, bonds, commodities, currencies and derivatives.

Mutual funds carry many of the same risks as stocks and bonds, depending on what they are invested in. The risk is often lesser, though, because the investments are inherently�diversified.

How you can make money:�Investors make money off mutual funds when the value of stocks, bonds and other bundled securities that the fund invests in go up. You can buy them directly through the

managing firm and discount brokerages. But note there is typically a minimum investment and you�ll pay an annual fee.
4. Exchange-Traded Funds (ETFs)
Exchange-traded funds (ETFs) are similar to mutual funds in that they are a collection of investments that tracks a market index. Unlike mutual funds, which are purchased through a fund company, shares of ETFs are bought and sold on the stock markets. Their price fluctuates throughout the trading day, whereas mutual funds� value is simply the net asset value of your investments, which is calculated at the end of each trading session.
How you can make money: ETFs make money from the collection of a return amongst all of their investments.�ETFs are often recommended to new investors because they�re more diversified than individual stocks. You can further minimize risk by choosing an ETF that tracks a broad index. And just like mutual funds, you can make money from an ETF by selling it as it gains value.
5. Certificates of Deposit (CDs)
A certificate of deposit (CD) is considered to be a very low-risk investment. You give a bank a certain amount of money for a predetermined amount of time and earn interest on that money. When that time period is over, you get your principal back, plus the predetermined amount of interest. The longer the loan period, the higher your interest rate is likely to be. While the risk is low, so is the potential return.
How you can make money: With a CD, you make money from the interest that you earn during the term of the deposit.�CDs are good long-term investments for saving money.�There are no major risks because they are FDIC-insured up to $250,000, which would cover your money even if your bank were to collapse. That said, you have to make sure you won�t need the money during the term of the CD, as there are major penalties for early withdrawals.

6. Retirement Plans

A retirement plan is an investment account, with certain tax benefits, where investors invest their money for retirement. There are a number of types of retirement plans such as workplace retirement plans, sponsored by your employer, including 401(k) plans and 403(b) plans. If you don�t have access to an employer-sponsored retirement plan, you could get an individual retirement plan (IRA) or a Roth IRA.
How you can make money:�Retirement plans aren�t a separate category of investment, per se, but a vehicle to buy stocks, bonds and funds in two tax-advantaged ways. The first, lets you invest pretax dollars (as with a traditional IRA). The second, allows you to withdraw money without paying taxes on that money. The risks for the investments are the same as if you were buying the investments outside of a retirement plan.
7. Options
An option is a somewhat more advanced or complex way to buy a stock.�When you buy an option, you�re purchasing the ability to buy or sell an asset at a certain price at a given time. There are two types of options: call options, for buying assets and put options, for selling options.

How you can make money:�As an investor, you lock in the price of a stock with the hope that it will go up in value. However, the risk of an option is that the stock could also lose money. So if the stock decreases from its initial price, you lose the money of the contract.�Options are an advanced investing technique and retail should exercise caution before using them.
8. Annuities
When you buy an annuity, you purchase an insurance policy and, in return, you get periodic payments. These payments generally come down the road in retirement but are often purchased years in advance. This is why many people use annuities as part of their retirement savings plan.

Annuities come in numerous varieties. They may last until death or only for a predetermined period of time. They may require periodic premium payments or just one up-front payment. They may link partially to the stock market or they may simply be an insurance policy with no direct link to the markets.�Payments may be immediate or deferred to a specified date. They may be fixed or variable.
How you can make money:�Annuities can guarantee an additional stream of income for retirement. But while they are fairly low risk, they aren�t high-growth. So investors tend to make them a good supplement for their retirement savings, rather than an integral source of funding.
9. Derivatives
A derivative is a financial instrument that drives its value from another asset. Similar to an annuity, it is a contract between two parties. In this case, though, the contract is an agreement to

sell an asset at a specific price in the future. If the investor agrees to purchase the derivative then they are betting that the value won�t decrease. Derivatives are considered to be a more advanced investment and are typically purchased by institutional investors.
The three most common types of derivatives are:
How you can make money:�You can make money investing in derivatives if you are on the right side of price fluctuations. For example, if you agree to buy copper at $1,000 in nine months but the market price at that time is $2,000 then you�ve essentially doubled your investment.
10. Commodities
Commodities are physical products that you can invest in. They are common in futures markets where producers and commercial buyers � in other words, professionals � seek to hedge their financial stake in the commodities.

Retail investors should make sure they thoroughly understand futures before investing in them. Partly, that�s because commodities investing runs the risk that the price of a commodity will move sharply and abruptly in either direction due to sudden events. For instance, political actions can greatly change the value of something like oil, while the weather can impact the value of agricultural products.
Here�s a breakdown of the four main types of commodities:
One of the primary ways that investors make money with commodities is by trading commodity futures. �Investors sometimes buy commodities as a hedge for their portfolios during inflation. You can buy commodities indirectly through stocks and mutual funds or ETFs and futures contracts.
11. Hybrid Investments
Hybrid investments incorporate elements of equities and fixed-income securities. One such example is preferred shares, which is an equity security with a bond-like feature.�Preferred stock generally comes with a�fixed dividend rate. Dividends to preferred shareholders are paid before dividends to common shareholders. Another difference is that if the company that issued the shares is liquidated, preferred stockholders will have access to the company�s assets before common stockholders. Owners of preferred stock are behind bondholders in line for company assets, but they�re ahead of owners of common stock.
Another type of hybrid is a convertible bond. It is a corporate bond that can be �converted� into shares of the company. A bond is a loan to a company, whereas a share is a �share� of ownership in the company. When you convert from a bond to a share, you go from being a lender to the company to a part-owner of the company.
How to Buy Different Types of Investments
There are two main ways for you to purchase the different types of investments you may be interested in buying, though either way will require you to have an active investment account. Each is easy to do, but only one of the two provides a service that is completely done for you. The two general ways to buy the types of investments you want are:
Start an Online Brokerage Account: You can elect to manage your own investments and just open a brokerage account. This enables you to get up and running quickly with the ability to buy stock, bonds, mutual funds and more in a matter of minutes. The only downside is that you'll be making the final financial decisions all on your own.
Hire a Financial Advisor: The other way to buy multiple types of investments is to hire a financial advisor. The advisor can not only provide you with access to buy and trade assets but they can also help you figure out an overall financial strategy and prepare you adequately for retirement. This is more of an automated process in that you just have to approve trades or investments and the advisor takes care of the details. Your advisor can help you get a brokerage account, as needed.
There are a lot of different types of investment to choose from. Some are perfect for beginners, while others require more experience and research. Each type of investment offers a different level of risk and reward, giving you a good option or two no matter what your goal might be. Investors should consider each type of investment before determining an asset allocation that aligns with their overall financial goals.
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This is not an offer to buy or sell any security or interest. All investing involves risk, including loss of principal. Working with an adviser may come with potential downsides such as payment of fees (which will reduce returns). There are no guarantees that working with an adviser will yield positive returns. The existence of a fiduciary duty does not prevent the rise of potential conflicts of interest.

December 19, 2023 |9 min read
7 money management tips to improve your finances
If money's a source of worry in your life, you're not alone. The Capital One Mind Over Money study showed that most of the respondents 77%, in fact felt anxiety about their finances.
The good news is that there are steps you can take to take control of your money and your financial anxiety. Here are seven tips to help you manage money more effectively.
Key takeaways

What is money management?
Money management is all the ways you budget, spend, save and invest your money. It also includes how you use credit and pay off debt. In short, it's how you handle your finances.
Finding ways to better manage your money can have positive effects on your finances and lower your stress about money.
How to manage your money better
These seven practical money management tips are here to help you take control of your finances. According to the Capital One Mind Over Money study, people dealing with financial stress struggle more with budgeting. They also feel less in control of their money and tend to spend their paychecks more impulsively.
1. Make a budget
Creating a budget is a great first step in developing healthier money habits. According to the Consumer Financial Protection Bureau (CFPB), Budgeting helps ensure that you'll have enough money for the things you need and the things you want, while still building your savings for future goals.�
If making a budget feels overwhelming, start with these simple steps:
Add up your monthly income. This includes your salary at your job plus other sources of income like bonuses, tax refunds or income from side work.
Add up your monthly expenses. These can include expenses in the major categories like housing, food, student loans and transportation. For monthly payments that aren’t always the same, like entertainment and utilities, you could use an average from previous months.
Subtract your expenses from your income. This amount will be the starting place for your budget. Anything left over is where you can start if you’re paying down debt and building up savings.
Think of your budget as a living document. That way, you can make adjustments if you need to, like when you eliminate or add a monthly expense.
There are also some common budgeting strategies that may help, like the 50/30/20 rule. According to this approach, necessities like rent, insurance and food should take up 50% of your income. And 30% of your income can go toward things you want, like entertainment. The last 20% of your income should be put into savings.
The 50/30/20 rule is just one way to look at budgeting. If you want to learn more, check out these

14 budgeting tips.
2. Track your spending

Tracking your spending may help you avoid overspending and stay within your budget. The Capital One Mind Over Money study found that sticking to healthy money habits when you feel confident about your finances can help you stay the course when things get more challenging.
Keeping track of your spending doesn�t have to be complicated. You can record your expenses digitally with one of the numerous apps available online. If you have a Capital One card, you could use the free digital features that help you track your money. If you prefer a non-digital option, you can simply track everything in a notebook.
It can also help to separate your expenses into categories. That way, you�ll see exactly where your money is going and where you may be spending too much.
3. Save for retirement
The Capital One Mind Over Money study found that many Americans are worried about their financial future. In fact, 68% of respondents said they�re worried they won�t have enough money to retire.�
Retirement accounts are one way to save for retirement. Here are a few types of retirement accounts it may help to know about:�
401(k) plan through your employer. With a 401(k), you can deposit pretax dollars through a regular deduction from your paycheck. Beth Sabin, an executive at Capital One, says, “If you have a company match through your 401(k), this can be a great place to start by contributing until you have your full match.” She also recommends upping your contribution by one percentage point to see if that’s doable for you. If it is, you might increase it by another percentage point to accelerate your savings.
403(b) plan. Like 401(k) plans, 403(b) plans are employer sponsored. One difference is that 403(b) plans are offered by public schools and some organizations that are tax-exempt. Contributions to traditional 403(b) plans are tax-deferred—just like they are with traditional 401(k) plans. So you don’t have to pay taxes on the contributions or earnings until you withdraw funds from the account.
Individual retirement account (IRA). Contributions to a traditional IRA are tax-deferred. A traditional IRA is an account that’s generally self-directed and not sponsored by an employer. Once you retire and start making withdrawals, the money will be taxed at your regular income tax rate.
Roth IRA. While contributions to a Roth IRA aren’t tax deductible when you make them, you may be able to withdraw your money tax-free during your retirement years.
4. Save for emergencies
Making sure you have money put away in an emergency fund for unexpected life events, like needing major home repairs, may help you reduce your financial anxiety.�
Here are a few tips to help you start saving:
Remember that interest rates can vary. It may be wise to shop around for a savings account. If you find an account with a better rate, the extra interest can add up over time. Some banks even offer high-yield savings accounts.
Put extra income into your account. When you get a tax refund or a bonus at your job, you could deposit it into your savings account to give your emergency fund a boost.
Set up automatic savings. With the help of your employer, you may be able to set up automatic transfers from your paycheck to your savings account. That way, the money will still be accessible to you when you need it, but you may be less tempted to use it for nonemergencies.
5. Plan to pay off debt
Paying off debt may also help you better manage your finances and money-related stress. Here are three strategies for paying off debt:
The snowball method focuses on paying off your smallest balances first. You still make the minimum payments on all of your debts. And you use any extra money to pay off your smallest balance. Then you use the money you’ve freed up to pay off your next-smallest balance and so on. This could mean debts with higher interest rates might wind up taking longer to pay off. And that could cost you more in the long run.
The debt avalanche method—also called the highest-interest-rate method—starts with listing your debts based on their interest rates, from highest to lowest. You put your money toward the debt with the highest interest rate first. Once that’s paid off, those extra funds can be used to pay off the next debt on your list. You also continue to make the minimum payments on all your debts.
Debt consolidation rolls multiple debts into one account. It can help you simplify your payments and may also help you save on interest. Keep in mind that there may be fees associated with debt consolidation. It won’t erase your debt, and it doesn’t always make it less expensive.
6. Establish good credit habits

Credit can be a major part of financial health. And working on improving your credit scores can help set you up for a brighter financial future.
Lenders may use your credit scores to help decide whether to approve you for credit and what terms to offer you. Your credit scores can even come into play when it comes to things like renting an apartment or applying for a job.
Here are a few good credit habits:
Pay your bills on time, every time. Late payments can impact your credit scores and trigger late fees and penalty APRs.
Don’t get close to your credit limits. The CFPB recommends keeping your credit utilization ratio below 30%.
Work at establishing a long credit history. Before closing a credit account, make sure to think through how it may affect your credit scores.
Only apply for the credit you need. Applying for a new line of credit can trigger a hard inquiry, which can impact your scores. And too many hard inquiries, especially in a short period of time, can have a larger negative effect on your credit scores.
7. Monitor your credit
Regularly monitoring your credit is another important part of credit health. CreditWise from CapitalOne offers an easy way to access your TransUnion� credit report and VantageScore� 3.0 credit score without hurting your credit scores.�

You can even explore the potential impact of financial decisions, like getting a mortgage, before you make them with the CreditWise Simulator. CreditWise is free for everyone, whether you�re a Capital One customer or not.
Money management in a nutshell
Remember, you're not alone if you're feeling stressed about money. Reaching your financial goals takes time and consistency. And adopting a positive financial mindset may help you stick to your goals and better manage your money.
As you work on your finances, remember that CreditWise can help you monitor your credit and track your progress. For even more financial lessons, check out these free financial literacy courses from Khan Academy and Capital One. The courses are self-paced, and they cover budgets, credit and everything in between.
Find practical tips and step-by-step guidance in this free online course to help you budget and save like a pro.
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Your CreditWise score is calculated using the TransUnion� VantageScore� 3.0 model, which is one of many credit scoring models. Your CreditWise score can be a good measure of your overall credit health, but it is not likely to be the same score used by creditors. The availability of the CreditWise tool depends on our ability to obtain your credit history from TransUnion. Some monitoring and alerts may not be available to you if the information you enter at enrollment does not match the information in your credit file at (or you do not have a file at) one or more consumer reporting agencies.
CreditWise Alerts are based on changes to your TransUnion and Experian� credit reports and information we find on the dark web.
The CreditWise Simulator provides an estimate of your score change and does not guarantee how your score may change.

10 Step Guide to Investing in Stocks
Yarilet Perez is an experienced multimedia journalist and fact-checker with a Master of Science in Journalism. She has worked in multiple cities covering breaking news, politics, education, and more. Her expertise is in personal finance and investing, and real estate.

Investing in stocks is a way to make your money grow over time. By regularly putting money aside to invest, you can see its value multiply over the long term. That's why it's important to begin as soon as you have the money to do so�the longer your time horizon, the better. This article takes you through how much you need, what stocks to choose, and the other basics of investing in stocks you need to get started, all in 10 steps. Whether you have thousands set aside or can invest a more modest $25 a week, you have enough to begin.

Begin by reflecting on what you want to achieve financially. You might have short-term goals like saving for a home or a vacation or have long-term objectives like securing a comfortable retirement or funding a child�s education. Your objectives will depend on your life stage and ambitions. Younger investors tend to focus more on growth and long-term wealth accumulation, while those closer to retirement typically prefer income generation and capital preservation.

The more precise you can be about your goals, the easier it will be to sort out the best means to get you there. Here are some tips:

The first step in any venture is the biggest, but it�s also when you set your aspirations and imagine yourself in a future that your investments in stocks, a touch of luck, and a prudent investment strategy you�ll begin to learn here make possible.

Determining how much you can afford to put in stocks involves carefully and honestly assessing your financial situation. Don't worry if your funds are less than you would wish. Just like you shouldn't berate yourself for not being ready for a race on your first day of training, so too, you're just at the beginning of your investment journey. This is a marathon, not a sprint and you've got a long way to go. Here are some tips for giving yourself an honest appraisal of how much you can use:

Investing in stocks carries risk, and it's important to only invest money you can afford to lose. Never put yourself in a financially vulnerable position for the sake of investing. This is what separates investing from some of the worst forms of gambling.

Understanding your risk tolerance is a cornerstone of investing. Gauge your level of comfort with the inherent uncertainties of the stock market. Your risk tolerance will differ depending on your life stage, financial goals, and your financial cushion for potential losses.

Determining your risk tolerance is crucial for crafting an investment strategy that matches your financial goals while keeping your peace of mind. It helps you decide which stocks are suitable for your portfolio and what to do when the market goes up or down. Don't be goaded into being more adventurous than you need to be, or more cautious than called for. Do you prefer stability, or are you willing to accept higher risks and price swings if that means there's the potential for more returns? This self-assessment is key to setting a foundation for your investment journey.

Stocks can be organized by the risk they involve. For instance, large-capitalization (large-cap) stocks are generally more stable since they are well-established, major companies well-known in the market. Small-cap stocks usually offer more growth potential but come with increased risk. Similarly, growth stocks are sought for rapid gains, with higher risks, while value stocks focus on long-term, steady growth, usually with lower risks.

Everyone has a different relationship with money. We've seen how this affects your risk tolerance. But investors also have investing styles that best suits them. Some prefer an active role, meticulously pouring over the last cell on the spreadsheets for their portfolios, while others opt for a hands-off, set-it-and-forget-it approach, trusting their investments will grow over time if they just leave them alone. Some just might not have the time to be active traders following the ticker crawls and latest reports on investing platforms. It's important to recognize that your style might evolve, but you'll need to start somewhere, even if your choice isn't set in stone.

Here are general directions for understanding your investing style:

You've figured out your goals, the risk you can tolerate, and how active an investor you want to be. Now, it's time to choose the type of account you'll use. Each has its own features, benefits, and drawbacks.

Here are the most common:

If you prefer more flexibility or have maxed out your IRA contributions, a regular taxable brokerage account gives you access to various investment options, including individual stocks, stock mutual funds, ETFs, and stock options. While they don't have the tax advantages of retirement accounts, they are more flexible and don't have contribution limits. You can also pick different taxable brokerage accounts as you seek a match for your investment style.

There might be tax advantages to using different kinds of accounts if you're investing in stocks for specific goals, e.g., for your own or your child's education or health expenses. If so, it's to your advantage to consider these alternatives, which have special tax incentives:

Besides reputation and fit with your investment strategy and goals, broker fees are the most important consideration when you're choosing a brokerage firm, which comes in the next step.3 Let's prepare. Traditionally, brokerages have charged fees through trade commissions, account maintenance fees, and fees for additional services like research or financial advice. However, the landscape of brokerage fees has evolved significantly in recent years.4�Here's what you'll want to look for as you do your research:

Trading commissions: A broker might charge a commission every time you trade a stock, whether you buy or sell. Trading fees range from $2 per trade to $10. Some brokers charge no trade commissions at all, but they make up for it with other fees. Depending on how often you plan to trade, these fees can add up, affect your portfolio's return, and deplete the money you have available to invest.

Let's see this in action: Suppose you buy one share of stock in five companies with $1,000. Assuming a transaction fee of $10, you will incur $50 in trading costs which is equivalent to 5% of your $1,000. Should you sell these stocks, the round trip (buying and then selling) would cost you a total of $100, or 10% of your initial deposit amount of $1,000.

Maintenance fees: Some brokerages charge monthly or annual fees to keep your account active. These might be waived, though, if your account balance is above a certain threshold.

Service fees: You might pay additional fees if you haven't used your account in a while. Brokers also may charge for services like broker-assisted trades, access to their premium research, and trading on margin (by borrowing). Most of these fees and the services linked to them are optional.

Subscription-based models: As Generation Zers and Millennials take up a larger share of the investment space, financial advisors, planners, and brokers are taking on clients used to month-to-month or yearly fees for apps and app-based services. Instead of paying per transaction or for specific services, you pay a flat monthly or annual fee. Your subscription may include commission-free trades, access to research tools, and other premium support.4

Some platforms offer tiered subscription levels, supplying more features or lower margin rates at higher subscription rates. As you would with Hulu or your favorite online magazine, you'll want to keep an eye on how much you're taking advantage of what you're paying for. If not, you might draw down to a lower tier or seek another broker altogether.

A major change in recent years has resulted from the immense competition among brokerages. Many online brokers have eliminated account minimums, making it easier for a wider range of investors to get started.3

This means that if you have just a few dollars to invest, you can still open a brokerage account and begin trading stocks. While some brokerages still require you to deposit substantial amounts before you can become a client, this shift away from very low or no minimum requirements has made investing far more accessible to nontraditional investors and beginners. However, you'll want to assess any minimum a brokerage requires, which is still your money, with transaction fees and maintenance costs that may lead you to decide that keeping a minimum in your account is less costly in the long run.

Brokers�are either full-service or discount. Full-service brokers provide an array of financial services, including financial advice for retirement, healthcare, education, and more. They can also offer a host of investment products and educational resources. They have traditionally catered to high-net-worth individuals and usually require significant investments. Discount brokers have much lower thresholds for access, but tend to offer a more streamlined set of service, allow you to place individual trades, and offer educational tools.

These offer a full range of traditional brokerage services, including financial advice for college planning, retirement planning, estate planning, and for other life events. This customized advising justifies the higher fees that they typically charge, normally a percentage of the value of your transactions, a percentage of your assets under management, and sometimes, a yearly membership fee. �Minimum account sizes can start at $25,000.�

These offer you tools to select your investments and place your orders. Some also offer a set-it-and-forget-it robo-advisory service. Most have educational materials on their sites and mobile apps. Some brokers have no (or very low) minimum deposit restrictions. However, they may have other requirements and fees. Be sure to check on both as you look for a brokerage that's best for your financial situation, and review our Best Online Brokers for Beginners of 2024.

For an automated solution, robo-advisors or automated investment platforms are cost-effective and pretty effortless when investing. If you select this option, you won't be alone in doing so. According to Charles Schwab, 58% of Americans say they will use some sort of robo-advisor by 2025.5

An app or platform takes the information you provide about your financial goals, risk tolerance, income and savings, and so on, and its robo-advisor creates and helps manage your investment portfolio using its specialized algorithms. Aimed at retail investors, robo-advisors are low-cost, usually have little or no minimum balance requirements, and are programmed for strategies suited for new and intermediate investors. That said, they tend to offer fewer trading options and lack the personal approach to financial planning best suited for long-term investing. If this interests you, see our Best Robo-Advisors of 2024.

Now that you've chosen the type of account to open, you'll have to fund it. Here's what to do:

If you plan to trade frequently, check out our list of brokers for cost-conscious traders.

Choosing the right stocks can be daunting even for experienced investors. Beginners should look for stocks that have stability, a strong track record, and the potential for steady growth. Don't start out of the gate with a risky stock, thinking you'll hit it big right away. Investing for the long term is mostly slow and steady, not fast and rash. Here are some stocks that are solid bets to begin:

It's prudent to begin with a conservative approach, focusing on stocks or funds that offer stability and a good track record. This will give you confidence and returns to work with as you advance in your investing knowledge.

Investing in stocks is an ongoing learning experience�even the most successful investors are learning new tips and strategies each passing day. As the stock market continually evolves, staying up to date and going back to Step 1 and reviewing your goals, available funds for trading, investment style, and so on, will be key. Here are some final tips for now:

Just as financial planning is a verb, learning about stock investing is continuous. The more informed you are, the better you'll be able to make wise investment decisions and adapt to market changes.

Choosing the right stocks can be overwhelming for those just starting to navigate the world of stocks and investing�you're starting with a blank slate, and the choices are endless. Here are some that aren't just the best for beginners but are many times the picks of many experts managing their portfolios:

Index funds: One approach that has gained significant popularity in the last few decades is investing in index funds. These are passively managed funds that aim to track the performance of a particular market index. This might have the excitement of picking a stock and seeing if it does well, but index funds take what would be impractical or too expensive for a beginner to do and let you invest in a representative sample of securities. S&P 500 index funds, the most popular in the U. S., mimic the moves of the stocks in the S&P 500, which covers about 80% of all U.S. equities by market cap.6

The appeal of index funds lies in their simplicity and lower fees. By mirroring the composition of a chosen index, these funds provide broad exposure to the market without the need for extensive research or stock-picking expertise. According to the S&P Indices Versus Active scorecards, a widely respected benchmark, about 90% of actively managed funds didn't match the returns of the S&P 500 over 10 and 15-year periods.7 This is stark but winning information for a beginner: the most effortless route might be the most profitable.

Blue-chip stocks: Perhaps the most classic investing advice is to buy shares of well-established, stable companies with a history of consistent growth and dividend payments. The blue chips�named for the traditional color of the highest-value poker chips�often have strong brand recognition, a solid market position, and a track record of weathering economic downturns. Investing in blue-chip stocks can provide beginner investors with a sense of stability and the potential for steady returns over the long term. Examples of blue-chip stocks include Apple (AAPL), known for its ubiquitous technology products and loyal customer base; JP Morgan & Chase Co (JPM), the banking giant; Johnson & Johnson (JNJ), a healthcare giant that also owns manufacturers of many consumer goods; and Coca-Cola (KO), the soft drink maker that has announced dividends each year since 1893.

Dividend aristocrats: Coca-Cola is not just a blue-chip stock but also belongs to this select group, which was given this informal name for giving and increasing their dividends for at least 25 consecutive years.8 By investing in dividend aristocrats, beginners can benefit from the potential for rising income and the chance to reinvest the dividends for compound growth. Examples include ExxonMobil (XOM), one of the world's largest oil and gas companies with a history of solid cash generation; Procter & Gamble Co. (PG), the consumer products multinational; and Walmart (WMT), the retail behemoth.

Low-volatility stocks: These companies' shares have historically had fewer swings in price, providing more stability to portfolios and, not for nothing, investor heart rates.9 These stocks often belong to "defensive sectors" (recession-proof parts of the economy) such as utilities, consumer staples, and healthcare. Examples of low-volatility stocks include utility companies we've mentioned already (Johnson & Johnson, Coca-Cola, Procter & Gamble, etc.), as well as Berkshire Hathaway (BRK.B), Brystol-Myers Squibb Company (BMY), Duke Energy (DUK), and the Hershey Company (HSY), which shows that the love of chocolate doesn't go away when the economy hits some bumps.

Quality factor ETFs: These invest in companies with strong balance sheets, consistent earnings growth, and other indicators of financial health. They use a rules-based approach to select stocks with low debt levels, stable earnings, and high returns. These funds include the iShares MSCI USA Quality Factor ETF, which holds large- and mid-cap U.S. stocks with solid quality characteristics, and the Invesco S&P 500 Quality ETF, which focuses on high-quality stocks within the S&P 500 index.

The potential drawback for each of these investing strategies is that you might not see the outsized growth riskier stocks could provide. Plus, past performance does not determine future results. If you have limited funds, this could be unappealing: more modest returns won't seem to add much when you don't have much to begin with. But over time, reinvested dividends and compound growth add up. Investing is not gambling, and the reason to invest over heading to a Casino is that prudent, patient, and disciplined investing is how, on the whole, most investors get ahead. This means starting with stable stocks in your portfolio. Once you build up your investment account and gain experience, you can consider riskier stocks. Investing prudently now will help you gain the experience to do just that.

The amount needed depends on the brokerage firm and the investments you're interested in. Some online brokerages have no minimum deposit requirements, allowing you to start investing with a small amount of money. However, the price of individual stocks and the minimum investment for certain mutual funds or ETFs might require you to start with more of an initial investment. That said, there are many brokerages and investment options now for those starting with less to invest than there were a decade or two ago.

Stock funds, including mutual funds and ETFs that invest in a diversified portfolio of stocks, are a good option for beginner investors. They offer diversification, which helps spread risk across different stocks, and are managed by professional fund managers. In addition, stock funds allow beginners to invest in a broad range of stocks with a single investment, making it easier to get started without having to pick individual stocks. While you watch your mutual fund or ETF investment over time, you will also gain experience about the ebb and flow of the stocks these funds hold, good knowledge that will help you when investing later.

Investing is a commitment of resources now toward a future financial goal. There are many levels of risk, with certain asset classes and investment products inherently much riskier than others. It is always possible that the value of your investment will not increase over time. For this reason, a key consideration for investors is how to manage their risk to achieve their financial goals, whether short- or long-term.

To open a brokerage account, you don't have to live in the U.S. Many U.S. brokerage firms accept international clients. However, the application process and requirements will differ, including the need for additional documentation, such as proof of identity and residence. There are also some investments and services regulations curtail for those who aren't U.S. citizens, but the experience is very similar. Most major online brokerages in the U.S. accept international clients.

Most brokers charge customers a commission for every trade. Due to commission costs, investors generally find it prudent to limit the total number of trades they make to avoid spending extra money on fees. Certain other types of investments, such as exchange-traded funds, may carry additional fees to cover fund management costs.

Beginners can start investing in stocks with a relatively small amount of money. You'll have to do your homework to determine your investment goals, risk tolerance, and the costs of investing in stocks and mutual funds. You'll also need to research brokers and their fees to find the one that best fits your investment style and goals. Once you do, you�ll be well-positioned to take advantage of the potential stocks have to reward you financially in the coming years.

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Charles Schwab. �The Rise of Robo: Americans� Perspectives and Predictions on the Use of Digital Advice.� Page 3.
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Nasdaq. "Dividend Aristocrats."
Nasdaq. "Low Volatility Stocks."

What Is Financial Analysis?

Financial analysis is the process of evaluating businesses, projects, budgets, and other finance-related transactions to determine their performance and suitability. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to warrant a monetary investment.

KEY TAKEAWAYS

If conducted internally, financial analysis can help fund managers make future business decisions or r
eview historical trends for past successes.
If conducted externally, financial analysis can help investors choose the best possible investment opportunities.
Fundamental analysis and technical analysis are the two main types of financial analysis.
Fundamental analysis uses ratios and financial statement data to determine the intrinsic value of a security.
Technical analysis assumes a security's value is already determined by its price, and it focuses instead on trends in value over time.

Understanding Financial Analysis

Financial analysis is used to evaluate economic trends, set financial policy, build long-term plans for business activity, and identify projects or companies for investment. This is done through the synthesis of financial numbers and data. A financial analyst will thoroughly examine a company's financial statements�the income statement, balance sheet, and cash flow statement. Financial analysis can be conducted in both corporate finance and investment finance settings.

One of the most common ways to analyze financial data is to calculate ratios from the data in the financial statements to compare against those of other companies or against the company's own historical performance.

For example, return on assets (ROA) is a common ratio used to determine how efficient a company is at using its assets and as a measure of profitability. This ratio could be calculated for several companies in the same industry and compared to one another as part of a larger analysis.

There is no single best financial analytic ratio or calculation. Most often, analysts use a c
ombination of data to arrive at their conclusion.

Corporate Financial Analysis

In corporate finance, the analysis is conducted internally by the accounting department and shared with management in order to improve business decision making. This type of internal analysis may include ratios such as net present value (NPV) and internal rate of return (IRR) to find projects worth executing.

Many companies extend credit to their customers. As a result, the cash receipt from sales may be delayed for a period of time. For companies with large receivable balances, it is useful to track days sales outstanding (DSO), which helps the company identify the length of time it takes to turn a credit sale into cash. The average collection period is an important aspect of a company's overall cash conversion cycle.

A key area of corporate financial analysis involves extrapolating a company's past performance, such as net earnings or profit margin, into an estimate of the company's future performance. This type of historical trend analysis is beneficial to identify seasonal trends.

For example, retailers may see a drastic upswing in sales in the few months leading up to Christmas. This allows the business to forecast budgets and make decisions, such as necessary minimum inventory levels, based on past trends.

Investment Financial Analysis

In investment finance, an analyst external to the company conducts an analysis for investment purposes. Analysts can either conduct a top-down or bottom-up investment approach. A top-down approach first looks for macroeconomic opportunities, such as high-performing sectors, and then drills down to find the best companies within that sector. From this point, they further analyze the stocks of specific companies to choose potentially successful ones as investments by looking last at a particular company's�fundamentals.

A bottom-up approach, on the other hand, looks at a specific company and conducts a similar ratio analysis to the ones used in corporate financial analysis, looking at past performance and expected future performance as investment indicators. Bottom-up investing forces investors to consider�microeconomic�factors first and foremost. These factors include a company's overall financial health, analysis of financial statements, the products and services offered, supply and demand, and other individual indicators of corporate performance over time.

Financial analysis is only useful as a comparative tool. Calculating a single instance of data is u sually worthless; comparing that data against prior periods, other general ledger accounts, or competitor financial information yields useful information.

Types of Financial Analysis

There are two types of financial analysis: fundamental analysis and technical analysis.

Fundamental Analysis

Fundamental analysis uses ratios gathered from data within the financial statements, such as a company's earnings per share (EPS), in order to determine the business's value. Using ratio analysis in addition to a thorough review of economic and financial situations surrounding the company, the analyst is able to arrive at an intrinsic value for the security. The end goal is to arrive at a number that an investor can compare with a security's current price in order to see whether the security is undervalued or overvalued.

Technical Analysis

Technical analysis uses statistical trends gathered from trading activity, such as moving averages (MA). Essentially, technical analysis assumes that a security�s price already reflects all publicly available information and instead focuses on the�statistical analysis of price movements. Technical analysis attempts to understand the market sentiment behind price trends by looking for patterns and trends rather than analyzing a security�s fundamental attributes.

Horizontal vs. Vertical Analysis

When reviewing a company's financial statements, two common types of financial analysis are horizontal analysis and vertical analysis. Both use the same set of data, though each analytical approach is different.

Horizontal analysis entails selecting several years of comparable financial data. One year is selected as the baseline, often the oldest. Then, each account for each subsequent year is compared to this baseline, creating a percentage that easily identifies which accounts are growing (hopefully revenue) and which accounts are shrinking (hopefully expenses).

Vertical analysis entails choosing a specific line item benchmark, then seeing how every other component on a financial statement compares to that benchmark. Most often, net sales is used as the benchmark. A company would then compare cost of goods sold, gross profit, operating profit, or net income as a percentage to this benchmark. Companies can then track how the percent changes over time.

Examples of Financial Analysis

In the nine-month period ending Sept. 30, 2022, Amazon.com reported a net loss of $3 billion. This was a substantial decline from one year ago where the company reported net income of over $19 billion.1

Financial analysis shows some interesting facets of the company's earnings per share (shown above. On one hand, the company's EPS through the first three quarters was -$0.29; compared to the prior year, Amazon earned $1.88 per share. This dramatic difference was not present looking only at the third quarter of 2022 compared to 2021. Though EPS did decline from one year to the next, the company's EPS for each third quarter was comparable ($0.31 per share vs. $0.28 per share).

Analysts can also use the information above to perform corporate financial analysis. For example, consider Amazon's operating profit margins below.

From Q3 2021 to Q3 2022, the company experienced a decline in operating margin, allowing for financial analysis to reveal that the company simply earns less operating income for every dollar of sales.

Why Is Financial Analysis Useful?
The financial analysis aims to analyze whether an entity is stable, liquid, solvent, or profitable enough to warrant a monetary investment. It is used to evaluate economic trends, set financial policies, build long-term plans for business activity, and identify projects or companies for investment.
How Is Financial Analysis Done?
Financial analysis can be conducted in both corporate finance and investment finance settings. A financial analyst will thoroughly examine a company's financial statements�the income statement, balance sheet, and cash flow statement.
One of the most common ways to analyze financial data is to calculate ratios from the data in the financial statements to compare against those of other companies or against the company's own historical performance. A key area of corporate financial analysis involves extrapolating a company's past performance, such as net earnings or profit margin, into an estimate of the company's future performance.
What Techniques Are Used in Conducting Financial Analysis?
Analysts can use vertical analysis to compare each component of a financial statement as a percentage of a baseline (such as each component as a percentage of total sales). Alternatively, analysts can perform horizontal analysis by comparing one baseline year's financial results to other years.
Many financial analysis techniques involve analyzing growth rates including regression analysis, year-over-year growth, top-down analysis such as market share percentage, or bottom-up analysis such as revenue driver analysis.
Last, financial analysis often entails the use of financial metrics and ratios. These techniques include quotients relating to the liquidity, solvency, profitability, or efficiency (turnover of resources) of a company.
What Is Fundamental Analysis?
Fundamental analysis uses ratios gathered from data within the financial statements, such as a company's earnings per share (EPS), in order to determine the business's value. Using ratio analysis in addition to a thorough review of economic and financial situations surrounding the company, the analyst is able to arrive at an intrinsic value for the security. The end goal is to arrive at a number that an investor can compare with a security's current price in order to see whether the security is undervalued or overvalued.
What Is Technical Analysis?
Technical analysis uses statistical trends gathered from market activity, such as moving averages (MA). Essentially, technical analysis assumes that a security�s price already reflects all publicly available information and instead focuses on the statistical analysis of price movements. Technical analysis attempts to understand the market sentiment behind price trends by looking for patterns and trends rather than analyzing a security�s fundamental attributes.
Financial analysis is a cornerstone of making smarter, more strategic decisions based on the underlying financial data of a company. Whether corporate, investment, or technical analysis, analysts use data to explore trends, understand growth, seek areas of risk, and support decision-making. Financial analysis may include investigating financial statement changes, calculating financial ratios, or exploring operating variances.

Amazon. "Amazon.com Announces Third Quarter Results."

Any journey towards your long term financial goals needs to necessarily be accompanied by a credible financial plan. A financial plan essentially converts your dreams and goals into financial milestones and maps these goals against your current and future resources. Financial planning is, therefore, based on 4 fundamental premises

1. The financial plan must be capable of generating the highest possible real return for a given level of risk that you are willing to take.
2. The financial plan must necessarily ensure that for any target return that you are aiming at, the risk should be the minimum
3. Liquidity is an important component of your financial plan and the plan needs to ensure that liquidity is made available to you when and in the quantity required
4. Lastly, your financial plan must be tax efficient. What it means is that returns must always be judged in terms of post-tax returns.

We shall focus in detail only on the tax aspects here. Taxation becomes relevant at various stages of your financial plan. For example, there is a tax rebate when you invest in select categories of investments. Secondly, there is also a tax implication when you earn regular returns in the form of interest or dividends. Thirdly, there is a tax implication at the time the capital gains are realized on assets. Lastly, there is the all important concept of EET that could change the economics of your financial plan. Let us understand each of these aspects in elaborate detail

Tax breaks at the time of investing
One of the basic principles of long term investing is that you must not focus overly on the tax aspect. But given a choice, you need to consider a more tax efficient option. If you need to make an allocation of Rs.100,000 during the year to mutual funds, then should you do it in diversified equity funds or an ELSS. Remember, an ELSS is also an equity fund with a 3-year lock period and giving the additional benefit under Section 80C. So instead of buying an endowment insurance policy, you can buy a term plan and the balance money saved can be invested in an ELSS. This will ensure that you get adequate life cover and your money grows in ELSS giving you additional benefits under Section 80C. The 30% exemption in the year of investing substantially improves your yield on the fund.

Tax implications of regular income on investments
This is an important consideration when you have to choose between similar investment products. Assume that you have an allocation of 20% to debt products during the year. You can invest in a bank FD but then the interest earned on the FD will be taxed at the peak rate of tax applicable to you. That will substantially reduce your post-tax returns. On the contrary, if you invest the money in debt mutual funds and opt for a dividend plan, then the dividend earned by you will be entirely tax-free in your hands. You also get the added benefit of capital appreciation when the interest rates go down, further adding to your post-tax yields.

Tax exemption at the time of booking profits
This factor is very relevant when you are actually comparing equity versus debt. Remember, the definition of capital gains is much more favourable in the case of equities as compared to debt. For example, in case of equities and equity mutual funds, the definition of long term is determined by the holding period of 1 year. Additionally, STCG for equities is charged at a concessional rate of 15% while the LTCG on equities are entirely tax exempt. Alternatively, if you own a debt fund with a growth option then it will be long term only if it is held for 3 years. In this case, short term capital gains will be taxed at your peak rate while long term gains will be taxed at 20% after considering indexation. A good option for you to consider will be the Balanced Fund plan since it combines the benefits of debt and equity. Additionally, if it has a 65% equity component then it is also classified as an equity fund for tax purposes.

Understanding EEE and EET when it comes to redemption
When you currently invest in an endowment life policy or in a provident fund, it is classified as EEE (Exempt, Exempt, and Exempt). That means, there is tax exemption at the time of investment, tax exemption on returns and also tax exemption on redemption. This tends to distort the yield curve and hence the CBDT has already initiated the plan to shift to EET, meaning that in the year of

redemption it will be treated as income in the hands of the investor. If the complete shift to EET happens, it could make a huge difference to your post-tax returns.

Tax plays a crucial role in determining the attractiveness of your post-tax returns. From a financial planning perspective, that needs to be adequately built into your plan!

By
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Full Bio
Nathan Reiff has been writing expert articles and news about financial topics such as investing and trading, cryptocurrency, ETFs, and alternative investments on Investopedia since 2016.

Updated September 26, 2023

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The S&P 500 consists of 500 companies that have issued a total of 503 stocks. Some companies, such as Alphabet, have issued multiple classes of shares. The top 10 largest holdings are listed on the official S&P Global website. An S&P 500 company must meet specific requirements to be included as a constituent within the index.

However, S&P does not currently provide the total list of holdings, at least not for free. Subscribers to S&P's research unit, Capital IQ, can get access to the entire list. S&P 500 companies represent the top companies within their industries and are a gauge of U.S. economic activity.1

Key Takeaways
The S&P 500 includes some of the top companies that are leaders within their industries and represent a gauge of the U.S. economy.Companies must meet certain requirement criteria, which are determined by the publishers of the index before being added to the S&P.The S&P 500 index is market capitalization-weighted, where it gives a higher percentage allocation to companies with the largest market cap.A stock must meet certain criteria, including a total market cap of $14.5 billion, to join the S&P 500. Companies may be removed from the S&P 500 if they deviate substantially from these standards.

S&P 500 Inclusion Criteria

The S&P 500 was created in 1957 and is one of the most widely quoted stock market indexes. S&P 500 stocks represent the largest publicly traded companies in the U.S. The S&P 500 focuses on the U.S. market's large-cap sector.2

An S&P 500 company must meet a broad set of criteria to be added to the index, including the following:

A total market capitalization of at least $14.5 billion
Must be a U.S. company
A float-adjusted liquidity ratio (FALR) greater than or equal to 0.75
A positive sum of the most recent four consecutive quarters of trailing earnings
Positive earnings for its most recent quarter
Must meet certain liquidity requirements32

Companies may be removed from the S&P 500 if they deviate substantially from these standards.4

$39.7 Trillion
The total combined market cap of the 503 constituents in the S&P 500 as of Aug. 31, 2023.5

S&P 500 Calculation

The S&P 500 is a free-float market capitalization-weighted index. Market capitalization represents the total dollar market value of a company's outstanding equity shares. Market cap is calculated by multiplying the total number of outstanding shares of stock by the company's current stock price. For example, a company with 20 million shares outstanding in which its stock is selling for $100 per share would have a market cap of $2 billion.[26]

As a result, the more valuable an individual company's stock becomes, the more it contributes to the S&P 500's overall return. It is not uncommon for three-quarters of the index's return to be linked to only 50 to 75 stocks.

Therefore, the addition or subtraction of smaller companies from the index will not have a noticeable impact on the overall return of the index; however, the removal or addition of even just one of the largest stocks can have a major impact.

S&P 500 Sector Breakdown

Below are the top sectors and their weightings within the S&P 500 index as of Aug. 31, 2023.[7]

S&P 500 Sector Weighting

Sector	Index Weighting
Information Technology	28.2%
Healthcare	13.2%
Financials	12.5%
Consumer Discretionary	10.6%
Communication Services	8.8%
Industrials	8.4%
Consumer Staples	6.6%

Energy
4.4%

Materials
2.5%

Real Estate
2.4%

Utilities
2.4%

Source: S&P Dow Jones Indices

Being aware of the S&P's sector weighting is important because sectors with a smaller weighting may not have a material impact on the value of the overall index even if they're outperforming or underperforming the market.

For example, if oil prices are rising, leading to increased profits for the energy sector, those stocks represent only 4.4% of the S&P 500. As a result, oil stocks may not lead to a higher S&P if, for example, the more heavily weighted information technology sector is underperforming.

S&P 500 components are weighted by free-float market capitalization, which means that larger companies can affect the value of the index to a greater degree.8

Top 25 Components by Market Cap

Because the exact weightings of the top 25 components are not available from S&P directly, the weightings below are from the SPDR S&P 500 Trust ETF (SPY). SPY is the oldest exchange-traded fund (ETF) that tracks the S&P 500 and holds $406.6 billion in assets under management (AUM) as of Sept. 20, 2023, and is highly traded.9

As a result, the SPY's portfolio weightings provide a good proxy for investing in the underlying S&P 500 index, although the two may not be exactly the same. As of Sept. 21, 2023, the following are the 25 largest S&P 500 index constituents by weight:

Apple (AAPL): 7.05%
Microsoft (MSFT): 6.54%
Amazon (AMZN): 3.24%
NVIDIA (NVDA): 2.79%
Alphabet Class A (GOOGL): 2.13%
Tesla (TSLA): 1.95%
Alphabet Class C (GOOG): 1.83%
Berkshire Hathaway (BRK.B): 1.83%
Meta (META), formerly Facebook, Class A: 1.81%
UnitedHealth Group (UNH): 1.28%
Exxon Mobil (XOM): 1.27%
Eli Lilly (LLY): 1.21%
JPMorgan Chase (JPM): 1.18%
Johnson & Johnson (JNJ): 1.07%

Visa Class A (V): 1.05%
Procter & Gamble (PG): 0.99%
Mastercard Class A (MA): 0.93%
Broadcom (AVGO): 0.92%
Home Depot (HD): 0.85%
Chevron Corporation (CVX): 0.81%
Merck (MRK): 0.75%
AbbVie (ABBV): 0.75%
Costco (COST): 0.67%
PepsiCo (PEP): 0.67%
Adobe (ADBE): 0.65%10

How Many Companies Are in the S&P 500?

Although there are generally 500 companies within the index, that number has grown. There were 503 stocks that made up the S&P 500 as of Aug. 31, 2023. That's because some companies have multiple classes of equity shares, such as Alphabet.11

How Are Companies Selected for the S&P 500?

A company must meet certain requirements for inclusion in the S&P 500, which include:A market cap of at least $14.5 billionMust be a U.S. companyA float-adjusted liquidity ratio (FALR) greater than or equal to 0.75Positive earnings over the most recent four consecutive quarters summed togetherA profitable earnings report for the company's most recent quarterLiquidity requirements32

How to Buy the S&P 500?

Since the S&P 500 is an index, it can not be purchased directly; however, exchange-traded funds that mirror or track the index can be purchased, such as the State Street Global Advisors' SPDR S&P 500 Trust ETF (SPY).

The Bottom Line

The top 25 companies in the S&P 500 are some of the most well-known companies in the world, a large portion of the top 10 being tech companies, such as Apple, Microsoft, and Google. To invest in the companies in the index, investors can purchase the individual stocks of the companies or invest in a fund that tracks the S&P 500.

Article Sources

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S&P Global. "S&P Capital IQ Pro."
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Top 25 Stocks in the S&P 500 By Index Weight for March 2024

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11.1 – Corporate Actions
Corporate actions are financial initiatives undertaken by a company that results in a change to its stock price. There are different corporate actions that an entity can choose to initiate. A good understanding of these corporate actions gives a clear picture of the company's financial health and determines whether to buy or sell a particular stock.
This chapter will examine the five most important corporate actions and their impact on stock prices. A corporate action is initiated by the board of directors and approved by the company's shareholders.
11.2 – Dividends
Dividends are portions of profits made by the company, which are distributed to the company's shareholders. Dividends are paid on a per-share basis. For example, Infosys recently declared a dividend of Rs.42/- per share, which means you get Rs.42/- as dividend income for every share you own. Suppose you own 100 Infosys shares; you can get 100*42 = Rs.4,200/- as dividend income. The company directly remits the dividends to your bank account (linked to your Demat account). The dividend paid is also expressed as a percentage of the face value. In the above case, the face value of Infosys is Rs.5/-, and the dividend paid was Rs.42/- hence the dividend payout is said to be 840% (42/5).

It is not mandatory to pay dividends every year. If the company feels that instead of paying dividends to shareholders, they are better off utilizing the same cash to fund a new project for a better future, they can do so. Typically, companies in the growth phase (young companies growing fast) choose not to pay dividends but rather to plow back the profits into the business for more growth. However, when the company's growth opportunities slow down and it holds excess cash, it would make sense to reward its shareholders via dividends. Cash with shareholders makes more sense than retaining the cash on the company's book, and distributing the dividends may be the best way forward for the company.
The dividends need not be paid from the profits alone. If the company has made a loss during the year but it holds a healthy cash reserve, it can still pay dividends from its cash reserves.
The company's board members at the Annual General Meeting (AGM) decide whether to pay a dividend.
The dividends are not paid right after the announcement. This is because the shares are traded throughout the year, and it would be difficult to identify who is eligible to receive dividends and who isn't. The following timeline would help you understand the dividend cycle.

Dividend Declaration Date: This is the date on which the AGM takes place, and the company's board approves the dividend issue
Record Date: The date the company decides to review the shareholder's register to list all eligible shareholders for the dividend. Usually, the time difference between the dividend declaration date and the record date is 30 days.
Ex-Date/Ex-Dividend date: With the T+1 settlement cycle, the ex-dividend date normally is on the same day as the record date. Only shareholders who own the shares before the ex-dividend date are entitled to receive the dividend. This is because, in India, the equity settlement is on a T+1 basis. So for all practical purposes, if you want to be entitled to receive a dividend, you need to ensure you buy the shares before the ex-dividend date.
Dividend Payout Date: The date on which the dividends are paid to shareholders listed in the company register.
Cum Dividend: The shares are said to be cum dividends till the ex-dividend date.

When the stock goes ex-dividend, usually, the stock drops to the extent of dividends paid. For example, if ITC (trading at Rs. 335) has declared a dividend of Rs.15. On ex-date, the stock price will drop to the extent of the dividend paid, and as in this case, the price of ITC will drop down to Rs.320. The reason for this price drop is that the dividend amount paid no longer sits on the company's balance sheet; hence the stock price is adjusted. From the balance sheet perspective, dividends paid are considered cash out. Hence the new stock price has to factor in the shrunk balance sheet. Hence the price drops. That said, you will not always notice a significant price drop in the share price.

Sometimes, the company pays out a special dividend. A special dividend is non-recurring and happens on a 'one-time basis.' The special dividends are usually very large payments compared to a regular dividend, and that's when the stock price significantly drops. The drop in stock price should not be considered negative as you would receive a cash payment as a shareholder.

Lastly, dividends can be paid anytime during the financial year. If it's paid during the financial year, it is called the interim dividend. If the dividend is paid at the end of the financial year, it is called the final dividend.

11.3 – Bonus Issue

A bonus issue is a stock dividend allotted by the company to reward the shareholders. In regular dividends, cash is paid out to shareholders, but in a bonus issue, stocks are paid out instead of cash. The bonus shares are issued out of the reserves of the company. The shareholders receive these free shares against shares they currently hold. These allotments typically come in a fixed ratio of 1:1, 2:1, 3:1, etc. In a bonus issue, the stock price declines to the extent of the bonus ratio, but this decline should not be mistaken for a correction in stock price or a fall.

If the ratio is 2:1, the existing shareholders get two additional shares for every share they hold at no additional cost. So if a shareholder owns 100 shares, 200 additional shares will be rewarded. The total holding after the bonus issue will become 300 shares. When the bonus shares are issued, the number of shares the shareholder holds will increase, but an investment's overall value will remain the same.

To illustrate this, let us assume a bonus issue on different ratios – 1:1, 3:1 and 5:1

Bonus Issue
No. of shares held before bonus.
Share price before Bonus issue
Value of Investment
No. of shares post Bonus.
Share price after Bonus issue
Value of Investment

1:1
100
75
7,500
200
37.5
7500

3:1
30
550
16,500
120
137.5
16,500

5:1
2000

15
30,000
12,000
2.5
30,000

So as you see, in a bonus issue, only the number of shares increases, and your investment value remains the same before and after the bonus issue.
The bonus announcement date, ex-bonus date, and record date are similar to the dividend issue.
Companies issue bonus shares to encourage retail participation, especially when the company's price per share is very high, and it becomes tough for new investors to buy shares. The number of outstanding shares increases by issuing bonus shares, but the share price is slashed, as shown in the example above.
Think about this – fewer retail participants can buy or sell that share if the share price is bloated (I mean just the per-share price here, not the valuation). For example, the share price of MRF Limited is in the region of Rs.90,000 per share. A retail investor has to shell out 90K to buy and invest in 1 share, and this also means a small retail investor, with, say, Rs.25,000 to invest, can never buy MRF. Many retail investors spread the risk across 100s and 1000s of investors as opposed to a few investors. Hence, when the stock price bloats, companies issue a bonus share to slash the stock price without impacting any other financial metric, which is one reason to issue a bonus share.
Why isn't MRF splitting the shares, then? Well, at the end of the day, the decision is solely dependent on the company and I guess MRF is yet to make up their mind or perhaps they just wont indulge in these corporate actions
11.4 – Stock Split
The word stock split sounds weird, but this happens regularly in the markets. What this means is quite literally – the stocks that you hold are split!
Similar to a bonus issue, when the company declares a stock split, the number of shares held increases, but the investment value remains the same. The big difference between a bonus and a split is that in the bonus issue, the face value of the company remains unchanged, but in a stock split, the face value changes. Suppose the stock's face value is Rs.10, and there is a 1:2 stock split, then the face value will change to Rs.5. If you owned one share before the split, you would now own two shares after the split.
We will illustrate this with an example:

Split Ratio
Old FV
No. of shares you own before split
Share Price before split
Investment Value before split
New FV
No. of shares you own after the split
Share Price after the split
Investment value after the split

1:2
10
100
900
90,000
5
200
450
90,000

1:5
10
100
900
90,000
2
500
180
90,000

Like a bonus issue, a stock split encourages more retail participation by reducing the value per share. The dates and timeline (announcement date, ex-date, record date, etc.) are similar to dividend and bonus issues.

11.5 – Rights Issue

The idea behind a rights issue is to raise fresh capital. However, instead of going public, the company approaches its existing shareholders. Think about the rights issue as a second IPO and a select group of people (existing shareholders). The rights issue could indicate promising new development in the company, but this is not always true. As an investor, you need to evaluate the reasons for the right issue and determine if it makes sense. The shareholders can subscribe to the rights issue in the proportion of their shareholding. For example, 1:4 rights issue means for every four shares; the shareholder can subscribe to 1 additional share. The new shares under the rights issue will be issued at a lower price than what prevails in the markets. For example, if a stock is trading at Rs.500 per share, then the right issue could be at a 20% discount, at Rs.400 per share. However, a word of caution – The investor should not be swayed by the company's discount, but they should look beyond that. A rights issue is different from a bonus issue as one is paying money to acquire shares. Hence the shareholder should subscribe only if he or she is completely convinced about the company's future. It can so happen that after the company announces the right issue, the stock price can go below the right issue price. If the market price is below the subscription price/ right issue price, it is cheaper to buy it from the open market.

11.6 – Buyback of shares

A buyback can be seen as a company's method to invest in itself by buying shares from other investors in the market. Buybacks reduce the number of shares outstanding in the market; however, the buyback of shares is an important corporate restructuring method. There could be many reasons why corporates choose to buy back shares…

Improve the profitability on a per-share basis
To consolidate their stake in the company.
To prevent other companies from taking over.
To show the confidence of the promoters about their company.
To support the share price from declining in the markets.

When a company announces a buyback, it signals the company's confidence in itself. Hence this is usually positive for the share price, but like other things in the market, always evaluate the reasons for the corporate action.

Key takeaways from this chapter

Corporate actions have an impact on stock prices.
Dividends are a means of rewarding shareholders. The dividend is announced as a percentage of the face value.
You must own the stock before the ex-dividend date to get the dividend.
A bonus issue is a form of stock dividend. This is the company's way of rewarding the shareholders with additional shares.
A stock split is done based on the face value. The face value and the stock price change in proportion to the change in face value
A rights issue is how the company raises fresh capital from the existing shareholders. Subscribe to it only if you think it makes sense

Buyback signals a positive outlook for the promoters. This also conveys to the shareholders that the promoters are optimistic about the company's prospects.

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Growing climate concerns and social injustice have more investors wondering about how to invest in environmental, social, and governance (ESG) funds and stocks. The idea behind ESG investing is to make a difference with the dollars you invest by supporting companies that demonstrate policies congruent with improving the environment, positive social justice, and furthering sound governance. If you want to grow your wealth while creating a more just world, then you need to understand ESG in investing. Find out how to invest in ESG, from opening a brokerage account to researching ESG investments. This article will cover a range of ESG investments and strategies so that you can align your money with your values.

How to Invest In ESG

How to incorporate ESG factors in investing is straightforward. With accessible ESG screeners as well as funds dedicated to this investment approach, ESG investing is as easy as selecting a few screening parameters and searching through a database for the sustainable investments that fit your needs.

Steps Required to Invest in ESG

To begin your ESG investing journey, you'll need to choose an investment platform, typically an online brokerage account. After opening and funding the account, you'll visit the research section of the platform to screen for your ESG investments. Next, pick the assets that fit your criteria and proceed to buy shares in the stock, bond, or fund.

Here's how it works.

Step 1: Open an Online Brokerage Account

Choose a brokerage account: Review features, available assets, and costs related to the investment platform. Evaluate the stock and fund screeners in particular for their ESG criteria. Check out trusted broker reviews. Decide whether you prefer a taxable or retirement account.

Begin the application process: The online process to open a brokerage account requires you to present your name, address, phone number, Social Security number, date of birth, driver's license, and financial details.1

Fund your account: After creating the account, set up a funding source. Link a bank savings or checking account to the newly opened brokerage account. Transfer funds according to the bank's requirements. It might take several days for the money to transfer from your bank to your brokerage account.

Step 2: Understand Your ESG Criteria

ESG factors encompass a range of criteria spanning the environment, societal issues, and sound government. ESG funds can be broad and include a range of companies that fit into a broad environmental, social or governance framework. Other ESG assets may focus on components of ESG investing, such as lowering carbon emissions, improving worker equity, gender diversity, minority empowerment, greater board diversity, investing in green projects, and ethical labor management.

Most screeners assign a company an ESG score.2 The score includes how well the company fits within widely accepted ESG criteria and typically consists of a five point scale from one to five. Before screening to find the best ESG companies to invest in, determine the lowest ESG score you'll accept. Finally, decide whether you're seeking a broad or targeted ESG fund, or prefer screening for individual ESG companies.

Step 3: Research ESG Investments

Next decide among two ESG investing approaches. With the self-directed investing route, you screen for and select your preferred ESG investments. Or, if you'd like to outsource your ESG investing, you might consider a robo-advisor that offers ESG investments. Robo-advisors are low-fee investment managers that offer various core and strategy portfolios in line with your goals and risk tolerance levels.

Self-directed ESG investing: From your investment broker's research tab, access the screener for the type of asset (fund or individual stock) you're seeking. Select the criteria that you prefer and choose the minimum acceptable ESG score. Additional search criteria depend upon your investment needs. You might screen for a U.S. or international ESG equity fund and a specific fee level. For stocks, you might select market cap, industry, or other criteria. From the screened list, you can adjust the criteria and then investigate the individual assets further to select the one(s) that meet your needs. Robo-advisor for ESG investing: For those who prefer the DIFY or do-it-for-you approach, a digital investment manager is a good alternative. Most robo-advisors ask a few questions about your age, financial goals, and risk tolerance. From your responses, the platform recommends a specific asset allocation or mix of stock, bond, and alternative funds to meet your needs. For ESG investing with a robo-advisor, you'll pick either a broad ESG portfolio or one that offers the option to choose a specific ESG factor portfolio, such as climate or social impact, in which to invest. Some platforms, like Sustainfolio and Betterment, give users the opportunity to choose from various types of ESG investing.

Step 4: Choose an ESG Investment

After you've selected your ESG investments, you're ready to proceed. The final step in how to invest in ESG companies or funds is simply placing a trade on your brokerage platform app or desktop. While on the screen for the ESG investment there is usually a button labeled "Trade." Or you can select the website's "Trade" menu item.

Once on the trade screen, you'll follow these simple steps:

Type in the investment's ticker symbol. Most trade tickets will pre-populate this information from the screener selection.
Select "Buy."
Choose either a dollar amount or number of shares.
Select the order type, either market or limit.
Confirm the order.

The Orders page of the platform will show the details of the trade and whether it has been filled or not. Once the order is filled, money will be transferred from your cash balance to fund the new ESG stock or fund purchase.

Compare Top ESG Investing Platforms

Company
Platform Type
Fees
Account Minimum

Wealthfront
Robo-Advisor
0.25% for most accounts, no trading commission or fees for withdrawals, minimums, or transfers
$500

Betterment
Robo-Advisor
0.25% (annual) for investing plan accounts with at least $20,000 or at least $250 per month in recurring account deposits. Otherwise, the fee is $4/month. An additional 0.15% (annual) fee on accounts with at least $100,000 in assets provides account holders with unlimited access to certified financial planners. This additional fee is applied to assets in the investment and cryptocurrency accounts, but not cash accounts. For accounts with at least $2 million, there is a fee discount of 0.10%.
$0, $10 minimum to start investing

M1 Finance
Robo-Advisor
$0
$100 ($500 minimum for retirement accounts)

Ellevest
Robo- Advisor
$5 or $9 monthly subscription fee, depending on level of membership chosen
$0 for Plus, or Executive, $1,000,000 for Private Wealth

Vanguard
Online Broker
$0/stock and ETF trade, $0 plus $1 per contract for options
$0

Charles Schwab
Online Broker
$0 for stock/ETF trades, $0.65 per contract for options
$0

Ally Invest
Online Broker

$0 stock trades, $0.50 per contract for options trades
$0

What You Need to Open an Online Brokerage Account

Opening an online brokerage account is as easy as following the online prompts.1 Click on the button that says “start here” or “open an account.” Next, provide the personal and financial information listed below. After this, you simply link a funding source (usually a bank account) and you’re ready to begin your ESG investing journey.

Personal Information

The brokerage industry follows the highest security and compliance levels when dealing with your money and investing activities. All personal information requested is required by law to ensure that you are who you claim to be and is protected by the company.

Here is the personal information that you’ll typically need to open an online brokerage account:

NameSocial Security number (or Taxpayer Identification Number)AddressTelephone numberE-mail addressDate of birthDriver's license, passport, or other government-issued identification document

Financial Information

Investment brokers are closely regulated and must ensure your suitability for the various investment products that the firm offers. When opening your investment account you’ll need to provide financial information as part of the know your client standard, including:

Employment status and occupationWhether you are employed by a brokerage firmAnnual incomeNet worthInvestment objectives and risk tolerance

Understand the Basics

ESG investing is a strategy to ferret out companies that meet specific environmental, social, and good governance parameters.

Here’s an example of the factors that are considered in each of the ESG or sustainable investing categories:

Environmental: Carbon footprint, climate impact, and natural resource conservation Social: Employee wellbeing, company health, and safety track record3Governance: Accounting practices, business ethics, and board of director diversity

The growth in ESG investing is driven by a broad desire for a more just society. ESG investors hope that by investing in sustainable companies, capital will flow into companies that meet the ESG standards and thus further a healthier planet and more compassionate corporate society.

How Are ESG Scores Calculated?

An ESG score is a quantifiable determinant of a company’s rank on a range of environmental, social, and governance issues. Various organizations calculate and attempt to standardize ESG scores. ESG scores are based on information from securities filings, corporate disclosures, government databases, academic studies, media reports, and more. Screeners typically assign companies and funds an ESG score between one and five.

When searching for ESG investments, select your preferred ESG score. Scores will vary by industry and reporting agency, and like any published metric, should be considered as one of several inputs into an investment decision.

ESG Investing Benefits

Wondering why to invest in ESG? The reasons vary and include the potential personal, financial, and societal benefits. Ranking companies by ESG criteria provides a rubric that enables governments, businesses, and individuals to work together to progress on societal and global issues.

ESG investing benefits include:

Sustainable investing can have a positive impact on the world.Sustainable investing can deliver equal or, in some cases, superior investment returns when compared to traditional investing.45ESG investing enables investors to invest in accord with their personal values.

Types of ESG Investments

With the popularity of sustainable ESG investing, there are many ESG investments available. Self-directed investors can screen for ESG funds and individual companies. hose who prefer robo-advisors or managed portfolios have many choices as well.

Types of ESG investments:

Stocks BondsMutual fundsETFs

Factors to Consider When Investing in ESG

ESG investing remains a strategy to build long-term wealth. Sustainable investors should consider ESG scores along with the traditional investment selection strategies. These might include fundamental analysis for stock picking, meaning ESG ratings are a metric along with debt-to-equity ratios and earnings-per-share. For fund selection, it's wise to review expense ratios, performance metrics, and the stated investment strategy.

Begin your search for ESG investments by choosing a platform with robust investment selection and screening. This might be your financial firm like Schwab or Fidelity. Research sites such as Morningstar can also provide useful ESG investment research information. Next, you will select the screening factors, both ESG and traditional.

Following are factors to consider when investing in ESG:6

Type or asset class of investment: Begin by choosing the type of investment you're seeking. Popular choices are stocks, ETFs, or mutual funds. Sector or industry: You may choose U.S. or international stocks or funds. Other options include specific sectors such as healthcare or technology. Global investors might search for developed or developing markets ESG funds. ESG bond funds are also available at many brokers.ESG score: Scores will typically range from one to five. There's no right or wrong ESG screening score, and you might consider adjusting the rating depending upon how many investments are available.Fees: For fund investors, the annual expense ratio is important. Set a maximum expense ratio. Abundant research supports the correlation between lower cost funds and higher performance over the long-term.Investment metrics: ESG stock pickers might search for low P/E ratio stocks, high momentum, revenue growth, low debt ratios, or other factors. For bond investors, you might consider credit quality or type of debt, such as government, corporate, or municipal.

FAQs

What Are ESG Companies?

ESG companies meet one or more of the widely accepted environmental, social, or governance criteria. Depending upon the ESG certification platform, the company will receive a specific score that is based upon the rating criteria. It is important to dig into the criteria to understand how companies are being evaluated and avoid greenwashing. Various ESG tracking organizations provide lists of ESG companies.You won't find tobacco companies on an ESG company list due to the health risks of smoking. Companies who make firearms are also usually omitted. A quick internet search will yield multiple lists of ESG companies to use as a springboard for your ESG company research.

What Are the Best ESG Funds?

There are a few fund families dedicated solely to ESG investing such as Pax World Funds and Calvert Group. That said, the majority of ESG funds are created by popular fund families like iShares or Vanguard. A quick Morningstar ETF search of ESG funds with a 4 or 5 ranking (out of 5) yielded 640 offerings.6 From that list, you can screen for the ESG criteria that matter most to you. If you're seeking an ESG fund that focuses on gender diversity, you might like SPDR® MSCI USA Gender Diversity ETF (SHE). If you're seeking a diversified U.S. or international ESG equity fund, there are scores from which to choose such as iShares ESG Aware MSCI USA ETF (ESGU) or Calvert International Responsible Index Fund (A) (CDHAX). Unfortunately, there is not any list of best ESG funds that is universally agreed upon.

Does ESG Investing Make a Difference?

The results are inconclusive. A recent Harvard Business Review article included research from Columbia University and the London School of Economics that compared the ESG record of 147 U.S. companies found in ESG portfolios with 2,428 U.S. companies found in non-ESG portfolios.7 The surprising finding was that the companies in the ESG portfolios had worse compliance records for labor and environmental metrics. This study also determined that those companies added to ESG portfolios didn't improve the companies' labor or environmental compliance. Adding to the confusion, there is no universally accepted definition or ESG scoring method.8 Performance of ESG funds has been comparable with their non-ESG competitors. It remains to be seen whether ESG investing actually helps companies comply with standard global ESG initiatives or not.

Is ESG Investing Ethical?

ESG investing relates to ethical behavior and ascribes to the common good theory, which encourages citizens to sacrifice for the good of society. ESG strives to further ethical behavior, such as caring for the earth, treating all individuals fairly, and righting societal injustices. It's difficult to definitively determine whether ESG investing is furthering ethical behavior and creates a better society. That said, as a society, it is ethical to encourage companies to transact their businesses in a way that is beneficial to society. In that light, ESG investing is focused on the higher societal goals and therefore ESG investing is generally considered ethical.

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The internet has connected the world in more ways than any other technology. With people getting

more concerned about their data and privacy, however, the internet in its current state seems inadequate. There are serious concerns over how big companies handle and monetize user data, creating the need for a better or alternative internet. Web 3.0 is an alternative that is becoming popular because it puts the internet's power back into the hands of end users. We’ve answered common questions around Web 3.0 investments in this guide, in a way any beginner investor can understand.

How to Invest in Web 3.0

Web 3.0 offers investors different investment vehicles that can cater to different risk appetites. Nevertheless, just like every form of investment, investing in Web3 is risky and should only be done with adequate research and a good strategy.

The most common Web3 investment options are stocks, cryptos, and NFTs. However, there are also less popular investment methods you can consider, such as angel investing or buying into the IDO (Initial DEX Offering) or ICO (Initial Coin Offering) of a crypto company. In both methods, you invest in a company by participating in a seed round or buying its coin before launch.

One thing to note is that most of Web3 investing is based on narratives: investors spreading the word on what a company is doing to grow the Web3 ecosystem. However, you shouldn’t depend on narratives when making decisions.That’s because some Web3 influencers push a good narrative about a project to get people to buy into the project, and then they end up dumping the project. Instead, focus on investments with a reasonable historic performance, like these three options.

Invest in Stocks Involved With Web 3.0

Stocks are one of the easiest ways to get into Web3, especially as they give you some level of Web3 exposure. Several companies actively involved in Web3 are Web2 companies with multiple sources of income, and so might not be affected by a Web3 downturn like these Web3 stocks:

Coinbase (COIN): Coinbase is the top Web3 stock for anyone looking to invest in Web3. The American crypto exchange serves as a key stakeholder in the crypto ecosystem, facilitating the conversion of crypto to fiat, and offering an all-inclusive wallet that supports NFTs.Meta (META): Meta might have raised dust when it changed its name from Facebook, but it’s still an important player in the Web3 space. Currently, Meta is building two Metaverses: Horizon Worlds and Workplace, for gaming and co-working, respectively.Apple (APPL): Apple is planning to launch augmented reality (AR) glasses to help people experience the Metaverse better and might even let users install third-party apps in a bid to encourage Web3 adoption. Currently, it has integrated a lot of AR features in selected devices.X (formerly Twitter): X is the preferred social platform for Web3 conversations. With founder Elon Musk being an open supporter of Dogecoin, X's stock might be a good buy. Additionally, X supports NFT integration and allows people to specially display their NFTs as profile pictures.

Best Online Brokers

Platform	Account Minimum	Fees
Merrill Edge	$0	$0.00 per stock trade. Options trades $0 per leg plus $0.65 per contract
E*TRADE	$0	No commission for stock/ETF trades. Options are $0.50-$0.65 per contract, depending on trading

volume.

Invest in Non-Fungible Tokens (NFTs)

NFTs are unique digital assets on a blockchain. They show ownership and cannot be copied. You can buy an NFT from a secondary marketplace such as OpenSea or Magic Eden or choose to mint them and hold for a profit.

NFTs are important Web3 investments because they can be used to unlock special privileges or as an investment in a Web3 company.

Invest in Cryptocurrencies

Cryptocurrencies are digital currencies operated by a decentralized entity on the blockchain. Like regular money, crypto can be used to pay for goods and services and as an investment option. Crypto allows direct exposure into the space and is a good fit for people who want to aggressively invest in Web 3.0

Crypto is highly volatile. So, if you’re a risk-averse trader, you might want to consider other lower-risk options like crypto ETFs and fractional shares. These options provide you with direct exposure but cushion you from the market's daily volatility.

Best Cryptocurrency Exchanges

Company	Transaction Fees	Currencies	Minimum Deposit or Purchase	Trade Limits
Kraken	0.00% to 0.26%	185+	$1	No
Coinbase	0.00% to 0.60%	200+	$2	Yes
Crypto.com	0.00% to 0.075%	250+	$1	Yes

Know the Risks of Investing in Web 3.0

Web 3.0 investments, like any other investment, poses some risk to investors. The biggest risks are volatility, security, and reliability on existing Web3 investment processes and infrastructures.

Volatility: Prices of Web3 assets change widely over short periods, which could be a huge plus or minus for your portfolio, depending on the time and market demand.Security: Smart contracts issues, security breaches, and hacks are common occurrences in Web3. If a project is attacked, it could lead to a big loss of your capital. As a safety measure, go with projects that have undergone a full audit.Reliability: The best Web3 investments are not always reliable. Your best bet would be to go for projects with strong real-world use cases over hype.

Why Invest in Web 3.0

The foundation of Web3 is built on emerging technologies such as blockchain tech, smart contracts, and AI. An investment into Web3 positions gives you the chance to be an early adopter of these disruptive technologies.

Web3 has the potential to overturn how we do almost everything, from shopping to payments to the way we consume content. As an investment class, Web3 will shape how companies will raise startup capital and generate money from their funding rounds.

Most importantly, investment in Web3 is largely profitable and can provide impressive returns over shorter time frames.

To get the most out of any Web3 investment, you must:

Use a secure wallet to store digital assets like cryptos and NFTs.Never share the PIN/password to your wallet.Avoid projects with little or no social media presence and vague roadmaps.Never open unofficial links or claim "free giveaways."

Factors to Consider When Investing in Web 3.0

Investing in Web3 can be challenging, especially if you don’t have a clear plan or failed to do your research. It’s essential you consider these factors before you make a Web3 investment:

Your investment goalsThe team behind a project or companyYour risk tolerance levelsWeb3 regulations in your country of residence

After you have clearly designed and mapped out your investment goals and the investment timeline, you need to know the founders behind the Web3 project of interest. Choose projects with publicly known founders. You can easily reach out in case the project goes south. Assess your risk tolerance level and go for a project allowed in your country to avoid legal issues with your investment.

FAQs

What Is Web 3.0?

Web 3.0 (or Web3) is a general name for the new, user-centric version of the internet that integrates new concepts like decentralization, blockchain tech, artificial intelligence (AI),

virtual reality (VR), and augmented reality (AR) into everyday internet use. It is a decentralized version of the internet that promises to help users better control their data usage and sharing while enhancing monetization and reducing exposure to data manipulation.The concept of Web3 is not to make our current internet obsolete; it's to integrate these technologies into the existing infrastructure, allowing everyone to freely use the internet. For example, if you make a Facebook or Instagram post that goes against Meta's community standards, the social media giant could take the post down or ban your account. This would likely be impossible in Web 3.0 since most platforms will be decentralized.Although it is still a work in progress, many individuals, companies, and even governments have started to position themselves adequately for web3. The Hong Kong government is preparing to adopt a framework for integrating this technology into many of its city's processes.
Since Gavin Wood coined the term in 2014, Web3 has grown to offer potential for diverse opportunities. In recent years, there have been lots of conversations around Web3 and the opportunities it offers investors. While Web3 investment opportunities have become an industry buzzword, many have yet to realize its importance and how they can invest before it officially launches.

Can You Invest Directly In Web 3.0?
No. You cannot invest directly in Web 3.0, but you can choose to be an active or passive investor through a variety of investment options. Active investment options include cryptocurrency and NFTs, while passive investment options involve buying stocks in companies actively engaged in Web 3.0.

What's the Difference Between Web 2.0 and Web 3.0?
Web 2.0 is the current internet, which has birthed innovations like social media, e-commerce stores, and search engines. These innovations have made content king and provided a way to create content, unlike in Web 1.0, where internet users could only access limited information. Although beneficial, these Web 2.0 innovations introduced data and privacy issues, giving tech giants access to tons of user data.Web 3.0 is an upgrade to Web 2.0 and offers a way for internet users to control their data, use decentralized technologies to store and share information, and voluntarily conceal their digital identities. In Web 3.0, users will make faster and cheaper payments for goods and services using cryptocurrencies. With Metaverse development currently underway, Web3 could change how we experience the world around us, opening us to more immersive experiences e.g the Metaverse.

Is Investing in Web 3.0 Safe?
Web 3.0 investment options are more volatile than regular investment options. Although not completely unsafe, there is a big risk of ending up on the wrong side of the volatility. This is why it's critical to have a good level of knowledge, do your research, and come up with a robust investment plan.Another issue of concern is in regards to the current state of regulations. This new technology is still very much unregulated, and governments and regulating bodies could institute policies unfavorable to investors.

Who Should Invest in Web 3.0?
Web 3.0 investing is not for all types of investors, especially those with a low-risk appetite or who are looking to get into investing gradually. It is a fast-moving investment class that requires some level of industry knowledge, patience, and timing. The nature of Web 3 investments makes them a good fit for investors who fall into any of the categories below.High-Risk Tolerance Investing in Web 3.0 is highly risky. As a Web3 investor, you should have a huge risk appetite and only put in money you can afford to lose. The volatility of many Web 3 assets makes it a highly unpredictable asset class. For example, between February 20, 2023, and March 10, 2023, Bitcoin rose to $24,500 and plummeted to $19,500 before touching $30k. Without a huge risk appetite, you could prematurely sell your investments and make constant losses.High Capital To make tangible returns on your Web 3.0 investment, you need to put in a significant sum of money. Since it is recommended that you use not more than 10% of your entire portfolio to make Web3 investments, you need to have a diversified portfolio that is not fully reliant on this investment class. A higher capital investment would yield more returns but could also translate into more losses. Consider investing in leveraged assets and futures trading if you have a big risk appetite but limited capital.

5.1 – Overview
This chapter was updated on 15th November 2022. A few comments in the query section may seem out of place. Kindly ignore those comments. The essence of the chapter remains the same.
The previous chapter gave us perspective on how a company evolves from the idea generation stage until it decides to file for an IPO. The idea behind creating the fictional story in the previous chapter was to give you a sense of how a business matures over time. Of course, many nuances were intentionally overlooked to drive the point across, and I hope that helped. The emphasis was on the different stages of business and funding options available at various stages of business.

Circumstances leading to an IPO are extremely important to understand because the IPO market, also called the Primary market, sometimes attracts many new first-time stock market investors. In this chapter, we will understand the IPO process and the many different aspects of a company's IPO.
5.2 – Why do companies go public?
We closed the previous chapter with a few unanswered questions: Why did the company decide to file for an IPO, and in general, why do companies go public?
When a company decides to file for an IPO, one of the main reasons is to raise funds to fuel its CAPEX requirement. Apart from this, there are several other reasons for an IPO, sometimes, a company raises funds via IPO to reduce a high-cost debt, or sometimes a company can IPO to give an exit for an early-stage investor. Here is something interesting you can do. Think about a company that went IPO recently, and google for the IPO reason, and you'll know why the company went public.
The promoter has three advantages in taking his company public –

Raise funds to meet CAPEX requirement
Avoid the need to raise debt which means there are no finance charges to pay, which further translates to better profitability.
The promoter can spread the risk amongst a large group of investors instead of one large investor. 100s and thousands of retail investors are better than one large private equity investor.

There are other advantages as well in filing for an IPO –

Provide an exit for early investors – Once the company goes public, the shares of the company start trading publicly. Any existing company shareholders– promoters, angel investors, venture capitalists, or PE funds; can use this opportunity to sell their shares in the open market. By selling their shares, they get an exit on their initial investment in the company. Of course, there is a lock-in period before which early investors cant exit, but that is beside the point.
Reward employees –Employees, working for the company would have shares allotted to them as an incentive. This arrangement between the employee and the company is called the "Employee Stock Option" or ESOPS. The shares are allotted at a discount to the employees. Once the company goes public, the employees can see capital appreciation in the shares. A few examples where the employee benefited from ESOP would be Google, Infosys, Twitter, Facebook, Amazon, etc
Improve visibility – Going public increases visibility as the company is publicly held and traded. There is a greater chance of people's interest in the company, consequently impacting its growth.

5.3 – Merchant Bankers
Having decided to go public, the company must do a series of things to ensure a successful initial public offering. The first and foremost step would be to appoint a merchant banker. Merchant bankers are called Book Running Lead Managers (BRLM)/Lead Managers (LM). The job of a merchant banker is to assist the company with various aspects of the IPO process, including:

Conduct due diligence on the company filing for an IPO, ensure their legal compliance and issue a due diligence certificate.
Work closely with the company and prepare their listing documents, including Draft Red Herring Prospectus (DRHP). We will discuss this in a bit more detail at a later stage.
Underwriting shares – In underwriting shares, merchant bankers agree to take up the unsubscribed portion of an IPO. The underwriting is taken up for fresh shares issued during the IPO. The merchant banker takes up the remaining shares if the subscription is above a defined threshold but is not subscribed fully. If the subscription is below the threshold, the IPO is deemed to have failed. All investor money is unblocked in the investors' accounts. In March 2020, Anthony Waste Limited IPO's subscription was below the threshold.
Help the company arrive at the price band for the IPO. A price band is the lower and upper limit of the share price w
For example, the current IPO of Keystone Realtors Limited has a price band of Rs.514 to Rs.541.
Help the company with the roadshows. The roadshow is like a promotional/marketing activity for the company's IPO
Appointment of other intermediaries, namely, registrars, bankers, advertising agencies, etc. The Lead manager also r

Once the company partners with the merchant banker, they will work towards taking the company public.
5.4 – IPO sequence of events
Every step in the IPO sequence must happen under the SEBI guidelines. In general, the following is the sequence of s

Appoint a merchant banker. In case of a large public issue, the company can appoint more than one merchant bank
Apply to SEBI with a registration statement – The registration statement contains details on what the company does,
he company
Getting a nod from SEBI – Once SEBI receives the registration statement, SEBI takes a call on whether to issue a go-a
DRHP – If the company gets the initial SEBI nod, then the company needs to prepare the DRHP. A DRHP is a documer
, DRHP should contain the following details:

The estimated size of the IPO
The estimated number of shares being offered to the public
Why the company wants to go public, and how does the company plan to utilize the funds along with the timeline pr
Business description including the revenue model, expenditure details
Complete financial statements
Management Discussion and Analysis – how the company perceives future business operations to emerge
Risks involved in the business
Management details and their background

Market the IPO – This would involve TV and print advertisements to build awareness about the company and its IPO offering. This process is also called the IPO roadshow.
Fix the price band – Decide the price band between which the company would like to go public. Of course, this can't be way off the general perception. If it is, then the public will not subscribe to the IPO
Book Building – Once the roadshow is done and the price band fixed, the company has to officially open the window during which the public can subscribe for shares. For example, if the price band is between Rs.100 and Rs.120, the public can choose a price they think is fair enough for the IPO issue. The process of collecting all these price points and the respective quantities is called Book Building. Book building is perceived as an effective price discovery method.

Closure – After the book building window is closed (generally open for a few days), the price point at which the issue gets listed is decided. This price point is usually the price at which maximum bids have been received.
Listing Day – This is the day when the company gets listed on the stock exchange. The listing price is the price decided based on market demand and supply on that day and the stock is listed at a premium, par, or discount of the cut-off price.

5.5 – What happens after the IPO?
During the bidding process, investors can bid for shares at a particular price within the specified price band. This whole system is referred to as the Primary Market around the date of the issue where one bids for shares. The moment the stock gets listed and debuts on the stock exchange, the stock starts to trade publicly. This is called the secondary market.
Once the stock transitions from primary to secondary markets, the stock gets traded daily on the stock exchange. People transact (buy or sell) these listed shares regularly.
Why do people trade? Why does the stock price fluctuate? We will answer all these questions and more in the subsequent chapters.
5.6 – Few key IPO jargon
Before we wrap up the chapter on IPOs, let us review a few important IPO jargons.
Under subscription – Let's say the company wants to offer 100,000 shares to the public. During the book-building process, it was discovered that only 90,000 bids were received, then the issue is said to be under-subscribed. This is not a great situation, as it indicates negative public sentiment.
Oversubscription – If there are 200,000 bids for 100,000 shares on offer, then the issue is said to be oversubscribed two times (2x)
Green Shoe Option – Part of the issue document that allows the issuer to authorize additional shares (typically 15 percent) to be distributed in the event of oversubscription. This is also called the overallotment option.
Fixed Price IPO –Sometimes, the companies fix the price of the IPO and do not opt for a price band. Such issues are called fixed-price IPO
Price Band and Cut off price –A price band is a price range between which the stock gets listed. For example, if the price band is between Rs.100 and Rs.130, then the issue can list within the range. Let's say it gets listed at 125; 125 is the cut-off price.
5.6 – Recent IPOs in India
Here is a look at a few recent IPOs in India. With all the background information you now have, reading this table should be easy.

I hope the last two chapters gave you a sense of why a company files for an IPO and what happens during an IPO. In the next chapter, we focus on understanding the secondary markets and all the nuances around the secondary market.

Key takeaways from this chapter

Companies go public to raise funds, provide an exit for early investors, reward employees and gain visibility.
Merchant banker acts as a key partner with the company during the IPO process.
SEBI regulates the IPO market and has the final word on whether a company can go public or not
As an investor in the IPO, you should read through the DRHP to know everything about the company.
Most of the IPOs in India follow a book-building process.

Major stock exchanges, like the Nasdaq, are exclusive clubs—their reputations rest on the companies they trade. As
exchange. Only companies with a solid history and top-notch management behind them are considered.

The Nasdaq has four sets of listing requirements. Each company must meet at least one of the four requirement se

Key Takeaways
Major stock exchanges, like the Nasdaq, are exclusive clubs—their reputations rest on the companies they trade.The
t at least one of the four requirement sets, as well as the main rules for all companies.In addition to these requireme
r set of standards.A company has four ways to get listed on the Nasdaq, depending on the underlying fundamentals

Listing Requirements for All Companies

Each listing firm must adhere to U.S. Securities and Exchange Commission (SEC) Marketplace Rules for Nasdaq listin

The regular bid price of shares of the company's stock at the time of listing must be at least $4.00; however, a comp
2.00 if the company meets varying requirements. Typically, there must be at least three (or four depending on the cr

Companies must have a minimum of 1,250,000 publicly traded shares outstanding upon listing, excluding those hel
f the company.45

To stay listed on the Nasdaq, a company must continue to meet the minimum listing requirements or risk being deli
Companies must also have at least 450 round lot (i.e., 100 shares or more) shareholders, 2,200 total shareholders, o
over the past 12 months.5

Depending on the types of securities listed and the company's size, an application fee of $5,000 to $25,000 is requir
$50,000 to $270,000. There are also fees depending on the number of shares listed, which range from $100,000 to $

There are also several other fees, depending on the type of company, including an annual listing fee, small-cap fee f
es such as record-keeping and additional shares issued.8

In addition to the above requirements, financial standards need to be met, depending on the type of security being

Required Financial Standards

Standard No. 1: Earnings

The company must have aggregate pre-tax earnings in the prior three years of at least $11 million, in the previous tv
three years can have a net loss.1

Standard No. 2: Capitalization With Cash Flow

The company must have a minimum aggregate cash flow of at least $27.5 million for the past three fiscal years, with
rage market capitalization over the prior 12 months must be at least $550 million, and revenues in the previous fisca

Standard No. 3: Capitalization With Revenue

Companies can be removed from the cash flow requirement of the second standard if their average market capitali over the prior fiscal year are at least $90 million.1

Standard No. 4: Assets With Equity
Companies can eliminate the cash flow and revenue requirements and decrease their market capitalization requirem
n and their stockholders' equity is at least $55 million.1

How Many Companies Are Currently Listed on the Nasdaq?
As of July 2023, there are over 3,300 companies listed on the Nasdaq exchange. The exchange has the highest tradin
per day.9

What Famous Companies Are Listed on the Nasdaq?
Many of today's famous companies, which are primarily technology companies, are listed on the Nasdaq. These com
, Netflix, and Alphabet (Google). Famous non-tech companies include Costco, PepsiCo, and Starbucks.

Can You Be Listed on the NYSE and Nasdaq?
Yes, companies can be listed on more than one exchange, known as a dual listing. In order to do so, a company mus
however, don't usually do this.

The Bottom Line
A company has four ways to get listed on the Nasdaq, depending on the company's underlying fundamentals. If a co
minimum, it has to make it up with larger minimum amounts in another area, like revenue. This helps to improve th

After a company gets listed on the market, it must maintain certain standards to continue trading. Failure to meet th
ts delisting. Falling below the minimum required share price or market capitalization is one of the major factors trigg
the exchange.

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What Is a Fractional Share?
Less than one full share of equity is called a fractional share. Such shares may be the result of stock splits, dividend
ypically, fractional shares aren't available from the stock market, and while they have value to investors, they are als

Key Takeaways
A fractional share is a portion of an equity stock that is less than one full share.Fractional shares often result from st
shares.Mergers or acquisitions create fractional shares, as companies combine new common stock using a predeter
tment plans often leave the investor with fractional shares.Fractional shares don't trade on the open market; the onl
Understanding a Fractional Share
Fractional shares come about in a number of ways, including dividend reinvestment plans, stock splits, mergers, and

Dividend Reinvestment Plans
Dividend reinvestment plans (DRIP) often create fractional shares. A dividend reinvestment plan is a plan in which a
s to use dividend payouts to purchase more of the same shares. As this amount "drips" back into the purchase of m
ain distributions and dollar-cost averaging programs can also result in purchasing fractional shares.

Stock Splits

Stock splits don't always result in an even number of shares. A 3-for-2 stock split would create three shares for ever
er of shares would end up with a fractional share after the split. Three shares would become 4½, five would become

Mergers and Acquisitions

Mergers and acquisitions (M&As) may also create fractional shares since companies combine new common stock us
for shareholders.

Some brokerage firms will split whole shares intentionally so they can sell fractional shares to clients. This division o
e Amazon (AMZN) or Alphabet, Google's parent company (GOOGL). As of March 2020, AMZN was selling for more th
.12 Fractional shares often can be the only way individual investors can buy stock insuch companies.

For example, a young investor with limited funds might have their heart set on buying stock in Amazon. Starting wit
stock, so they might find a brokerage firm willing to sell a fractional share. They could invest half of the money in on
t in lower-priced stocks that would allow them to buy full shares.

In the event of stocks splits, mergers, and acquisitions, shareholders sometimes are given the option of obtaining ca
ble.

Trading Fractional Shares

The only way to sell fractional shares is through a major brokerage firm, which can join them with other fractional s
s not have a high demand in the marketplace, selling the fractional shares might take longer than hoped.

Not everyone wants to hold onto fractional shares, especially if they ended up with them for inadvertent reasons su
k priced at $12 per share. After a 3-for-2 stock split, they would end up with 337½ shares priced at $8 per share. If th
more likely to find a brokerage firm willing to take the fractional share. Or they could find a brokerage firm willing to
es to 338.

Real-World Example of a Fractional Share

In November of 2019, Interactive Brokers became the first of the major online brokers to offer fractional shares tra
actional shares trading of equities and ETFs.4

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A mid-cap index provides a benchmark for investors interested in gauging the relative performance of mid-cap stoc
e-traded funds (ETFs) and mutual funds. A mid-cap stock is defined as any equity security whose market capitalizati
lion.1 Some investment companies put the mid-cap range at about $3 billion to $10 billion.2 However, that range is
ces, mid-cap companies are generally in the middle of their growth curve and are expected to post sustained increa
risky as small-caps, mid-caps tend to be riskier than large-caps.3

There are a number of mid-cap indexes used as benchmarks to gauge the performance of mid-cap investments. No
dex, which is the default benchmark for many large-cap stocks and funds. Indeed, the top three large-cap ETFs by as

ach of the top three mid-cap ETFs tracks a separate index. And within the top 10, there are four separate broad-base
themed indexes, such as value or growth, rather than broad-based).5 This is based on data from ETF Database as of

Those four mid-cap indexes are:

CRSP U.S. Mid Cap Index (CRSPMI1)
Russell Midcap Index (RMCC)
Dow Jones U.S. Mid-Cap Total Stock Market Index (DWM)
S&P MidCap 400 Index (SP400)

Unlike the large-cap universe, there is no clear index leader for mid-caps and the four indexes listed above vary quit
g than large-cap investing. Understanding which index to use as a benchmark for a particular investment is importar
derperforming. Below, we look at the four mid-cap indexes listed above in more detail in order to give investors a be
of mid-cap investments.

Key Takeaways

A mid-cap stock is a stock whose market cap is generally between $2 billion and $10 billion.There are four different r
Index, the Dow Jones U.S. Mid-Cap Total Stock Market Index, and the S&P MidCap 400 Index.These indexes differ wi
e among investors that the S&P 500 does with large-cap indexes.This means investors need to be aware of the best i
p holdings.All of this illustrates that though market capitalization is an important thing to keep in mind when analyzi
ap" and "mid-cap" are ultimately arbitrary.

Index Key Stat Comparison Table

Name
CRSP U.S. Mid Cap Index (CRSPMI1)
Russell Midcap Index (RMCC)
Dow Jones U.S. Mid-Cap Total Stock Market Index (DWM)
S&P MidCap 400 Index (SP400)

Number of Stocks
365
824
502
400

Largest Market Cap
$51.0 billion
$61.4 billion
$40.0 billion

$17.3 billion

Smallest Market Cap
$205 million
Data Not Available
$40.9 million
$1.6 billion

Median Market Cap
$18.2 billion
$10.7 billion
$8.0 billion
$5.5 billion

Mean Market Cap
$19.0 billion
$24.0 billion
$9.1 billion
$6.1 billion

Weight of the Largest Constituent*
0.7%
0.6% *statistic is based on the iShares Russell Mid-Cap ETF (IWR)
0.9%
0.7%

Weight of the Top 10*
6.7%
4.8% *statistic is based on the iShares Russell Mid-Cap ETF (IWR)
5.9%
6.4%

1-Year Trailing Total Return*
6.2%
4.2%
0.3% *statistic is based on the Schwab U.S. Mid-Cap ETF (SCHM)
0.9%

3-Year Trailing Total Return*
50.6%
47.3%
38.3% *statistic is based on the Schwab U.S. Mid-Cap ETF (SCHM)
42.6%

5-Year Trailing Total Return
85.6%
82.3%
72.7% *statistic is based on the Schwab U.S. Mid-Cap ETF (SCHM)
69.3%

Sources: data in rows from "Number of Stocks" to "Weight of the Top 10" is as of March 31, 2022, and is from: the CRSP U.S. Mid Cap Index; the Russell Midcap Index and iShares Russell Mid-Cap ETF, which tracks the Russell Midcap Index; the Dow Jones U.S. Mid-Cap Total Stock Market Index (download factsheet PDF); and the S&P MidCap 400 Index (download factsheet PDF); all total return data is from YCharts as of April 5, 2022; note that the total return data for the Dow Jones U.S. Mid-Cap Total Stock Market Index is based on the Schwab U.S. Mid-Cap ETF (SCHM), which tracks the index and has a fairly low expense ratio.

Index Sector Breakdown

Each of the four major mid-cap indexes uses slightly different breakdowns of the major market sectors. For example, DWM uses a "Consumer Services" sector and a "Consumer Goods" sector instead of the more traditional "Consumer Discretionary" and "Consumer Staples" sectors. It also calls its "Energy" sector "Oil & Gas," and does not have a separate "REITs/Real Estate" sector. DWM and CRSPMI1 both use the old "Telecommunications" sector classification, which was replaced by "Communication Services" in 2018.6

The rest of the differences in classification are minor, with a slightly different name such as "Materials" instead of the traditional "Basic Materials." Where there are differences in the naming of sectors used by the different indexes, we have indicated those differences in the corresponding cell within the table below. Also, take note that data for the sector breakdown was not available for RMCC and so the sector classification used by the iShares Russell Mid-Cap ETF (IWR), which tracks RMCC, was used instead as a proxy.

Index Sector Breakdown

CRSP U.S. Mid Cap Index
Russell Midcap Index (data based on iShares Russell Mid-Cap ETF (IWR))
Dow Jones U.S. Mid-Cap Total Stock Market Index
S&P MidCap 400 Index

Communication Services
2.0% (Telecommunications)
3.4%
0.1% (Telecommunications)
1.7%

Consumer Discretionary
13.8%
11.2%
11.3% (Consumer Services)
14.0%

Consumer Staples
4.7%
4.0%
8.7% (Consumer goods)

3.6%

Energy
6.4%
5.8%
5.0% (Oil & Gas)
3.6%

Financials
11.6%
12.5%
24.0%
14.2%

Healthcare
11.0%
11.3%
9.8%
9.2%

Industrials
14.2%
14.2%
20.9%
18.7%

Basic Materials
3.9%
6.1% (Materials)
5.1%
7.4% (Materials)

Utilities
6.4%
5.4%
3.3%
3.4%

REITs/Real Estate
9.7%
8.6%
N/A
10.1%

Information Technology
16.4% (Technology)
17.5%
11.7% (Technology)
14.1%

Sources: the CRSP U.S. Mid Cap Index; the iShares Russell Mid-Cap ETF; the Dow Jones U.S. Mid-Cap Total Stock Market Index (download Factsheet PDF); and the S&P MidCap 400 Index (download Factsheet PDF); all data as of March 31, 2022, except data for IWR (used for the Russell Midcap Index), which is as of April 7, 2022; percentage shares of sectors for each index may not add up to 100% due to rounding.

Mid-Cap Index ETF Comparison

Name (Ticker Symbol)	Index Tracked	1-Year Trailing Total Return	Assets Under Management (AUM)	Expense Ratio	Inception Date	Issuer
Vanguard Mid-Cap ETF (VO)	CRSP U.S. Mid Cap Index	5.5%	$54.2 billion	0.04%	Jan. 26, 2004	Vanguard
iShares Russell Mid-Cap ETF (IWR)	Russell Midcap Index	3.3%	$30.2 billion	0.19%	July 17, 2001	BlackRock
Schwab U.S. Mid-Cap ETF (SCHM)	Dow Jones U.S. Mid-Cap Total Stock Market Index	-0.3%	$9.8 billion	0.04%	Jan. 13, 2011	Charles Schwab
iShares Core S&P Mid-Cap ETF (IJH)	S&P MidCap 400 Index	0.2%	$64.5 billion	0.05%	May 22, 2000	BlackRock

Largest Holding
Palo Alto Networks Inc. (PANW)
Palo Alto Networks Inc. (PANW)
Devon Energy Corp. (DVN)
Targa Resources Corp. (TRGP)

Second-Largest Holding
Pioneer Natural Resources Co. (PXD)
Marvell Technology Inc. (MRVL)
Mosaic Co. (MOS)
Alcoa Corp. (AA)

Third-Largest Holding
Fortinet Inc. (FTNT)
Pioneer Natural Resources Co. (PXD)
ON Semiconductor Corp. (ON)
Steel Dynamics Inc. (STLD)

Sources: ETF Database: the Vanguard Mid-Cap ETF (VO), the iShares Russell Midcap ETF (IWR), the Schwab U.S. Mid-C
is as of April 7, 2022.

Mid-Cap Indexes Analyzed: Defining a Mid-Cap

Based on the four mid-cap indexes analyzed above, it's evident that "mid-cap" is a market-cap classification with flexible boundaries. None of the indexes sticks to the traditional market-cap range of between $2 billion and $10 billion. Nor do they contain the same number of constituents, with RMCC being the largest outlier at 824 total stocks.7 There are also significant differences in the sector breakdowns for each index. This should also help illustrate that, though market capitalization is an important factor when analyzing stocks, the dividing lines between the size categories companies are placed in are ultimately arbitrary.

The index that most closely follows the traditional market-cap range is S&P 400. Its largest and smallest market cap are still outside the spectrum, but its range is the tightest compared to the other three indexes. S&P 400's range is from a low of $1.6 billion to a high of $17.3 billion. S&P 400's median and mean market caps are also somewhat close to the middle of the traditional classification range. In terms of sector breakdowns, S&P 400 gives a relatively high weighting toward industrials, at 18.7%, compared to CRSPMI1 and RMCC. However, that weighting is lower than the weighting for industrials used by DWM.8

The only other index for which the mean and median fall within the traditional range is DWM. Its mean and median market cap fall just below the upper boundary at $9.1 billion and $8.0 billion, respectively. However, the stock with the largest market cap within DWM is well above that upper boundary, with a market cap of $40.0 billion. DWM is also the index that has the stock with the smallest market cap at $40.9 million. Considering sector breakdowns, DWM is notable for its extremely large weightings toward financials and industrials, at 24.0% and 20.9%, respectively.9

RMCC has the stock with the largest market cap, at $61.4 billion. That probably helps to explain why the mean market cap of RMCC is $24.0 billion, more than double the upper boundary of a mid-cap stock's market-cap range.7

However, using IWR as a proxy (because data was not available for RMCC), the weight of its largest constituent, as well as the combined weight of the top 10 constituents, is the lowest out of all the indexes. RMCC (again using IWR as its proxy) gives the largest sector weightings for information technology and healthcare compared to the other indexes. Information technology is the sector that receives the largest weighting within the index.10

That skewing toward large-caps is most evident in CRSPMI1. The weight of its top 10 constituents is 6.7%, which represents the largest weighting out of all four indexes. To be sure, the $51.0 billion market cap of CRSPMI1's largest market-cap stock is lower than that of the RMCC, which is $61.4 billion, as mentioned. But both the mean and median market caps of CRSPMI1 are far above the traditional range for a mid-cap stock, at $18.2 billion and $19.0 billion, respectively. CRSPMI1 gives the largest weighting to utilities compared to the other three indexes. But the sector that receives the largest weighting by far in the index is information technology.11

The Bottom Line

Investors have four main indexes from which to choose a benchmark for gauging the performance of their mid-cap holdings. None of the indexes is more dominant than the others because each of them is tracked by some of the biggest mid-cap ETFs. They also have unique characteristics, so they are not interchangeable. Each of the indexes includes stocks that are not traditionally considered mid-caps, with a few of the indexes actually having mean and median market caps significantly above the upper boundary of the traditional mid-cap range.

So though market cap is an important metric for investors to consider when looking at stocks, the boundaries of categories like "mid-cap" and "large-cap" are ultimately arbitrary, so that should be kept in mind. This is particularly clear in the mid-cap space where all four indexes vary widely in terms of their average market cap. The four indexes also vary both in their number of holdings and sector allocations. Investors should weigh all of these factors when choosing the index that meets their personal investing needs, taking into consideration their risk tolerance and their individual financial goals.

9.1 – Trading Terminal

Over the last few chapters, we have understood several things related to the stock markets. It is time for us to figure out how one can actually transact in the stock markets. There are three options available for you to place a transaction in the stock market –

Call your stocks broker (usually on the central support number), and request to buy or sell a stock; this is called “Call & Trade.”
Use a web application
Use a mobile application

Regardless of which method you choose, the selected method gives you access to the stock market. Think of this access as a gateway. The gateway allows you to do multiple things, such as transact in shares, track your Profit & Loss, track market movements, manage your funds, view stock charts, access trading tools, etc. This chapter aims to familiarize you with this gateway, also called a ‘Trading terminal’. To explain this chapter, I’ll use Zerodha’s trading terminal called ‘Kite.’ If you are with another broker, then the trading terminal provided to you will have (should have) similar features and functionality.

You can access the trading terminal by entering the URL on your browser. For Zerodha Kite, it is kite.zerodha.com. To access the trading terminal, you must have a trading account with your broker. A good trading terminal offers many features. We will start by understanding a few basic features.

Let us set two basic tasks, and we will accomplish them using the trading terminal, and in the process, we learn the basics practically. Here are the two tasks –

Buy one share of ITC, and
Track the price of Infosys

While we achieve the above two tasks, we will also learn about all the relevant concepts.
9.2 – The login process
The trading terminal is quite sensitive as it contains information about all your securities and funds. SEBI has been working hard to ensure the relevant regulations are in place to prevent situations where access to the client's trading terminal is compromised. To ensure adequate security, brokers have to follow a stringent login process. The process involves entering your broker-provided user ID (it's referred to as the Kite ID in Zerodha), and a password.
Once you click login, the user id and password are authenticated, and then you are prompted to enter an external TOTP (Time based one-time password). TOTPs, as the name suggests, are time sensitive and keep changing once in a few seconds. TOTPs can be set up using 3rd party authentication software like Google authenticator or Authy.

Once you validate the TOTP, you will instantly get access to your trading account. I'd encourage you to read this article to learn about TOTP, the general login process, and the need to safeguard your trading account.
9.3 – The Market watch
Once you successfully log in to the platform, you must populate the 'market watch' with the stocks you are interested in. Think about the market watch as a blank slate. Once the stock is loaded on the market watch, you can easily transact and query information about it. A blank market watch looks like this (this is also the screen that you see once you log in)

The 600.2 under equity and 136.75 under commodities indicate my fund balance. So 600 Rupees for Equity (to buy and sell stocks), and 136 Rupees to buy commodities. You can add funds from your bank to your trading account or withdraw funds from your trading account back to your bank account by clicking on the fund tab on top.
Alright, let us work on the first task, i.e., to buy one share of ITC. As a first step, we will load ITC Ltd onto the market watch. To do this, we have to search for ITC in the search bar, and the drop-down will show the stock in different exchanges(NSE/BSE).

You only need to look for 'ITC'; other instruments, like ITC-BE, ITC-BL, or ITC6, are all different instruments. We will discuss more of that later. We are interested in buying one share of ITC (or ITC stock), and the relevant instrument is ITC. So let us click on the 'Add symbol' to add the stock to the Market Watch
The Marketwatch will display the last traded price, a percentage change of the stock.

The last traded price of the stock (LTP) – This gives us a sense of how much the stock is trading at the very moment.
Percentage change – This indicates the percentage change in the LTP with respect to the previous day's close.

Some basic information that will be needed at this point would be:

The previous day's close – As the name suggests, it's the previous day's close price.
OHLC – Open, High, Low, and Close give us a sense of the range within which the stock is trading during the day. Do
Volumes – Gives a sense of how many shares are being traded at a particular time.

You can find this information under Market Depth. If you hover over the stock name from the left, you will find Buy, Sell, Market Depth, and chart options. If you click on Marketdepth, you will find the above information, including the best bid and offer price ladder. We will cover the Bid and Offer prices soon.

As you can see, the last traded price of ITC is Rs.262.25, and it is trading -0.40% lower than the previous day's close, which was Rs.263.30. The open for the day was at Rs.265.90, the highest price and the lowest price at which the stock traded for the day was Rs.265.90 and Rs.262.15 respectively. The volume for the day is close to 27 lakh shares.

9.4 – Buying stock through the trading terminal

Our goal is to buy one share of ITC. We now have ITC in our trading terminal. The first step for this process would be to invoke what is called a buy order form.

Hover over the stock you want to Buy and click on the Buy Icon (B)

Clicking on the Buy icon invokes the buy order form, as seen below

The order form is pre-populated with some information like the price and quantity. We need to modify this as per our requirements. Let us begin with the first drop-down option on the top. By default, the exchange specified would be NSE, but you can select BSE if you wish.

The next entry is the 'order type.' By clicking on the drop-down menu, you will see the following four options:

Limit
Market
SL
SL-Market

Let us understand what these options mean.

You can opt for a 'Limit' order when you are particular about the price you want to pay for a stock. In our case, the last traded price of ITC is Rs.262.25 but say we want to limit our buy price to Rs. 261, twenty-five paisa lower than the LTP. In such a situation, I can use the limit feature and specify the price at which I want to buy the stock. The limit feature is great as it gives us control over the price at which we want to buy, but on the flip side, if the stock price does not fall to our limit price, i.e., 261, our order will not get executed, and we won't get to buy. This is one of the drawbacks of a limit order. The limit order stays valid till the market closes, i.e., 3:30 PM, and then gets canceled.

You can also opt for a market order when you intend to buy at market-available prices instead of a limited price. So if you were to place a market order, as long as sellers are available, your order would go through, and ITC will be bought in and around Rs.262.25. Suppose the price goes up to Rs. 265 coinciding with your market order placement, then you will get ITC at Rs.265. When you place a market order, you will never be sure of the price at which you will transact, which could be quite dangerous if you are an active trader. A market order will always ensure your order goes through, unlike a limit order.

A stop-loss order protects you from an adverse movement in the market after initiating a position. Suppose you buy ITC at Rs.262.25 with an expectation that ITC will hit Rs.275 shortly. But instead, what if the price of ITC starts going down? We can protect our position by defining the worst possible loss you are willing to take. For instance, in the example, let us assume you don't want to take a loss beyond Rs.255

This means you have gone long on ITC at Rs.262.25, and the maximum loss you will take on this trade is Rs.6 (255). If the stock price drops to Rs.255, the stop loss order gets active and hits the exchange, and you will be out of the loss-making position. If the price is above 255, the stop-loss order will be dormant.

A stop-loss order is a passive order. To activate it, we need to enter a trigger price. A trigger price, usually above the stop-loss price, acts as a price threshold, and only after crossing this price does the stop-loss order transition from a passive order to an active order.

Going with the above example:

We are long at Rs.261. If the trade goes bad, we want to get rid of the position at Rs.255. Therefore 255 is the stop-loss price. The trigger price is specified so the stop-loss order would transition from passive to active. The trigger price has to be higher (or equal) to the stop-loss price. We can set this to Rs.255 or higher. If the price drops below 255, the stop loss order gets active.

Returning to the main buy order entry form, we move directly to the quantity once the order type is selected. Remember the task is to buy one share of ITC; hence we enter 1 in the quantity box. We ignore the trigger price and disclosed quantity for now. The next thing to select is the product type.

Select CNC for delivery trades. If you intend to buy and hold the shares for multiple days/months/years, you must ensure the shares reside in your Demat account. Selecting CNC is your way of communicating this to your broker.

Select MIS if you want to trade intraday. MIS is a margin product; we will understand more about this when we take up the derivatives module.

Once these details are filled in your order form, the order is good to hit the markets. The order gets transmitted to the exchange as soon as you press the submit button on the order form. A unique order ticket number is generated against your order.

Once the order is sent to the exchange, it will not get executed unless the price hits Rs.261. As soon as the price drops to Rs.261 (assuming sellers are willing to sell one share), your order gets through and is eventually executed. As soon as your order is executed, you will own one share of ITC.

9.5 – The order book and Trade book

Think of the order book and trade book as online registers within the trading terminal. The order book keeps track of all the orders you have sent to the exchange, and the trade book tracks all the trades. Think of it this way – when you order goods on Amazon, you first add items to the cart. The cart is the order book. You can add items, delete, or modify the order from the cart (order book). But when you press the buy button on Amazon, the order gets placed, and a receipt is generated. The trade book is that receipt. You also get a detailed receipt emailed to you called a 'Contract Note'; we will discuss that later; for now think about the trade book as a general receipt for all the

trades you carry out on the terminal.
So the order book has all the details regarding your order. You can navigate to the order book by clicking the Orders tab.

The order book provides the details of the orders you have placed. You should access the order book to:

Double-check the order details – quantity, price, order type, product type
Modify the orders – For example, if you want to modify the buy order, say from 261 to 259.
Check Status – After placing the order, you can check the status. The status would state open if the order is completed partially, it would state completed if the order has been completed, and it would state rejected if your order has been rejected. You can also see the details of the rejection in the order book.

If you notice, there is an open order to buy one share of ITC at Rs.261.
If you hover over the pending orders, you can find the option to modify or cancel the order.

By clicking 'modify,' the order form will be invoked, and you can make the desired changes to the order.
Once the order is processed, and the trade has been executed, the trade details will be available in the trade book. Y
Here is a snapshot of the trade book:

The trade book confirms that the user ordered to buy one share of ITC at Rs 262.2. Also, notice a unique exchange o
So with this, our first task is complete!
We now officially own one share of ITC. This share will reside in our DEMAT account until you decide to sell it.
The next task is to track the price of Infosys. The first step would be to add Infosys to the market watch. We can do t

Once we select Infy, we press add to add it to the market watch.

Notice we have two stocks on the watchlist now – Infy and ITC. We can now track live price information on Infosys. Th
its previous day's close of Rs.1015.85. Infosys opened the day at Rs.1014.80, making a low of Rs.998.40 and a high of
Please note while the open price will be fixed at Rs. 1014.80, the high and low prices change as and when the price o
to Rs.1050, the high price will reflect Rs. 1050 as the new high.
Notice below that the LTP of Infosys is in green, and ITC is in red. The cell is highlighted in green if the current LTP is
Have a look at the snapshot below:

While writing this chapter, the price of Infosys moved from 1014.20 to 1020.80, and the color changed to red from bl
Besides the basic information about the LTP, OHLC, and volume, we can also dig deeper to understand real-time ma
w your attention to the blue and red numbers called the Bid and Offer prices.
9.6 – The Bid and Offer Price
If you want to buy a share, you need to buy it from a seller. The seller will offer the shares at a price that he or she th
ed the 'Offer Price.' The offer price is highlighted in red. Let us analyze this in a bit more detail.

Sl No	Offer Price	Offer Quantity	Number of Sellers
01	3294.80	2	2
02	3294.85	4	2
03	3295.00	8	2
04	3296.20	25	1

05
3296.25
5
1

By default, the market depth window displays the top 5 bids and offer prices. In the table above, we have the top 5 o
The first offer price is Rs.3294.80. At this particular moment, this is the best price to buy the stock and there are only
fferent sellers (both of them are selling one share each). The next best price is Rs.3294.85. At this price, four shares a
s Rs.3295, at which eight shares are available, and two sellers offer this. So on and so forth.
As you notice, the higher the asking price, the lower the priority. For example, the 5th position is an asking price of R
es prioritize sellers willing to offer their shares at the lowest possible price.
Notice that even if you want to buy ten shares at Rs.3294.8, you can only buy two shares because only two are being
e price (aka limit price), you can place a market order. When you place a market order to buy 10 shares, this is how it

Two shares are bought @ Rs.3294.8
Four shares are bought @ Rs.3294.85
Four shares are bought @ Rs.3295.00

The ten shares will be bought at three different prices. Also, in the process, the LTP of Infosys will jump to Rs.3295 fr
If you want to sell a share, you need to sell it to a buyer willing to buy it from you. The buyer will buy the shares at a p
xpects is called the ‘bid price.’ The bid price is highlighted in blue. Let us analyze this part in a bit more detail:

Sl No
Bid Price
Bid Quantity
Number of Buyers

01
3294.75
10
5

02
3294.20
6
1

03
3294.15
1
1

04
3293.85
6
1

05
3293.75
125
1

Again by default, the market depth window displays the top five bid prices. Notice the best price at which you can se
n shares as only five buyers are willing to buy from you.
If you were to sell 20 shares at market price, the following would be the execution pattern :

Ten shares sold @ Rs.3294.75
Six shares sold @ Rs.3294.20
One share sold @ Rs.3294.15
Three shares sold @ Rs.3293.85

So, in a nutshell, the bid and offer prices give you information about the top 5 prices at which the buyers and sellers
ace their trades, especially if you are an intraday trader.
By default, the bid-offer is shown only for the top 5 prices. You can, however, get an insight into the top 20 bids and
in-depth details in the last chpater of this module.
9.7 – Conclusion
The trading terminal is your gateway to markets. The trading terminal has many features that are useful to traders.
learning modules. At this stage, you should know how to set up a market watch, transact (buy and sell) in stocks, vie
dow.
One last thing before we wind up this chapter – the trading terminal is continuously evolving to ensure the user exp
changed, but the concepts of the order book, trade book, SL, limit order, etc, will remain the same.

Key takeaways from this chapter

A trading terminal is your gateway to markets. You must know the operations of a trading terminal if you aspire to b
You can load the stock you are interested in on the market watch to track all the relevant information.
Some basic information on a market watch is – LTP, % change, OHLC, and volumes.
You must invoke a buy order form by pressing the 'B' key to buy a stock. Likewise, to sell a stock, you need to invoke
You choose a limit order type when you are keen on transacting at a particular price; else, you can opt for a market
You choose CNC as the product type if you want to buy and hold the stock across multiple days. If you want to trade
An order book lets you track orders that are both open and completed. You can modify the open orders by clicking
Once the order is completed, you can view the trade details in the trade book. In the case of a market order, you can
The market watch enables you to see bids and offer prices.
The bid & offer prices refer to the price at which you can buy and sell shares. The top 5 bid and offer prices are displ

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What Is a Depositary Receipt (DR)?
A depositary receipt (DR) is a negotiable certificate issued by a bank. It represents shares in a foreign company trad
ty to hold shares in the equity of foreign countries. It gives them an alternative to trading on an international market

A depositary receipt was originally a physical certificate that allowed investors to hold shares in the equity of other
an depositary receipt (ADR), which has been offering companies, investors, and traders global investment opportun

Key Takeaways
A depositary receipt (DR) is a negotiable certificate representing shares in a foreign company traded on a local stock

ares of foreign companies without the need to trade directly on a foreign market.Depositary receipts allow investors
in different markets and economies. Depositary receipts are more convenient and less expensive than purchasing st

Understanding Depositary Receipts (DR)

A depositary receipt allows investors to hold shares in stocks of companies that are listed on exchanges in foreign c
y with the stock exchange in the foreign market. Investors instead transact with a major financial institution within th
convenient than purchasing stocks directly in foreign markets.2

American Depositary Receipts

Investors can gain access to foreign stocks via American depositary receipts (ADRs) in the United States. ADRs are is
U.S. exchange, including the American Stock Exchange (AMEX), NYSE, or Nasdaq. The receipt is listed in U.S. dollars w
. financial institution overseas rather than a global institution holds the actual underlying security.3

ADRs are a great way to buy shares in a foreign company while earning capital gains and possibly being paid divider
h capital gains and dividends are paid in U.S. dollars.

ADR holders don't have to transact in foreign currencies because ADRs trade in U.S. dollars and clear through U.S. s
nies provide them with detailed financial information, making it easier for investors to assess the company's financia
nternational exchanges.

An Example of an ADR

ICICI Bank Ltd. is listed in India and is typically unavailable to foreign investors. But ICICI Bank has an American depo
YSE, which most U.S. investors can access.4 This provides it with much wider availability among investors.

Gain more insight about depositary receipts from our in-depth tutorial on ADR Basics.

Global Depositary Receipts

Depositary receipts have spread to other parts of the globe in the form of global depositary receipts (GDRs), Europe
l stock exchange, but GDRs are commonly listed on European stock exchanges such as the London Stock Exchange. I
n also be denominated in euros.

A GDR works similarly to an ADR but in reverse. A U.S.-based company that wants its stock to be listed on the Londo
mpany enters into a depositary receipt agreement with the London depository bank. In turn, the London bank issues
ries.5

Advantages of Depositary Receipts

Depositary receipts can be attractive to investors because they allow them to diversify their portfolios and purchase
strategy in which a portfolio is constructed so it contains a wide variety of stocks in multiple industries. Diversifying u
ents a portfolio from being too heavily concentrated in one holding or sector.

Depositary receipts provide investors with the benefits and rights of the underlying shares, which can include voting
wouldn't have access to otherwise.

Depositary receipts are more convenient and less expensive than purchasing stocks in foreign markets. ADRs help r
ied on each transaction.

Depositary receipts help international companies raise capital globally and encourage international investment.

Disadvantages of Depositary Receipts

One of the disadvantages of depository receipts is that investors may find that many aren't listed on a stock exchan

Another potential downside to depositary receipts is their relatively low liquidity. There aren't many buyers and selle ition. They may also come with significant administrative fees in some cases.

Depositary receipts such as ADRs don't eliminate currency risk for the underlying shares in another country. Divider sion expenses and foreign taxes. The conversion is done in accordance with the deposit agreement. Fluctuations in t

Investors still face economic risks because the country in which the foreign company is located could experience a r ository receipt would fluctuate as a result, along with any heightened risks in the foreign county.6

There are also risks with attending securities that aren't backed by a company. The depositary receipt may be withd d and the proceeds distributed to investors can be long.

Frequently Asked Questions

How is a depositary receipt transaction accomplished?

A foreign-listed company typically hires a financial advisor to help it navigate regulations when it wants to create a d omestic bank to act as the custodian and a broker in the target country. The domestic bank will list shares of the firm n the country where the firm is located.3

How are depositary receipts taxed?

Dividends and gains earned on American depositary receipts are paid in U.S. dollars, net of expenses and foreign ta me is still reportable and potentially taxable on your U.S. tax return, potentially resulting in double taxation unless s

What is a "sponsored" ADR?

A depositary bank works with a foreign company and its custodian bank with a sponsored American depositary rece tock in the foreign company. Unsponsored ADRs aren't commonly available on exchanges.3

The Bottom Line

You can avoid trading directly with foreign stock exchanges by purchasing depositary receipts, but DRs come with b ive than trading directly because the fees are often reduced. But your investment can be impacted by economic risk arly liquid. Trades you make can be subject to some delays, so you'll want to be sure that you can weather these circ

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What Is the S&P 500 Index?

The S&P 500 is a market capitalization-weighted index of the 500 leading publicly traded companies in the U.S. The i s a division of S&P Global. While it assumed its present size (and name) in 1957, the S&P dates back to the 1920s, be e annualized return since its inception in 1928 through Dec. 31, 2023, is 9.90%.2 The average annualized return since 3, is 10.26%.3

The average annual return (AAR) is the percentage showing the return of a mutual fund in a given period. In other w tool for investors considering a mutual fund investment.

Key Takeaways
The S&P 500 is a market-capitalization-weighted index of the 500 leading publicly traded companies in the U.S.The in
et overall, dating back to the 1920s.The index has returned a historic annualized average return of around 10.26% si
number may sound attractive, timing is everything: Get in at a high or out at a relative low, and you will not enjoy su

The History of the S&P 500

During the first decade after its introduction in 1957, and reflecting the economic expansion in the U.S after World W
From 1969 to 1981, the index gradually declined to fall under 360 as a sign of high inflation.4
During the 2008 financial crisis and the Great Recession, the S&P 500 fell 56.8% from October 2007 to March 2009.5
The S&P bounced back from the crisis and continued its 10-year bull run from 2009 to 2019 to climb 330%.6
The COVID-19 pandemic in 2020 and the subsequent recession caused the S&P 500 to plummet over 15%.
The S&P 500 recovered during the second half of 2020, reaching several all-time highs in 2021, but dropped more th

S&P 500 Historical Returns

Year
Annual Returns With Dividends

1995
37.20%

1996
22.68%

1997
33.10%

1998
28.34%

1999
20.89%

2000
-9.03%

2001
-11.85%

2002
-21.97%

2003
28.36%

2004
10.74%

2005
4.83%

2006
15.61%

2007
5.48%

2008
-36.55

2009
25.94%

2010
14.82%

2011
2.10%

2012
15.89%

2013
32.15%

2014
13.52%

2015
1.38%

2016
11.77

2017
21.61

2018
-4.23

2019
31.21%

2020
18.02%

2021
28.47%

2022
-18.01%

Source: Aswath Damodaran, NYU Stern School of Business

How Inflation Affects S&P 500 Returns

Inflation is one of the major problems for an investor hoping to recreate that 10.13% average return regularly. Adju
around 6.37%.3 There is an additional problem posed by the question of whether that inflation-adjusted average is
from the Consumer Price Index (CPI), the index that some analysts believe vastly understates the true inflation rate.

How Market Timing Affects S&P 500 Returns

Another major factor in annual returns for an investor in the S&P 500 is when they choose to enter the market. For
ndex, performed very well for an investor who bought between 2014 and 2018 despite some negativity in their retur

Investors who buy during market lows and hold their investment or sell at market highs will experience larger retur
ell during dips.

Attempting to time the market is not advised, particularly for beginning investors.
Stock purchase timing plays a role in returns, but there are long periods between lows and highs. It is also difficult t
the missed opportunity of selling during market lows but don't want the risk of active trading, dollar-cost averaging i

503
The number of stocks listed on the S&P 500. The total number tends to vary because there may be several compani
and Berkshire Hathaway.8

How to Invest In the S&P 500

You can't invest in the S&P 500 directly because it is a stock market index, not an individual stock or fund you can bu
the company that maintains the index.9 You can also purchase one of every stock listed on the S&P 500, but you'll n
purchase only one of each of the top 10 stocks on the index.

For most people, the simplest and most affordable option for investing in the S&P 500 is to buy shares of an exchan
ruments, a company builds a portfolio of stocks that mirror the S&P 500 index, securitizes and fractionalizes those s
nds are often provided at a much lower cost than if you were to buy one of every stock on the index to get similar pe

The first step to investing in the index is to open an account with a reputable brokerage firm such as Vanguard, Fide
platforms, where you can buy and sell most types of investments for minimal or no fees.

Then, look over the brokers' products and find an ETF or index fund that mirrors the S&P 500. Some examples are:

SPDR S&P 500 ETF (SPY)
iShares Core S&P 500 ETF (IVV)
Vanguard S&P 500 ETF (VOO)
Invesco S&P 500 Equal Weight ETF (RSP)
Schwab S&P 500 Index Fund (SWPPX)
Fidelity 500 Index Fund (FXAIX)

What Is the Average Rate of Return for the S&P 500 for the Last 20 Years?

The average annualized return of the S&P 500 between 2003 and 2023 is 10.20%.10

What Is the Average Rate of Return for the S&P 500 for the Last 10 Years?

The average rate of return for the S&P 500 since 2013 is 13.05%.11

Does the S&P 500 Return Include Dividends?

As calculated, S&P 500 returns do not include dividends. However, you can find results from some analysts that inclu
ss finance professor Aswath Damodaran is one example.12

The Bottom Line

The S&P 500 is the standard for measuring overall market returns. There have been many ups and downs in its cen
the long run. Since its inception, it has returned 9.81%.

You can invest in the S&P 500 using index funds and exchange-traded funds that mimic the index and not pay as mu
P 500 is a long game, not for the faint of heart—many investors have lost everything by panic selling during a dip. If y
of decent long-term returns, S&P 500 funds might be a suitable choice for your portfolio.

A long-term investment strategy entails holding investments for more than a full year. This strategy includes holding
l funds, and more. It requires discipline and patience to take a long-term approach. That's because investors must be
gher rewards down the road.

Investing in stocks and holding them is one of the best ways to grow wealth over the long term. For example, the S&
dating back to 1974, demonstrating that the stock market generates returns much more often than it doesn't.1

Key Takeaways
Long-term stock investments tend to outperform shorter-term trades by investors attempting to time the market.Em
ositive returns for investors over most 20-year time periods.Riding out temporary market downswings is often consi
sts and allows you to compound any earnings you receive from dividends.

Better Long-Term Returns

The term asset class refers to a specific category of investments. They share the same characteristics and qualities, s
monly called stocks. The asset class that's best for you depends on several factors, including your age, risk profile an
have. But which asset classes are best for long-term investors?

If we look at several decades of asset class returns, we find that stocks have generally outperformed almost all othe
80% per year between 1928 and 2023. This compares favorably to the 3.30% return of three-month Treasury bills (T-
turn of gold, to name a few.2

Emerging markets have some of the highest return potentials in the equity markets, but also carry the highest degre
urns but short-term fluctuations have impacted their performance. For instance, the 10-year annualized return of th

Small and large caps have also delivered above-average returns. For instance, the 10-year return for the Russell 200
, was 7.08% as of Jan. 26, 2024.4 The large-cap Russell 1000 index had an average return of 12.39% for the last 10 ye

Riskier equity classes have historically delivered higher returns than their more conservative counterparts.

You Ride Out Highs and Lows

Stocks are considered long-term investments. This is, in part, because it's not unusual for stocks to drop 10% to 20%
the opportunity to ride out some of these highs and lows over a period of many years or even decades to generate

Looking back at stock market returns since the 1920s, individuals have rarely lost money investing in the S&P 500 fo
Great Depression, Black Monday, the tech bubble, and the financial crisis, investors would have experienced gains h
ed for 20 years.

While past results are no guarantee of future returns, it does suggest that long-term investing in stocks generally yie

S&P Dow Jones Indices / Investopedia

Decisions May Be Less Emotional, More Lucrative

Let's face it, we're not as calm and rational as we claim to be. In fact, one of the inherent flaws in investor behavior i
be long-term investors until the stock market begins falling, which is when they tend to withdraw their money to avo

Many investors fail to remain invested in stocks when a rebound occurs. In fact, they tend to jump back in only whe
high, sell low behavior tends to cripple investor returns.

According to Dalbar's Quantitative Analysis of Investor Behavior study, the S&P 500 had an average annualized retu
the same time frame, the average equity fund investor experienced an average annual return of about 6.81%.8

There are a few reasons why this happens. Here are just a couple of them:

Investors have a fear of regret. People often fail to trust their own judgment and follow the hype instead, especially
'll regret holding onto stocks and lose a lot more money because the stocks drop in value so they end up selling thei
A sense of pessimism when things change. Optimism prevails during market rallies but the opposite is true when thi
ort-term surprise shocks, such as those related to the economy. But it's important to remember that these upsets a

Investors who pay too much attention to the stock market tend to handicap their chances of success by trying to tim
tegy would have yielded far better results.

Lower Capital Gains Tax Rate

Profits that result from the sale of any capital assets end up in a capital gain. This includes any personal assets, such
estate.

An investor who sells a security within one calendar year of buying it gets hit with taxes on any gains at a rate that's
hort-term capital gains. Depending on the individual's adjusted gross income (AGI), this tax rate could be as high as 3

Any securities that are sold after being held for more than a year result in long-term capital gains. The gains are tax
kets may even qualify for a 0% long-term capital gains tax rate.10

More Cost-Effective

One of the main benefits of a long-term investment approach is money. Keeping your stocks in your portfolio longe
e longer you hold your investments, the fewer fees you have to pay. But how much does this all cost?

As we discussed in the last section, you save on taxes. Any gains from stock sales must be reported to the Internal R
y, which means more money out of your pocket. Remember, short-term capital gains can cost you more than if you

Then there are trading or transaction fees. How much you pay depends on the type of account you have and the in
harged a commission or markup, where the former is deducted when you buy and sell through a broker while mark
hese costs are charged to your account whenever you trade stocks. This means your portfolio balance will drop with

In 2024, many active investors make trades through online brokerages that provide fee-free transactions. In these c
des. However, it's still important for investors to weigh out the value of the time they spend on trades in comparison
ger-term, buy-and-hold type of strategy.

Firms often charge ongoing fees, such as account maintenance charges, that can also put a dent in your account bal
fees will add up even more when you factor in transaction fees.

Benefit From Compounding With Dividend Stocks

Dividends are corporate profits distributed by companies with a track record of success. These tend to be blue chips
l regardless of how the economy performs or when the stock market drops.

These companies pay regular dividends—usually every quarter—to eligible shareholders, which means that you get
there's a very good reason why you should reinvest the dividends into the companies that actually pay them.

If you own any bonds or mutual funds, you'll know about how compound interest affects your investments. Compou
r stock portfolio and any earlier interest you earned. This means that any interest (or dividends) that your stock port
amount in your account in the long run.

Best Types of Stocks to Hold for the Long-Term

There are several things to consider when you want to purchase stocks. Consider your age, risk tolerance, and inves
an help you figure out the kind of equity portfolio you can create in order to meet your goals. Here's a general guide
own situation:

Choose index funds. These are ETFs that track specific indexes, such as the S&P 500 or the Russell 1000, and trade ju
cost and you won't have to pick and choose specific companies in which to invest. Index funds give you similar retur
Consider dividend-paying stocks. These types of stocks can help add value to your portfolio, especially when dividen
Companies with high growth can boost your portfolio. Growth stocks tend to be associated with companies that are
than others. They are also better equipped to deliver strong earnings reports. Keep in mind, though, that this degre
be a little savvier than novice investors if you want to go this route.

As always, it's a good idea to consult with a financial professional, especially if you're new to the investment world.

If you're a millennial with your eyes on retirement, there are more resources here to help support your financial futu

What Are the Tax Benefits of Holding a Stock Long Term?

The IRS taxes capital gains based on short-term and long-term holdings. Short-term capital gains are taxed on assets
taxed on the sale of assets held for more than 12 months.Short-term capital gains are treated as ordinary income, w
acket. Long-term gains, on the other hand, are only subject to a tax of 0%, 15%, or 20%. The rate depends on your a

How Long Do You Have to Hold a Stock for It to Be Considered Long Term?

As with any asset, you must hold a stock for a minimum of 12 months in order for it to be considered a long-term inv

Can You Sell a Stock Right After Buying It?

How long you can wait until you sell the stock after buying it depends on the broker. Some firms require that you wa
to sell your stock. Others allow a certain number of same-day transactions within your account. People who make m
dered day or pattern traders and are generally required to keep a minimum balance in their accounts.

The Bottom Line

People who invest in stocks can benefit from many different trading strategies. Investors who have more experienc
ide the market waves and make money using short-term trading techniques. But that may not work for those who a
stocks for the long-term can help you ride the highs and lows of the market and benefit from lower tax rates, and it t

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Restricted Shares vs. Stock Options: An Overview

Restricted shares and stock options are both forms of equity compensation, but each comes with some conditions.

Restricted shares can either be restricted stock units or restricted stock awards. Both involve vesting requirements.
along with the rights and privileges of a shareholder. Their owner may receive dividends and vote at the annual me
sted shares if the employee leaves the company.

Stock options give an employee the right to buy a certain number of shares at an exercise price in the future. Like re
. The employee may get a windfall if and when the company's stock price exceeds the exercise price and they exerci

Key Takeaways

Restricted shares and stock options are both forms of equity compensation that are awarded to employees.Restricte
d stock awards.Restricted stock awards represent actual ownership of stock and come with conditions on the timing
mber of shares at a certain price in the future An employee benefits from stock options when they buy the stock at t

Restricted Shares

Restricted shares are unregistered, non-transferable shares issued to a company's employees. They give employee
n established companies that want to motivate people with an equity stake. Their sale is usually restricted by a vesti

When restricted shares are given to an employee, it is on condition that the employee will continue to work at the c
tone is met. This might be an earnings goal or another financial target. What's more, an executive who leaves the co
ing restrictions may have to forfeit their restricted stock.

Restricted shares are often granted in stages, each having its own vesting date or milestone attached. This gives em
ted shares are assigned a fair market value.

Restricted shares may also be restricted by a double-trigger provision. That means that an employee's shares beco
yee is fired in the restructuring that follows.

Insiders are often awarded restricted shares after a merger or other major corporate event. The restrictions are int
company.

Restricted Stock Units and Restricted Stock Awards

There are two variations of restricted shares; restricted stock units (RSUs) and restricted stock awards. RSUs repres
of shares at a specific future date. They don't come with voting rights. They must be exercised to be converted to ac
r cash. Once converted to actual shares, they confer shareholder rights (including voting rights) upon the employee.

Employees who receive restricted stock awards actually own the stock outright when it's awarded. Owners have all s

The Securities and Exchange Commission (SEC) regulates the trading of restricted stock under SEC Rule 144.1

Stock Options

Stock options represent a right to buy (or sell) shares at a specific price (the exercise price) at some future date. They rofit by the difference between the exercise price and the actual market price.

They're are often granted by startup companies to motivate employees to help get the company off the ground.

Stock options are normally restricted by a market standoff provision, which restricts the sale of shares for a certain ilize the market price of the stock.

Or, if stock options are provided as compensation by a company that's already public, they will often have a vesting y a short time with shares of company stock that could become valuable.

A stock option involves a specific transaction date, an exercise (or strike) price, and the number of underlying shares stock.

The value of a stock option depends on the difference between the exercise price and the market price of the under

Key Differences

It's important to familiarize yourself with the differences between restricted shares and stock options because the fo you may receive.

Summary of restricted shares and stock options features

Restricted Shares
Stock Options

Shares are granted
Shares must be purchased

Value is the fair market value of stock
Value is the difference between the exercise price and market value of underlying stock

The two variations of restricted shares are restricted stock units (RSU) and restricted stock awards
The two variations of stock options are non-qualified stock options (NSO) and incentive stock options (ISO)

Upon vesting, no action is required of employees; shares are typically deposited into a brokerage account for them
Employee must take action to exercise option and decide on next steps (whether to hold or sell)

Considered less risky because employee ultimately receives stock with fair market value
Considered more risky because value may be zero if market price is equal to or less than the exercise price

Gains are taxed as ordinary income in the year they vest (except with 83(b) election)
NSO gains are taxed as ordinary income when exercised, whether shares are kept or sold; ISOs may be taxed as ord
e minimum tax, depending on timing of sale

What Does It Mean When Shares Are Restricted?
It means that they cannot be sold until the conditions of restriction are met. For instance, restricted shares given as a
chedule that establishes a period (or periods) of time that must pass before shares can be sold. Additionally, specific
sell their shares.

What Should You Exercise Stock Options?

When Should You Exercise Stock Options?
Generally speaking, if you have an option to buy, you'd exercise stock options within the time specified by the option
ike price. That way, you can profit by selling the shares at a higher price than what you bought them for.

What Is Better, Stock Options or Restricted Stock?
It depends on how you view both forms of compensation. Restricted shares can be considered less of an effort to de
sited in a brokerage account on your behalf by your employer. Plus, restricted shares represent actual shares given t
fort because you must exercise them and buy the underlying shares. There can be different tax implications, as well.

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10.1 – Market structure
The topic of clearing and settlement is super important to understand as it gives you a sense of the movement of mo
market. For instance, when you buy a stock, say 100 shares of Marico, you need to clearly understand how long it tak
account. We can extend this to stock selling as well.
The lack of understanding of the clearing and settlement process could leave a void and leave you with many unansw
son, we will explore what happens behind the scenes from when you buy a stock to when it hits your DEMAT accoun
We will keep this discussion practical with a clear emphasis on what you need to know about clearing and settlemen
10.2 – What happens when you buy a stock?
Day 1 – The trade (T Day), Monday
Assume on a Monday, you buy 100 shares of Reliance Industries at Rs.1,000/- per share. The total buy value is Rs.1,0
de date; brokers refer to this as the 'T Day.' The assumption is that you intend to hold Reliance Industries in your De
ntraday trade.
When you place an order to buy, the broker quickly validates if you have the necessary funds. In this example, the or
ng account; it will be rejected otherwise. Assuming the trade is executed through Zerodha, the applicable charges ar

Sl No

Chargeable Item
Applicable Charges
Amount

01
Brokerage
Zero for Equity Delivery. For intraday, charges are 0.03% or Rs.20/- whichever is lower, per executed order
Zero

02
Security Transaction Charges(STT)
0.1% of the turnover
100/-

03
Exchange transaction Charges
0.00345% of the turnover
3.45/-

04
GST
18% of Brokerage + Transaction charges + SEBI charges
0.62/-

07
SEBI Charges
Rs.10 per crore of transaction
0.12/-

Total
104.19/-

Additionally, Rs.15/- towards stamp duty is applicable. Stamp duty is charged at 0.015% on the buy side. Hence the t
subject to change; you can visit Zerodha's Brokerage calculator to figure out the exact applicable rate when you wish
So an amount of Rs.1,00,000 plus 119.19 totaling Rs.1,00,119.19/- is required to carry out this particular transaction.
a trade, but the stock is yet to hit your DEMAT account.
Also, on the T day, the broker generates a 'contract note' and emails you the copy to your registered email id. A cont
. You can save the contract note for future reference. A contract note gives you a break up of all daily transactions ar
arges charged by the broker.
Day 2 – Trade Day + 1 (T+1 day, Tuesday)
Starting January 2023, India became the first country to implement a T+1 settlement for all the scrips listed on the st
would be delivered to your demat account on T+2 day. For example, if you bought shares on Monday, these will be c
, if you buy shares on Monday, they will be credited to your demat account on Tuesday, the next day itself.
So on Day 2, also called T+1, the settlement is due to the exchange. Assuming the purchaser and seller are trading vi
broker's pool account by the clearing corporation and credited to the selling broker's pool account. Also, on T+1 day,
cating that you own 100 shares of Reliance.
10.3 – What happens when you sell a stock?
The day you sell the stocks is again referred to as the 'T Day'. The stock gets blocked when you sell the stock from yo
armarked' for settlement. Please refer to the next section to learn more about earmarking.
Before the T+1 day, the earmarked shares are delivered to the depository. On settlement day, the blocked shares ar
tion for payin. Against the debit of such shares, you'd have received a credit for the sale after deducting all charges.
he funds on T-Day and the remaining 20% on T+1. In other words, the seller will be settled fully on a T+1 basis, just li

What transpires between T day and T+1 is a complex settlement process involving the stockbroker, clearing corporat
ceives multiple files to ensure the transaction goes smoothly. As far as you are concerned, you need to remember th
are a buyer, you will get the shares on T+1, and if you are a seller, the funds are credited on a T+1 basis.

10.4 – What is earmarking?

Earlier, for the settlement of a sell trade, the broker would be required to debit shares from a selling client, hold the
ecurities to the clearing corporation (CC) on T+2. Upon transfer, the client would receive a credit of funds against the
. It was usual practice for brokers to debit shares on T day or T+1 day and transfer it to CC on T+2 (since the settleme
From the time the shares were debited until they were settled, the client shares lie in the broker's pool account, poss
fied this as a potential risk and introduced "earmarking" for settlement. In this new earmarking system, shares are n
ked for settlement. Think of earmarking as a temporary hold on the securities towards an upcoming settlement for t
On settlement day, the shares are debited from the investor's account and credited to the clearing corporation. This
s in their pool account, thereby eliminating the risk that comes along. The new earmarking process has been made r

Key takeaways from this chapter

The day you make a transaction, the trade date is referred to as the 'T Day.'
The broker must issue you a contract note for all transactions by the end of T day.
When you buy a share, the same will be reflected in your DEMAT account by the end of T+1 day.
All equity/stock settlements in India happen on a T+1 basis.
When you sell shares, the shares are blocked immediately, and the sale proceeds are credited again on T+1 day.
Earmarking of shares was introduced to ensure the securities don't move out of the client's demat account to the br

File: /Users/avanidhagam/Desktop/aiwir/www.investopedia.com_how-to-buy-fractional-shares-on-fidelity-7499561.tx

One of the basic tenets of investing is to diversify your portfolio in order to hedge against market risk. This can be h
unt of money to invest. However, investing in fractional shares opens up opportunities to purchase portions of highe
p dive into how investing in fractional shares works at Fidelity and answer the basic questions needed to help you de

How to Buy Fractional Shares on Fidelity

Buying fractional shares at Fidelity is quite simple. Investors have access to more than 7,000 U.S. stocks and ETFs fo
accounts which investors can use to buy fractional shares and makes it easy to start investing with low fees and low

Step 1: Open a Fidelity account. Opening an online account at Fidelity is quick and easy. You will need to provide you
at you want to open.

Step 2: Log in to your Fidelity account. Once you have opened an account with Fidelity, you will need to log in and fu
e in real time, so the funds will need to be settled and available in your account in order to place a trade.

Step 3: Click the "Trade" tab. The "trade" tab is at the top left of your Fidelity dashboard. Once you click on "trade," a
what type of trade you'd like to make.

Step 4: Change setting from "Shares" to "Dollars." By selecting the "Dollars" setting, you will be able to buy fractional
unt, instead of buying a specific number of shares. Dollar amounts can be entered out to two decimal places, for exa
decimal places and rounded down to the nearest decimal.2

Step 5: Submit your order. Fractional share orders are entered as market orders or limit orders, and are only good f
ck "Preview order." This will lead to a confirmation screen where you can edit, cancel, or place the order. Fractional s
u will know your share price.

Compare Some Top Online Brokers

Broker	Minimum Deposit	Stock Trades	Per Contract Options	Fractional Share Trading
Fidelity	$0.00	$0.00	$0.65	Yes
Interactive Brokers	$0.00	$0.00	$0.65	Yes
tastytrade	$0.00	$0.00	$1.00/Open Only	No

What You Need to Open a Fidelity Brokerage Account

To open your new account at Fidelity, you will need to provide your basic personal and financial information. You ca
ding on your financial investing needs and goals. The following Fidelity retail accounts are approved for buying fracti

Standard brokerage accounts Individual retirement accounts Youth account Health savings accounts (HSAs) Broker

Personal Information

When opening your account online, you will be asked to provide personal and contact information:

Full nameAddressSocial Security number Date of birthPhone numberEmail address

Financial Information

Besides providing your personal information, you will be asked to provide your financial information. This will incluc ell as your investing goals. These are the “know your client” questions that Fidelity must ask to ensure you’re being m situation and risk tolerance. As part of this process, you may even choose to link your current bank account or use m y. That said, sending a check in the mail is also an option.

The Benefits of Trading on Fidelity

There are several benefits of opening an account and trading fractional shares at Fidelity:

Offers over 7000 U.S. stocks and ETFs for fractional shares trading Direct indexing, via Fidelity Managed FidFolios, us r than an ETFCommitted to eliminating common account feesUser-friendly account features and strong portfolio ana ded mobile experience Redesigned app dashboard

One of the key benefits to investing with Fidelity is that it offers over 7,000 U.S. stocks and ETFs for fractional share t oose from for this type of investing, so Fidelity gives you a larger chunk of the market to work with.

Fidelity has long been recognized as a leader in the industry for its low cost fees and delivering value to customers. I investors as markets have developed. Fidelity has introduced exposure to crypto and digital payments, in addition to s all this through a user-friendly desktop platform and mobile experience for investors, and effectively uses dashboa account and their progress towards financial goals.

Factors to Consider When Investing in Fractional Shares

Selection of stocks and ETFs available for fractional share investing: Fidelity has a wide selection of stock and ETF off ares available for dollar cost averaging via fractional shares. One unique product that Fidelity offers is FidFolios, whic of stocks and ETFs.

Fees and commissions: Getting started at Fidelity is made simple with $0 commissions for online US stock and ETF t brokerage account.

Account minimums: Investors at Fidelity can buy fractional shares for as low as $1 and there is no minimum to oper FidFolios does require a $5,000 minimum, though.

Research amenities: Once you open an account with Fidelity, you will have access to research amenities right from y h and news from the “News & Research” tab at the top of the dashboard, with a dropdown menu offering informatic

Educational content: Knowing how to invest, what to invest in, and how to reach your financial goals are important, just that. Investors can utilize the “Planning & Advice” tab on their dashboard to become a more informed investor. rom investing basics to long term care planning. Account users will also find it easy to access information regarding s t, as well as other investment vehicles.

FAQs

What Are Fractional Shares?

Investing in fractional shares helps you to easily diversify your portfolio and invest in companies that you may otherv Slice,” as Fidelity calls them—allow investors to buy a fraction of a whole share of a stock. With this strategy, you are k’s price or certain number of shares. Buying fractional shares provides investors with a lower entry point of accessib It also allows you to employ dollar cost averaging across a basket of larger stocks that you would otherwise have to average into an ETF, for example, gives smaller investors the same advantages that large scale investors enjoy in ter

What Is Fidelity?

Fidelity is the largest U.S. brokerage, was founded in 1943, and is headquartered in Boston. Currently, the company I

er administration and $3.9 trillion in discretionary assets.5 Fidelity has been able to use its economies of scale to cor
aining a low-fee structure for clients. Although it is undoubtedly a large, traditional brokerage, Fidelity has been able
chnology and launching new products and services including digital investment management, crypto and digital payı

Do Fractional Shares Make You Money?
As with any investment, fractional shares have the potential to both make and lose money, depending on the marke
nal shares is a good way to dollar cost average your money into the market. If you are investing on a regular basis, y
ll not only allow you to take advantage of dips in the market when buying, but over time, will enable you to build a po
ey difference is that this portfolio will be diversified throughout the whole accumulation stage rather than only grow

Can You Buy Exchange-Traded Funds (ETFs) as Fractional Shares?
Yes, Fidelity offers ETFs as fractional shares. Fidelity offers investors over 7,000 choices of individual stocks and ETFS
, which allows you to create your own customized index of stocks and ETFs. This specialized product does require a $
g in fractional shares of individual stocks and ETFs for just $1.

Are Fractional Shares Harder to Sell?
Fidelity offers investors real-time trading during market hours. It is possible that fractional shares for certain securiti
, which acts in a mixed capacity (as principal for the fractional share components and as agent for the whole share c
ty. Fractional shares are also not able to be transferred, so any fractional share would need to be sold prior to a tran
f larger, liquid stocks are just as easy to sell as their whole counterparts.

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Fellow investors have long praised—and envied—Warren Buffett's seemingly uncanny ability to pick stocks. By stea
worth estimated at $118 billion.1 So what exactly does he look for in a stock? Here are some clues.

Key Takeaways
In picking stocks, Warren Buffett looks for companies that have provided a good return on equity over many years, p
Buffett also reviews a company's profit margins to ensure they are healthy and growing.Buffett prefers companies t
advantage.As a value investor, he seeks out stocks that are undervalued relative to the company's intrinsic worth.

Alison Czinkota / Investopedia

Warren Buffett's Value Investing Approach
Warren Buffett belongs to the value investing school, popularized by his mentor Benjamin Graham. Value investing
chnical indicators, such as moving averages, volume, or momentum. Determining intrinsic value is an exercise in un
h as earnings and income statements.2

In making investments for his holding company, Berkshire Hathaway, Buffett follows a longtime and well-publicized ning power, a good return on equity (ROE), and capable management—and that are also sensibly priced, if not unde

To help guide him in these decisions, Buffett asks several key questions:

How Has the Company Performed?

Companies that have been providing a reliable return on equity (ROE) for many years are more desirable than those iew. And the greater the number of years of good ROE, the better. In order to gauge historical performance, an inves e maintains.

When looking at a company's historic return on equity (ROE), it's also essential to compare it with the ROE of the com

How Much Debt Does the Company Have?

Having a large ratio of debt to equity should raise a red flag, especially if earnings growth has coincided with adding

Instead, Buffett prefers earnings growth to come from shareholders' equity (SE). A company with positive sharehold s and not relying on debt to keep it growing or afloat.

How Are the Company's Profit Margins?

Buffett looks for companies that have a good profit margin, especially those whose profit margins are growing. As is ears to discount short-term trends. For a company to stay on Buffett's radar, its management should be adept at gro controlling operating costs.4

How Unique Are the Company's Products?

Buffett considers companies whose products and services can be easily substituted for riskier than companies with product is crude oil may be vulnerable to competitive forces because clients can buy crude oil from any number of c

However, if the company has unique access to a more desirable grade of oil that many businesses need, that might desirable grade of oil could be a competitive advantage that will help produce profits year after year.4

In a similar vein, Buffett has long been a major investor in Coca-Cola. While there are many colas and other soft drin

Reflecting on that investment in Berkshire Hathaway's 2022 annual report, Buffett wrote, "In August 1994—yes, 199 ares of Coca-Cola we now own. The total cost was $1.3 billion—then a very meaningful sum at Berkshire. The cash d dividend had increased to $704 million. Growth occurred every year, just as certain as birthdays. All Charlie [Charlie ed to do was cash Coke's quarterly dividend checks. We expect that those checks are highly likely to grow."5

How Much of a Discount Are Shares Trading At?

This is the crux of value investing: finding companies that have good fundamentals but are trading below where the tability.

Put another way, the goal for value investors like Buffett is to discover companies that are undervalued compared to ulating intrinsic value, investors can look at a variety of factors—such as management strength and future earnings p

What Is Growth Investing vs. Value Investing?

Unlike value investors who seek out solid (but sometimes humdrum) companies that may be selling for less than the ng growth prospects, almost regardless of their current price. Growth investors often put their money on young, see ablished ones.

What Are Warren Buffett's Largest Stock Holdings?
Through his company, Berkshire Hathaway, Buffett's five largest holdings as of December 31, 2022 were (in order of
and American Express.7

What Is Warren Buffet's Most Important Investing Principle?
Warren Buffett has articulated many investing principles over the years, but one of the most important is investing i
investor. He also advocates other prudent financial practices, such as regular saving, not spending beyond your mea

The Bottom Line
Beyond his value-oriented style, Buffett is also known as a buy-and-hold investor. He is not interested in selling stoc
that he believes offer solid prospects for long-term growth. His record as an investor speaks for itself.

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Have you ever wondered what happened to your socks when you put them in the dryer and never saw them again?

Many people feel the same way when they suddenly find that their brokerage account balance has taken a nosediv

Fortunately, money that is gained or lost on a stock doesn't just disappear. Read on to find out what happens to it.

Key Takeaways
When a stock tumbles and an investor loses money, the money doesn't get redistributed to someone else. Drops in
estor perception of the stock.That's because stock prices are determined by supply and demand driven by investor p
res, you have a chance to regain lost value.
Disappearing Money
Before we get to how money disappears, it is important to understand that regardless of whether the market is risi
rive the price of stocks. And it's the fluctuations in stock prices (and the points at which you buy and sell shares) that

Buy and Sell Trades
If you purchase a stock for $10 and sell it for only $5, you will lose $5 per share. You may believe that that money g
o to the person who buys the stock from you.

Take the Next Step to Invest
Advertiser Disclosure

×
The offers that appear in this table are from partnerships from which Investopedia receives compensation. This com
es not include all offers available in the marketplace.

For example, let's say you were thinking of buying a stock at $15, and before you do so, the stock price falls to $10 p
the $5 depreciation in the stock price. Instead, you got the stock at the current market value of $10 per share.

In your mind, you may think that you saved $5, but you didn't actually earn a $5 profit. However, if the stock then ris
.

The same is true if you're holding stock and its price drops, leading you to sell it for a loss. The person buying it at th
ily profit from your loss. That's because their entry point is the lower price and they must wait for the stock to rise ab
ofit.

No one, including the company that issued the stock, pockets the money from your declining stock price. The money
e investor. The changes in price are simply an independent by-product of supply and demand and corresponding inv

Short Selling

There are investors who place trades with a broker to sell a stock at a perceived high price with the expectation that

If the stock price falls, the short seller profits by buying the stock at the lower price and closing out the trade. The ne
ith the broker.

Although short-sellers profit from a declining price, they're not taking money from you in particular when you lose c
ions and have just as much of a chance to lose or be wrong on their trade as investors who are long (own) the stock.

In other words, short-sellers profit on price declines, but it's a separate transaction from bullish investors who boug
ing.

So the question remains: Where did the money go?

Implicit and Explicit Value

The most straightforward answer to this question is that it actually disappeared into thin air, due to the decrease in
enough investors' favorable perceptions of it to move the price down by selling.

But this capacity of money to dissolve into the unknown demonstrates the complex and somewhat contradictory na
h our dreams and fantasies, and concrete, the thing with which we obtain our daily bread.

More precisely, this duplicity of money represents the two parts that make up a stock's market value: the implicit an

Implicit Value

On the one hand, value can be created or dissolved with the change in a stock's implicit value, which is determined b
ts.

For example, a pharmaceutical company with the rights to the patent for the cure for cancer may have a much high

Depending on investors' perceptions and expectations for the stock, implicit value is based on revenues and earnin

If the implicit value undergoes a change—which, really, is generated by abstract things like faith and emotion—the s
leaves the owners of the stock with a loss in value because their asset is now worth less than its original price. Again,
hes due to investors' perceptions.

Explicit Value

Now that we've covered the above somewhat unreal characteristic of money, we cannot ignore how money also rep

Referred to as the accounting value (or book value), the explicit value is calculated by adding up all assets and subtr
hat would be left over if a company were to sell all of its assets at fair market value and then pay off all of the liabiliti

Without explicit value, the implicit value of the company would not exist. Investors' interpretation of the financial he
alue. Explicit value is the force behind the stock's implicit value.

Even if your brokerage account suffers a loss of value, you have a chance to regain and even exceed the loss as the s

Disappearing Trick Revealed

Let's say Cisco Systems Inc. (CSCO) had 5.81 billion shares outstanding. This means that if the value of the shares dr
illion in (implicit) value.

Because Cisco has many billions of dollars in concrete assets and makes profits, we know that the change occurs no
ir ironically becomes much more tangible.

In essence, what's happening is that investors, analysts, and market professionals are declaring that their projectio
willing to pay as much for the stock as they were before.

When investor perception of a stock diminishes, so does the demand for the stock, and, in turn, the price.

The Explicit Drives the Implicit

So faith and expectations can translate into cold hard cash, but only because of something very real driving percept
and needed by people and businesses.

The better a company is at creating something for which there's demand, the higher the company's earnings will be

Should I Sell Stock If It Goes Down?

Unless there's something fundamentally wrong with the financials of the company whose stock you own (or you nee
es and recovers. Avoid panic selling.

Do You Lose Money When Stocks Drop?

When the stock market declines, the market value of your stock investment can decline as well. However, because y
ove back into positive territory when the market changes direction and heads back up. So, you may lose value, but t

What Are Unrealized Gains and Losses?

An unrealized gain is the increase in value of an asset owned by an investor. An unrealized loss is a decrease in valu the investor sells the asset. Unrealized gains and losses are subject to change when you continue to own the asset.

The Bottom Line

In a bull market, there is an overall positive perception of the market's ability to keep producing and creating. Becau
nce that something is being, or will be, created, investors participating in a bull market can make money.

Of course, the exact opposite can happen in a bear market. In other words, the stock market can be seen as a huge

No one really knows why socks that go into the dryer never come out, but the next time that you're wondering wher
up to investor perception.

File: /Users/avanidhagam/Desktop/aiwir/zerodha.com_varsity_chapter_key-events-and-their-impact-on-markets_.txt

12.1 – Events

Trading or investing based on just company-specific information may not be sufficient. Outside events, both econom
in general. It is also important to understand the events that influence the markets.

In this chapter, we will try to understand some common events and how the stock market reacts to these events.

12.2 – Monetary Policy

The monetary policy is a tool through which the Reserve Bank of India (RBI) controls the money supply by controlling
country's central bank is responsible for setting interest rates. For example, the European Central Bank in Europe ar
rates to control the money supply in the mainstream economy.

While setting the interest rates, the RBI has to strike a balance between growth and inflation. In a nutshell – if the int
larly for corporations). If corporate can't borrow easily, they cannot grow. If corporations don't grow, the economy sl

On the other hand, borrowing becomes easier when the interest rates are low. This translates to more money in the
eased spending which means the sellers tend to increase the prices of goods and services, leading to inflation.

I'd encourage you to watch this YouTube video where I've tried to explain what causes inflation and the means throu

To strike a balance, the RBI has to consider all economic factors and carefully set the key rates. Any imbalance in the
u need to track are as follows:

Repo Rate – Banks can borrow from the RBI. The rate at which RBI lends money to other banks is called the Repo Ra
to slow economic growth. You can check the latest repo rate (And other rates, too) on RBI's website. Markets don't li
omic growth.

Reverse repo rate – Reverse Repo rate is the rate at which RBI borrows money from banks. Or in other words, Revers
park funds with RBI. When banks deposit money to RBI, they are certain that RBI will not default, so the rate RBI offe
ly reduces when banks deposit money with RBI (at a lower rate) instead of the corporate entity. An increase in the re
money supply. Sometimes via the central bank's policy, the central bank mandates higher deposits by banks; again, t
omy.

Cash reserve ratio (CRR) – Every bank must maintain funds with RBI. The amount that they maintain is dependent or
am economy, which is not good for the economy.

The monetary policy committee members meet regularly to review the economic situation and decide upon these ke
any active trader. The first to react to rate decisions would be interest-rate sensitive stocks across various sectors su
etals, etc.

12.3 – Inflation

Inflation is a sustained increase in the general prices of goods and services. Increasing inflation erodes the purchasin
of onion has increased from Rs.15 to Rs.20, this price increase is attributed to inflation. Inflation is inevitable, but a h
economic uneasiness. A high level of inflation tends to send a bad signal to markets. Both the Government and RBI w
generally measured using an index. If the inflation index increases by certain percentage points, it indicates rising in
ing off.

There are two inflation indices – The Wholesale Price Index (WPI) and Consumer Price Index (CPI).

Wholesale Price Index (WPI) – The WPI indicates the movement in prices at the wholesale level. It captures the price c

and convenient method to calculate inflation. The inflation measured here is at an institutional level and does not ne
Consumer Price Index (CPI)– The CPI, on the other hand, captures the effect of the change in prices at a retail level. A
of CPI is quite detailed as it involves classifying consumption into various categories and subcategories across urban
dex, the final CPI index is a composition of several internal indices. The CPI captures the effect of inflation on daily ho
even fuels like petrol and diesel.
The computation of CPI is quite rigorous and detailed. It is one of the most critical metrics for studying the economy.
d Programme Implementation (MOSPI), publishes the CPI numbers around the 2nd week of every month. The RBI's c
ually, a low-interest rate tends to increase inflation, and a high-interest rate tends to arrest inflation.
12.4 – Index of Industrial Production (IIP)
The Index of Industrial Production (IIP) is a short-term indicator of the country's industrial sector's progress. The dat
e Ministry of Statistics and Programme Implementation (MOSPI). As the name suggests, the IIP measures the Indian
of today, India uses the reference point of 2004-05. The reference point is also called the base year.
Roughly about 15 different industries submit their production data to the ministry, which collates the data and relea
vibrant industrial environment (as the production is going up) and hence a positive sign for the economy and marke
ence a negative sign for the economy and markets.
To sum up, an upswing in industrial production is good for the economy, and a downswing rings an alarm. As India i
of Industrial Production is increasing.
A lower IIP number puts pressure on the RBI to lower the interest rates and aid industrial credit with cheaper credit.
12.5 – Purchasing Managers Index (PMI)
The Purchasing managers' index (PMI) is an economic indicator that tries to capture business activity across the cour
indicator where the respondents – usually the purchasing managers- indicate their business perception change conc
rvice and manufacturing sectors. The data from the survey are consolidated on a single index. Typical areas covered
and employment.
The PMI number usually oscillates around 50. A reading above 50 indicates expansion, and below 50 indicates a con
e economy.
12.6 – Budget
A Budget is an event during which the Ministry of Finance discusses the country's finance in detail. The Finance Minis
the entire country. During the budget, major policy announcements and economic reforms are announced, which im
a vital role in the economy.
To illustrate this further, in one of the recent budgets, the expectation was to increase the duties on a cigarette. As e
duties on a cigarette, so the prices increased. An increased cigarette price has a few implications:

Increased cigarette prices discourage smokers from buying cigarettes (needless to say, this is debatable), and hence
as ITC decreases. If the profitability decreases, investors may want to sell shares of ITC.
If market participants start selling ITC, the markets will come down because ITC is an index heavyweight.

In reaction to the budget announcement, ITC traded 3.5% lower for this precise reason.
A budget is an annual event, and it is announced during the last week of February. However, the budget announcem
ew government formation.
12.7 – Corporate Earnings Announcement
Corporate earning season is perhaps one of the important events to which the stocks react. The listed companies (tr
y quarter, also called the quarterly earnings numbers. During an earnings announcement, the corporate gives out de

Revenue growth
Expense trend
Finance charges
Profitability trends
Project updates
Key trends in the industry

Besides, some companies give an overview of what to expect from the upcoming quarters. This forecast is called 'co
Invariably every quarter, the first blue-chip company to make the quarterly announcement is Infosys Limited. They a

nfosys has to say regarding guidance as it impacts the markets.
The table below gives you an overview of the earning season in India:

Sl No	Months	Quarter	Result Announcement
01	April to June	Quarter 1 (Q1)	1st week of July
02	July to September	Quarter 2 (Q2)	1st week of Oct
03	October to December	Quarter 3 (Q3)	1st Week of Jan
04	January to March	Quarter 4 (Q4)	1st Week of April

Do note that the 1st of April in India marks the beginning of the financial year. In the US, the financial year starts on 1
arch, and so forth.
Every quarter when the company declares its earnings, the market participants match the earnings with their expect
cipant's expectation is called the 'street expectation.'
The stock price will react positively if the company's earnings are better than the street expectations. The stock price
he street expectation.
If the street expectation and actual numbers match, the stock price tends to trade flat with a negative bias more ofte
ny positive surprises.
12.8 – Non Financial events
Apart from the events we discussed above, it would be best to watch out for other non-financial events to understan
ad a significant effect on economies around the world, disrupting the world economic order. The supply chain took a
ere were select pockets of the economy that did very well, mainly the online services industry.
Events like the Russia – Ukraine war or the tension between China and Taiwan have impacted world markets. Geo-po
instance, the war between Russia and Ukraine affects the supply of natural gas and crude oil, which significantly imp
As an active trader or a market participant, you need to watch out for these events and understand how these event
While the world economies are interconnected, isolated events (Country specific) impact the local economy. For exam
So, keep an eye on these non-financial events and how they can impact the stock markets or sometimes specific indu

Key takeaways from this chapter

Markets and individual stocks react to events. Market participants should equip themselves to understand and decip
Monetary policy is one of the most important economic events. During the monetary policy, review actions on a repo
Interest rates and inflation are related. Increasing interest rates curbs inflation and vice versa
Inflation data is released every month by MOSPI. As a consumer, CPI inflation data is what you need to track.

IIP measures industrial production activity. An increase in IIP cheers the markets, and a lower IIP disappoints the ma
PMI is a survey-based business sentiment indicator. The PMI number oscillates around 50 marks. Above 50 is good r
The Budget is an important market event where policy announcements and reform initiatives are taken. Markets anc
Corporate earnings are reported every quarter. Stocks react mainly due to the variance in actual number versus the
Keep an eye on non-financial events and how they can impact the markets.

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What Are Preference Shares?

Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends t issued. If the company enters bankruptcy, preferred stockholders are entitled to be paid from company assets befor

Most preference shares have a fixed dividend, while common stocks generally do not. Preferred stock shareholders rs usually do.

Key Takeaways

Preference shares (preferred stock) are company stock with dividends that are paid to shareholders before commor - cumulative (guaranteed), non-cumulative, participating and convertible.Preference shares are ideal for risk-averse any time).

Investopedia / Jessica Olah

Understanding Preference Shares

Preference shares fall under four categories: cumulative preferred stock, non-cumulative preferred stock, participat

Cumulative preferred stock includes a provision that requires the company to pay shareholders all dividends, includ olders are able to receive their dividend payments. These dividend payments are guaranteed but not always paid ou dends in arrears" and must legally go to the current owner of the stock at the time of payment. At times additional c preferred stock.

Quarterly Dividend = [(Dividend Rate) x (Par Value)] ÷ 4

Cumulative Dividends per share = Quarterly Dividend x Number of Missed Payments

Non-cumulative preferred stock does not issue any omitted or unpaid dividends. If the company chooses not to pay preferred stock have no right or power to claim such forgone dividends at any time in the future.

Participating preferred stock provides its shareholders with the right to be paid dividends in an amount equal to the ional dividend based on a predetermined condition. This additional dividend is typically designed to be paid out only reater than a predetermined per-share amount. If the company is liquidated, participating preferred shareholders m stock as well as a pro-rata share of remaining proceeds received by common shareholders.

Convertible preferred stock includes an option that allows shareholders to convert their preferred shares into a set
shed date. Under normal circumstances, convertible preferred shares are exchanged in this way at the shareholder's
at allows the shareholders or the issuer to force the issue. How valuable convertible common stocks are is based, ul

What are preference shares?
Preference shares, also known as preferred shares, are a type of security that offers characteristics similar to both c
erence shares are typically given priority when it comes to any dividends that the company pays. In exchange, prefer
upside participation as common shares.

What are the main types of preference shares?
There are four main types of preference shares: cumulative preferred, non-cumulative preferred, participating prefe
entitled to receive dividends retroactively for any dividends that were not paid in prior periods, whereas non-cumul
son, cumulative preferred shares will generally be more expensive than non-cumulative preferreds. Similarly, partici
if certain performance targets are reached, such as company profits exceeding a specified level. Convertible preferr
reference shares into common shares at a specified exercise price.

What happens if you own preference shares in a company that goes bankrupt?
If a company goes bankrupt, then the different securityholders in that company will have claim to the company's as
of the assets will depend on the specific rights given to them in their security agreements. Preference shares, for ins
nd will therefore be paid before the common shareholders. However, preference shares will generally have lower pr
ities.2

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With a net worth of more than $96.5 billion, as of July 2022, Warren Buffett is one of the most successful investors o
value, and patience, has yielded results that have consistently outperformed the market for decades. While regular
the way Buffett does, we can follow one of his ongoing recommendations: Low-cost index funds are the smartest in

As Buffett wrote in a 2016 letter to shareholders, "When trillions of dollars are managed by Wall Streeters charging h
ofits, not the clients. Both large and small investors should stick with low-cost index funds."

If you're thinking about taking his advice, here's what you need to know about investing in index funds.

Key Takeaways
Index funds are mutual funds or ETFs whose portfolio mirrors that of a designated index, aiming to match its perfor
other types of mutual funds.Other benefits of index funds include low fees, tax advantages (they generate less taxab
What Is an Index Fund?
An index fund is a type of mutual fund or exchange-traded fund (ETF) that holds all (or a representative sample) of t
e performance of that benchmark as closely as possible. The S&P 500 is perhaps the most well-known index, but the
t strategy you can think of. You can buy index funds through your brokerage account or directly from an index-fund

When you buy an index fund, you get a diversified selection of securities in one easy, low-cost investment. Some inc

fund, which helps lower your overall risk through broad diversification. By investing in several index funds tracking c
desired asset allocation. For example, you might put 60% of your money in stock index funds and 40% in bond index

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ad our advertiser disclosure for more info.

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Company	Category	Investopedia Rating	Account Minimum	Basic Fee
Fidelity Investments	Best Overall, Best for Low Costs, Best for ETFs	4.8	$0	$0 for stock/ETF trades, $0 plus $0.65/contract for options trade
TD Ameritrade	Best for Beginners and Best Mobile App	4.5	$0	$0 for stock/ETF trades, $0 plus $0.65/contract for options trade
Tastyworks	Best for Options	3.9	$0	$0 stock/ETF trades, $1.00 to open options trades and $0 to close
Interactive Brokers	Best for Advanced Traders and Best for International Trading	4.2	$0	$0 for IBKR Lite, Maximum $0.005 per share for Pro platform or 1% of trade value

Index Fund: Pros

Very low fees
Lower tax exposure
Passive management tends to outperform over time
Broad diversification

Index Fund: Cons

No downside protection
Doesn't take advantage of opportunities
Cannot trim under-performers
Lack of professional portfolio management

What Are the Benefits of Index Funds?

The most obvious advantage of index funds is that they have consistently beaten other types of funds in terms of to

One major reason is that they generally have much lower management fees than other funds because they are pass
earch team analyzing securities and making recommendations, the index fund's portfolio just duplicates that of its d

Index funds hold investments until the index itself changes (which doesn't happen very often), so they also have low
e in your returns, especially over the long haul.

"Huge institutional investors, viewed as a group, have long underperformed the unsophisticated index-fund investo
reholder letter. "A major reason has been fees: Many institutions pay substantial sums to consultants who, in turn, r

What's more, by trading in and out of securities less frequently than actively managed fund do, index funds generat
ders.

Index funds have still another tax advantage. Because they buy new lots of securities in the index whenever investo
f lots to choose from when selling a particular security. That means they can sell the lots with the lowest capital gains

If you're shopping for index funds, be sure to compare their expense ratios. While index funds are usually cheaper th

What Are the Drawbacks of Index Funds?

No investment is ideal, and that includes index funds. One drawback lies in their very nature: A portfolio that rises w
racks the S&P 500, for example, you'll enjoy the heights when the market is doing well, but you'll be completely vulne
ged fund, the fund manager might sense a market correction coming and adjust or even liquidate the portfolio's pos

It's easy to fuss about actively managed funds' fees. But sometimes the expertise of a good investment manager can
ever, few managers have been able to do that consistently, year after year.

Also, diversification is a double-edged sword. It smooths out volatility and lessens risk, sure; but, as is so often the ca
ad-based basket of stocks in an index fund may be dragged down by some underperformers, compared to a more c

The Bottom Line

Index funds have several attractive pros but also some cons to consider. The funds are passive investments that tra
funds are nearly as automatic and hands-off as using a robo-advisorwhich is another option for those looking for lov
ompares to other investments is the best first step you can take.

Options trading entails significant risk and is not appropriate for all investors. Certain complex options and strategie
the Characteristics and Risks of Standardized Options. Supporting documentation for any claims, if applicable, will b

There is an Options Regulatory Fee that applies to both option buy and sell transactions. The fee is subject to chang

File: /Users/avanidhagam/Desktop/aiwir/www.investopedia.com_ask_answers_081314_whats-most-expensive-stock-

Stock price is an indicator of a company's market value, but the price of a share of stock will also depend on the nur
riced so high is usually due to the company having never or rarely having completed a stock split.

There are many ways to evaluate a stock in addition to its absolute share price. Here, we take a look at some of the

Key Takeaways

Companies are typically valued by their total market capitalization on a stock exchange, or number of shares outstar
n the most pricey shares available on an exchange, which can indicate exclusivity.Companies can also be ranked by r

Top Companies by Stock Price

The most expensive publicly traded share of all time is Warren Buffett's Berkshire Hathaway (BRK.A), which was trac
ll-time high on Jan. 18, 2022, at $487,255.1 Thanks to spectacular shareholder gains and the idiosyncrasies of its four
her than continued gains in Berkshire's share price.

Image by Sabrina Jiang © Investopedia 2020

The next company behind Berkshire, in terms of nominal share price, is NVR (NVR) at $5,154.98 per share as of Janu
trading at $3,731.02, and Amazon.com (AMZN) at $2,852.86, followed by Alphabet, Inc (GOOG) at $2,607.03 a share.2

Top Companies by Market Cap

By market capitalization, as of January 2022, Apple (AAPL) is the biggest company at $2.652 trillion, followed by Micr
lion, Amazon.com (AMZN) at $1.446 trillion, Tesla (TSLA) at $947.92 billion, and Meta (META), formerly Facebook, at $

Back in 2007, Chinese energy giant PetroChina (PTR) reached an estimated market value of around $1 trillion. Howe
capitalization stood at just $146.95 billion.3

Top Companies by Revenue

In terms of the biggest global companies by revenue, Walmart (WMT) comes in as number one—according to the Fo
d Walmart was State Grid with $383,906 billion in revenues, followed by Amazon with $280,522 billion, and China Na

Sinopec Group ranks fifth with $407,009 billion in annual revenues, and the sixth and seventh spots are covered by
n yearly revenues, respectively.4

Based on only U.S.-headquartered companies' 2020 performance, Walmart still has the top spot, while Amazon com
re companies take up the fifth, seventh, and eighth spots: CVS, UnitedHealth Group, and McKesson, generating $256

Berkshire Hathaway ranks sixth with $254.62 billion in annual revenues, and the ninth and tenth spots are covered
on in yearly revenues, respectively.5

Based on only U.S.-headquartered companies' 2019 performance, Walmart still has the top spot, while ExxonMobil
ranks third with $265.59 billion and Berkshire Hathaway fourth with $247.84 billion. Healthcare companies take up t
VS, generating $226.25 billion, $214.32 billion, and $194.58 billion, respectively.5

Top Private Companies

In terms of private companies, Forbes ranks Minnesota-based Cargill as the largest private U.S. company with $134.
econd is Koch Industries with $115 billion in revenues and 122,000 employees. Ranking third is the grocery chain Pu
00 employees.6

The fourth and fifth largest private companies are Mars and H-E-B, which generate $40 billion and $32.8 billion, resp

The Bottom Line

On a pure market value measure, Apple has often been considered the most valuable, publicly traded company of a
p mark in June 2021. It is certainly possible another company's market cap will exceed these measures, and maybe—
s the highest priced single stock share.

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When most people think of stocks, they typically think of publicly listed shares traded on the stock exchange. Howe
stocks available, understand their unique characteristics, and be able to determine when they may represent a suita
ming to take the confusion out of differing stock classes on offer to investors.

Key Takeaways

Understanding different stock categories can help investors make more informed investment decisions and reduce
before dividends are issued to common shareholders but doesn't provide voting rights.Income stocks provide regul
gh dividends that are higher than the market average.Blue-chip stocks are shares of well-established companies wit
protection, social justice, and ethical management practices.

Common and Preferred Stock

Common stock—sometimes referred to as ordinary shares—represents partial ownership in a company. This stock
. Common stockholders elect a company's board of directors and vote on corporate policies. Holders of this stock cl
only after preferred stock shareholders and other debt holders have been paid. Company founders and employees

On the other hand, preferred stock, or preference shares, entitles the holder to regular dividend payments before d
referred shareholders also get repaid first if the company dissolves or enters bankruptcy. Preferred stock doesn't ca
ncome.1

Many companies offer both common and preferred stock. For example, Alphabet Inc.—Google's parent company—
OOG), its preferred Class C stock.2

Growth Stocks vs. Value Stocks

As their name suggests, growth stocks refer to equities expected to grow at a faster rate compared to the broader n
of economic expansion and when interest rates are low. For instance, technology stocks have significantly outperfor
p funding. Investors can monitor growth stocks by following the themed exchange-traded fund (ETF), the SPDR Portf

Conversely, value stocks trade at a discount to what a company's performance might otherwise indicate, typically ha
tocks—such as financial, healthcare, and energy names—tend to outperform during periods of economic recovery, a
alue stocks by adding the SPDR Portfolio S&P 500 Value ETF (SPYV) to their watchlist.5

Read about Investopedia's 10 Rules of Investing by picking up a copy of our special issue print edition.

Income Stocks

Income stocks are equities that provide regular income by distributing a company's profits, or excess cash, through
ese stocks—think utilities—have lower volatility and less capital appreciation than growth stocks, making them suital
Investors can access income stocks through the Amplify High Income ETF (YYY).6

Blue-Chip Stocks

Blue-chip stocks are well-established companies that have a large market capitalization. They have a long successfu
in their industry or sector.3 Conservative investors may top-weight their portfolio with blue-chip stocks, particularly i
ks include computing giant Microsoft Corporation (MSFT), fast-food leader McDonald's Corporation (MCD), and energ

Cyclical and Non-Cyclical Stocks

Cyclical stocks are directly affected by the economy's performance and typically follow economic cycles of expansion
ility and outperform other stocks in times of economic strength when consumers have more discretionary income.1
d sports gear giant Nike, Inc. (NKE). Investors can add cyclical stocks to their portfolios by purchasing the Vanguard C

On the other hand, non-cyclical stocks operate in "recession-proof" industries that tend to perform reasonably well
orm cyclical stocks in an economic slowdown or downturn as demand for core products and services remains relativ
osure to large-cap defensive stocks like personal care giant The Procter & Gamble Company (PG), as well as beverage

Defensive Stocks

Defensive stocks generally provide consistent returns in most economic conditions and stock market environments
h as consumer staples, healthcare, and utilities. Defensive stocks may help protect a portfolio from steep losses duri
alue, income, non-cyclical, or blue-chip stock. Telecommunications giant Verizon (VZ) and healthcare multinational C
d in the core holdings of the Invesco Defensive Equity ETF (DEF).10

Defensive stocks are less likely to face bankruptcy because of their ability to generate consistent returns during peri

IPO Stock

When a company goes public, it issues stock through an initial public offering (IPO). IPO stock typically gets allocated

exchange. It may also have a vesting schedule to prevent investors from selling all of their shares when the stock co
tocks" when referring to recently listed stocks. Investors can monitor for upcoming IPOs through the Nasdaq websit

Penny Stocks
A penny stock is equity valued at less than $5 and is considered highly speculative.1213 Although some penny stock
tier over-the-counter (OTC) market for U.S. stocks operated by OTC Markets Group.14 Investors should consider usi
they often have a large spread between the bid and ask price.

Penny stocks shot to prominence in popular culture after the release of The Wolf of Wall Street, a movie about a fo
ant to take a bet on penny stocks should look at the iShares Micro-Cap ETF (IWC).15

ESG Stocks
Environmental, social, and corporate governance (ESG) stocks emphasize environmental protection, social justice, a
be a company that agrees to reduce its carbon emissions at a greater rate than national and industry targets or one

ESG stocks have gained popularity with millennials in recent years—a socially conscious generation who are more li
ccess ESG stocks by adding the Vanguard ESG U.S. Stock ETF (ESGV) to their portfolio.17

What Is the Main Difference Between Common Stock and Preferred Stock?
Preferred stock gives holders priority over a company's income but does not provide voting rights like common stoc

What Type of Investor Do Income Stocks Suit?
Income stocks suit risk-averse investors who seek regular income through dividend payments.3

What's a Key Characteristic of Defensive Stocks?
Defensive stocks generally provide consistent returns in most economic conditions and stock market environments.

Where Can I Buy Speculative Penny Stocks?
Investors can buy speculative penny stocks through the OTCQB—a middle-tier over-the-counter (OTC) market for U

The Bottom Line
Understanding the key differences between stock categories helps investors make better-informed investment deci
erent types of stocks directly, investors can gain cost-effective exposure to themed stock types through ETFs.

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13.1 – Dig deeper
Congratulations! If you've read all the chapters and scrolled through the numerous comments in each chapter, then
ut rather a genuine interest to learn and profit from the market.
I guess you are now warmed up to dig deeper!
The objective of the first module is to give you a quick hands-on introduction to the stock markets. In our endeavor t
pts you need to know, especially if you are new to markets. At this point, it is a good sign if you have many unansw
r modules.
Before we proceed further, you need to understand why we have so many different learning modules and how thes
ver in Varsity.

Introduction to Stock Markets
Technical analysis
Fundamental Analysis
Futures Trading
Option Theory
Option Strategies
Markets & Taxation
Currency, Commodity, and Govt Securities
Risk Management & Trading Philosophy
Trading Systems
Personal Finance (Mutual Funds)
Integrated Financial Modelling

Apart from these, we will add other modules on the go.
13.2 – So many modules, how are they interrelated?
The idea of 'Varsity at Zerodha' is to create a repository of high-quality market-related educational content. The cont
atives, trading strategies, risk management, financial modeling, etc. Each main topic is categorized as a module. So t
.
You may wonder how each topic fits within the grand scheme. To help you get a perspective, let me ask you a questi
single most important factor? Success in markets is easily defined – if you make money consistently, you are succes
So if you were to answer this question for me, chances are you would think about risk management, discipline, mark
rkets. While one cannot deny the importance of these factors, developing a point of view (POV) is even more compel
A point of view is the art of developing a sense of direction on a stock or the index. If you think the stock is going up,
ck. Likewise, if you think a stock is going down, your POV is bearish; you would be a stock seller. Without a POV, you
ou add other elements like risk management, timing, macro & micro factors, etc., to improve the odds of your trade,
'd consider developing POV as the most important factor.
Having said that, how do you develop a point of view? How do you figure out if the stock is going up or down?
One needs to develop a systematic approach to analyze the markets to develop a point of view. A few methods are u
:

Fundamental Analysis (FA)
Technical Analysis (TA)
Quantitative Analysis (QA)
Outside views

To give you a preview, here is a typical illustration of a trader's thought process while developing a POV (whether to
FA-based POV – The company's quarterly numbers look impressive. The company has reported a 25% top-line and 1
all the fundamental factors aligned, the stock looks bullish; hence the stock is a buy.
TA-based POV – The MACD indicator has turned bullish along with a bullish engulfing candlestick pattern; the stock i
erm sentiment looks positive; therefore, the stocks are a buy.
QA-based POV – With the recent up move, the stock's price to earnings (PE) touched the 3rd standard deviation. The
ion. Hence, it is prudent to expect a reversion to mean the stock is a sell.
Outside view – The analyst on TV recommends a buy on the stock; therefore, the stock is a buy.
The POV you take should always be based on your own analysis rather than an outsider's view, as more often than n
So after developing a POV, what does one generally do? Does the straightaway go and trade the point of view? Here
If the POV is bullish, you can choose to do one of the following:

Buy the stock in the spot market.
Buy the stock in the derivatives markets.

Within derivatives, you can choose to buy the futures.
Or choose to trade via the options market.

Within the options market, there are call options and put options.
You can combine call and put options to create a synthetic bullish trade.

So what you choose to do after developing a POV is a different ball game. Choosing the right instrument to trade th
For example, if I'm extremely bullish on the stock from a 1-year perspective, I'm better off making a delivery trade. H
erm perspective (say one week), I'd rather choose a futures instrument to trade.
If I'm bullish with constraints attached (for example – I'm expecting the markets to bounce because of a great budge
nt to choose an option instrument.
So the message here is – the market participant should develop a point of view and complement the POV with the ri
t instrument to trade is a perfect recipe for market success.
Also, by now, hopefully, you have got a sense of how all the different modules in "Varsity" play an important role in a

So keeping this in the background, go ahead and explore the content on Varsity at Zerodha.
The next two modules will explore concepts that will help us develop POV based on Technical and Fundamental Ana
After reading through these two modules, you will get a sense of developing a point of view on markets. In the later
an choose to complement your perspective. As we progress, we will ramp up the flow to help you start calibrating yo
Let's roll!

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When buying or selling securities, investors place different types of orders, each with unique requirements. The ord
nce, some orders aim for the best price, while others specify a fixed price.

Nasdaq says its artificial intelligence (AI)-powered order type, called Dynamic Midpoint Extended Life Order (M-ELO)
to improve their rate of executed orders and reduce markouts, bad trades where the market immediately moves ag

Key Takeaways
Dynamic M-ELO uses AI to adjust the waiting period for M-ELO orders.Where M-ELO orders have a 10-millisecond wa
.5 milliseconds.Dynamic M-ELO aims to improve fill rates and reduce markouts.
What Is Dynamic M-ELO?
Dynamic M-ELO is an order type that investors can use when buying or selling securities, and is the first powered by
ion (SEC) approval in September 2023.1

Nasdaq is positioning the order type for traders with a longer-term investment horizon, not day traders or others lo
execute only against other M-ELO orders at the midpoint of the spread between the bid price and the ask price.3

Dynamic M-ELO makes a slight change to the standard M-ELO order type. AI analyzes more than 140 data points eve
usts the waiting period for investors who submit a Dynamic M-ELO order within a range of 0.25 to 2.5 milliseconds, w

Midpoint Execution
Imagine two traders submitting M-ELO orders. John wants to buy 100 shares of XYZ, and Jane wishes to sell 100 shar
21, their M-ELO order will execute at $20.50, the midpoint of the bid-ask spread.
How Does This AI-Powered Order Type Work?
The process starts when a buyer enters a M-ELO order to buy a security. After a waiting period of 10 milliseconds, th
. Once a seller arrives, places a M-ELO sell order, and the 10-millisecond waiting period passes, the buyer and seller

M-ELO orders can help protect investors from undesired trade executions during market movements. Before the bu e bids, then the M-ELO order won't execute.

Buyers are also protected if numerous sell orders enter the market and the price of a share drops. The midpoint of
-ELO order to adjust to this level.

Hence, M-ELO buyers and sellers will not receive order executions as quickly as someone using an order with no wa
ts because the price of their offer automatically adjusts with the bid-ask spread of the underlying security.3

Advantages and Disadvantages of AI-Powered Order Types

AI-powered order types can help investors make more complicated trades or get better prices, but they are not with

Advantages of AI-Powered Order Types

Here are some of the benefits of AI-powered orders:

M-ELO orders only match with other M-ELO orders, allowing you to trade with like-minded investors.
The price of your order automatically moves with the bid-ask spread, helping you avoid trading for a price that does
M-ELO and other AI orders may be off-book, functioning like dark pool trading.
M-ELO is compatible with existing exchange connectivity.3

Disadvantages of AI-Powered Order Types

Here are some downsides of AI-powered order types to consider:

You rely on the AI to set the price for you, which could lead to buying or selling for a price far from what you expect.
Automated trading systems and AI could be subject to technical failures.
AI-powered order types like M-ELO can potentially obscure moves in the market. Decisions by algorithms may not be
a result, it could be difficult to predict how these order types would behave under diverse market conditions.

Dynamic M-ELO's Impact on the Stock Market

Dynamic M-ELO is still a new order type, so it's difficult to observe its effects on the stock market. However, Nasdaq
prove order execution.

According to Nasdaq, orders using M-ELO had a 50% hit rate, meaning half of all orders received at least one execut
lliseconds. Similarly, the average fill rate was 49% for M-ELO orders compared with 35% for orders with a 500-millise

Nasdaq says that by leveraging AI, Dynamic M-ELO can improve trade execution even further, improving fill rates an
es by more than 20% and reduces markouts by more than 11%, according to Nasdaq.1

The Future of AI-Powered Order Types

Dynamic M-ELO is the first AI-powered order type to be approved by the SEC, but it likely will not be the last. AI is alr
mpanies, including Deloitte and BlackRock, integrating AI into their firms' work.67

If Dynamic M-ELO proves successful, more AI-powered order types are likely to follow. Further advances in technolo
tems. They would, in theory, offer better liquidity, reduced trading costs, and improved execution quality. However, t
ss, regulation, and systemic risks.

What Are the Risks Associated with AI-Powered Order Types?
AI-powered order types rely on a machine rather than a person to handle order execution. If the AI becomes unresp
fillment. The AI could also experience errors, leading to buying or selling securities at a subpar price.

What Is an M-ELO Order Type?
M-ELO orders allow investors to place buy or sell orders with a short waiting period. These orders only execute agai

How Is Priority Determined for M-ELO Orders?
M-ELO orders are ranked in time priority among other M-ELO orders when they complete their waiting period and b

Are There Scenarios When Dynamic M-ELO Might Be Particularly Useful?
Dynamic M-ELO could be most helpful in volatile market conditions or when trading fewer liquid securities. Its AI-dri
fectively than traditional order types.

What Are the Risks of Using Dynamic M-ELO?
While Dynamic M-ELO aims to improve fill rates and reduce markouts, it's not a guarantee against risks in the marke
ehavior, and there may be a learning curve for traders new to this order type.

The Bottom Line
Dynamic M-ELO is an AI-powered order type that adjusts the waiting period for a M-ELO order based on market con
l, and preliminary data indicates that it could help improve trade execution. If that proves lasting, Dynamic M-ELO is
er stock market orders.

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This chapter aims to help you familiarize yourself with a few commonly used market terminologies and their concep
Let's get started.
Bull Market (Bullish) – If you expect the stock prices to go up, you are bullish on the stock price. From a broader pers
icular period, it is referred to as a bull market. Example – The market was bullish from mid-2020 to early 2022.

Bear Market (Bearish) – If you expect the stock prices to go down, you are bearish on the stock price. From a broade
icular period, it is referred to as a bear market. Example – The market was bearish from early 2008 to late 2009.
Trend – The term 'trend' usually refers to the general market direction and its associated momentum in the market.
o be bearish. If the market is trading flat with no movement, then the trend is said to be sideways.
Face value of a stock – The face value (FV) or par value indicates the nominal value of a share. The face value is impo
rporate action in a separate chapter. Usually, when dividends, stock splits, or bonuses are announced, they are issue
Infosys is 5, and if they announce an annual dividend of Rs.63/-, the dividend paid is 1260%s (63 divided by 5).
52-week high/low – 52-week high is the highest price point at which a stock has traded during the last 52 weeks (wh
ks the lowest price point at which the stock has traded during the last 52 weeks. The 52-week high and low gives a se
Many traders believe that if a stock price reaches 52 weeks high, it indicates a bullish trend for the foreseeable futur
ve it indicates a bearish trend for the foreseeable future.
All-time high/low – This is similar to the 52 weeks high and low, with the only difference being that the all-time high p
en it was listed. Similarly, the all-time low price is the lowest price the stock had ever traded from when it was listed.
Upper and Lower Circuit – The exchange sets up a price band within which the stock can be traded on a given tradin
r circuit limit, and the lowest price is the lower circuit limit. The limit for a stock is set to 2%, 5%, 10%, or 20% based o
these restrictions to control excessive volatility when a stock reacts to certain news related to the company. The crit
es stocks (and index); more on that later.
Long Position – Long position or going long is a reference to the direction of your trade. For example, if you have bo

planning to go long on Biocon, respectively. If you have bought the Nifty Index with an expectation that the index wi
sidered bullish if you are long on a stock or an index.
Short Position – Going short or 'shorting' is a term used to describe a transaction carried out in a particular order. Th
concept of shorting, I'd like to narrate an old incident at work; this happened around mid-2014, if I remember right.
If you are a gadget enthusiast like me, you would probably recollect that Xiaomi (a Chinese manufacturer of smartph
their flagship smartphone model called Mi3 in India. The price of Mi3 was speculated to be around Rs.14,000/-. If one
as the phone was not available for a non-registered user, and the registration was open only for a short time. I had p
d not. Though he wanted to buy the phone, he could not because he had not registered on time.
Out of sheer desperation, Rajesh walked up to me and made an offer. He said he would buy the phone from me at R
one! I even demanded he pays me the money right away.
After I pocketed the money, I thought to myself, what have I done?? Look at the situation I've put myself into. I've sold
But then, it was not a bad deal after all. I agree I had sold a phone that I didn't own. However, I could always buy the
My only fear in this transaction was, what if the phone price is above Rs.16,500?? In that case, I'd make a loss and reg
if the phone were priced at Rs.18,000, my loss would be Rs.1,500 (18,000 – 16,500).
However, to my luck, as expected, the phone was priced at Rs.14,000/-, I promptly bought it on Flipkart, and upon de
ss, I made a clean profit of Rs.2,500/- (16500 – 14000)!
If you look at the transaction sequence, I first sold the phone (that I didn't own) to Rajesh, then bought it later on Flip
t it later!
This type of transaction is called a 'Short Trade.'
The concept of shorting is very counter-intuitive to normal humans because we are not used to 'shorting' in our day-
Going back to stock markets, think about this straightforward transaction – on day 1, you buy Wipro shares at Rs.405
es at Rs.425. You made a profit of Rs.20/- on this transaction.
In this transaction, your first leg was to buy Wipro at Rs.405, the second leg was to sell Wipro at Rs.425, and you were
On day 4, the stock is trading at Rs.425, and you are now bearish. You are convinced that the stock will go back to Rs
on? You could, and it can be done by shorting the stock.
You sell the stock at Rs.425, and 2 days later, assuming the stock trades at Rs.405, you repurchase it.
If you realize the trade's first leg was to sell at Rs.425, and the second leg was to buy the stock at Rs.405. This is alway
perceive as high to buy it back at a lower price later.
You have executed the same trade as buying at Rs.405 and selling at Rs.425 but in reverse order.
An obvious question you may have is – How can one sell Wipro shares without owning them? You can do so, just like
markets. The important point to remember is that when you short a stock, you must ensure that you buy back the st
a stock in the derivatives segment and carry forward the position for a few days. But at this point, ignore the derivati
so called cash segment) have to be closed before the market closes. In other words, a short position in the cash mar
To sum it all up…

When you short, you have a bearish view of the stock. You profit if the stock price goes down. After you short, if the s
When you short a stock, ensure you buy the stock back the same day before the market closes unless you use deriva
Shorting a stock is easy – you select the stock you wish to short and click on sell.

To summarize long and short positions…

Position
1st Leg
2nd Leg
Expectation
Make money when
You will lose money if

Long
Buy
Sell
Bullish
Stock goes up

Stock price drops

Short
Sell
Buy
Bearish
Stock goes down
Stock price goes up

Alright, let's continue our discussion on commonly used stock market jargon.
Square off -– Square off is a term used to indicate that you intend to close an existing position. If you are long on a s
e when you close a long position, you have to sell the stock, and this sale is not considered a short position. Here you
Squaring off a position means repurchasing the stock when you are short on the stock. Remember, when you repurc
ing long!

When you are
Square off position is

Long
Sell the stock

Short
Buy the stock

Intraday position – This is a trading position you initiate with an expectation to square off the position within the sar
day positions.
OHLC -– OHLC in stock prices refers to open, high, low, and close. We will understand more about this in the technic
k opens for the day, high is the highest price at which the stock trade during the day, low is the lowest price at which
ice of the stock. For example, the OHLC of ACC on 17th June was 1486, 1511, 1467, and 1499.
Volume – Volumes and their impact on stock prices are important concepts that we will explore in greater detail in t
ctions (buy and sell put together) for a particular stock on a particular day. For example, on 17th June, the volume or
Market Segment – A market segment is a division within which a certain type of financial instrument is traded. Each
ameters. The exchange operates in three main segments.

Capital Market (CM) – Capital market segments offer tradable securities, such as stocks and exchange-traded funds (
essentially operating in the capital market segment. Shorting stocks, too, comes under the capital market segment. T
Futures and Options (FO) – Futures and Options, generally referred to as the equity derivative segment, are where le
ts in greater depth in the derivatives module (Futures modules and Options Module)
Currency Derivatives (CDS) – The CDS segment is where currency pairs like USD INR, EUR INR, JPY INR are traded. The
y derivative market.
Wholesale Debt Market (WDM) – The wholesale debt market deals with fixed-income securities. Debt instruments inc
sector undertaking, corporate bonds, corporate debentures, etc.

These are some of the commonly used jargon. If you can think of any other, please comment below, and I'd be happ

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An important debate among investors is whether the stock market is efficient—that is, whether it reflects all the info
e. The efficient market hypothesis (EMH) maintains that all stocks are perfectly priced according to their inherent inv
ants possess equally.

Financial theories are subjective. In other words, there are no proven laws in finance. Instead, ideas try to explain ho
ent market hypothesis has fallen short in terms of explaining the stock market's behavior. While it may be easy to se
ore its relevance in the modern investing environment.

Key Takeaways
The Efficient Market Hypothesis assumes all stocks trade at their fair value.The weak tenet implies stock prices reflec
ces are factored into all publicly available information, and the strong tenet implies all information is already factore
sible to outperform the market and that all investors interpret available information the same way.Although most de
information may be making the theory more relevant.
Efficient Market Hypothesis (EMH) Tenets and Variations
There are three tenets to the efficient market hypothesis: the weak, the semi-strong, and the strong.

The weak make the assumption that current stock prices reflect all available information. It goes further to say past
ck. Therefore, it assumes that technical analysis can't be used to achieve returns.

The semi-strong form of the theory contends stock prices are factored into all information that is publicly available.
he market and make significant gains.

In the strong form of the theory, all information—both public and private—are already factored into the stock prices
able, whether that's someone on the inside or out. Therefore, it implies the market is perfect, and making excessive

The EMH was developed from economist Eugene Fama's Ph.D. dissertation in the 1960s.
Problems of EMH
While it may sound great, this theory is not without criticism. Other schools of thought, such as Alphanomics, argue

First, the efficient market hypothesis assumes all investors perceive all available information in precisely the same m
pose some problems for the validity of the EMH. If one investor looks for undervalued market opportunities while a
se two investors will already have arrived at a different assessment of the stock's fair market value. Therefore, one a
stocks differently, it is impossible to determine what a stock should be worth in an efficient market.

Proponents of the EMH conclude investors may profit from investing in a low-cost, passive portfolio.
Secondly, no single investor is ever able to attain greater profitability than another with the same amount of investe
have the same information, they can only achieve identical returns. But consider the wide range of investment retur
, and so forth. If no investor had any clear advantage over another, would there be a range of yearly returns in the m
more? According to the EMH, if one investor is profitable, it means every investor is profitable. But this is far from tru

Thirdly (and closely related to the second point), under the efficient market hypothesis, no investor should ever be a

investors and funds are able to achieve using their best efforts. This would naturally imply, as many market experts c
to place all of one's investment funds into an index fund. This would increase or decrease according to the overall le
vestors who have consistently beaten the market. Warren Buffett is one of those who's managed to outpace the ave

Qualifying the EMH

Eugene Fama never imagined that his efficient market would be 100% efficient all the time. That would be impossib
. The efficient hypothesis, however, doesn't give a strict definition of how much time prices need to revert to fair valu
tirely acceptable, but will always be ironed out as prices revert to the norm.

But it's important to ask whether EMH undermines itself by allowing random occurrences or environmental eventua
under market efficiency but, by definition, true efficiency accounts for those factors immediately. In other words, pri
new information that can be expected to affect a stock's investment characteristics. So, if the EMH allows for inefficie
s impossible.

Increasing Market Efficiency?

Although it's relatively easy to pour cold water on the efficient market hypothesis, its relevance may actually be grow
nvestments, trades, and corporations, investments are becoming increasingly automated on the basis of strict math
d speed, some computers can immediately process any and all available information, and even translate such analys

Despite the increasing use of computers, most decision-making is still done by human beings and is therefore subje
ytical machines is anything but universal. While the success of stock market investing is based mostly on the skill of i
search for the surefire method of achieving greater returns than the market averages.

The Bottom Line

It's safe to say the market is not going to achieve perfect efficiency anytime soon. For greater efficiency to occur, all

Universal access to high-speed and advanced systems of pricing analysis.A universally accepted analysis system of p
decision-making.The willingness of all investors to accept that their returns or losses will be exactly identical to all ot

It is hard to imagine even one of these criteria of market efficiency ever being met.

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This broker may have started a quiet revolution. Now, when you search for a ticker symbol on X (formerly Twitter), w
eToro. Of course, you can just as well download the eToro app, research analysts and investors, and even copy trad
the concept of social investing and it reduces the time between getting an idea and taking action.

This isn’t the only way eToro is reducing the barriers to entry for new traders and investors. The eToro platform has

How to Buy Stocks on eToro

Recent platform enhancements now allow users to go from zero to stock ownership in mere minutes with eToro. O
connect with millions of users, and even duplicate their investing selections. Can investors truly benefit from the wis

Before you can find out for yourself, you’ll need to register for an account. Here’s a quick look at the first steps an in

Step 1: Open an eToro account. Opening the account happens quickly with the help of your smartphone and sign-in
r identity with two-factor authentication, you can login to the platform. But even if you choose not to expedite the fir
o the point where you are ready to trade.

Step 2: Log in to your eToro account. eToro manages to speed up access to the platform in part because it separates
ompany to identify the new customer and give them access to the platform right away. They will still have to verify th
ut a new user can log in to their account in seconds.

Step 3: Verify your account. Whether you first login via smartphone or a web browser interface, eToro will try to veri
this step is complete, you can complete questionnaires about your trading knowledge, your purpose for trading, and

Step 4: Fund your account. Once your account is verified, you can add money for trading by first linking a bank acco
laid service for securely linking bank accounts. You can transfer as little as $10 in the U.S. or U.K., while other countri
through Plaid can help you be ready to trade in a matter of minutes.

Step 5: Research and select a stock to trade. The platform features several resources for researching stocks, includin
edia feed for user commentary. Using these resources can help you build a preference for the stock you want to trad
trade. Once you've identified a suitable stock to add to your portfolio, you are ready to place an order.

Step 6: Place an order. Once you select the "Trade" button, a dialog box appears that allows you to specify everythin
by identifying a dollar amount, or by specifying the number of shares. It is at this point where you might specify that

You can also specify whether you want to use available leverage, the price for your stop loss, and the price for your
on the dialog can help you better strategize the trade. Once you have completed the dialog and selected the "Open T
n as possible. Market orders are usually filled in a matter of seconds. Limit orders may take a moment longer, deper

Alternatively you can initiate a CopyTrader trade where the platform allows you to allocate a certain amount of mon
es. This form of trading may not be right for every investor, so be certain to thoroughly research it before you try it.

Minimum Deposit
Stock Trade Fee
Available Stock Screener
Customer Support Methods

eToro
$10
$0
Yes
Email, FAQ

Webull
$0
$0
Yes
Email, Live Chat, Phone, FAQ, Live Broker

Robinhood
$0
$0
No
Email, FAQ, Phone (no incoming calls, app-based return call system only)

What You Need to Open an eToro Brokerage Account

The procedure for opening an account with eToro is quite straightforward. However, you can help expedite the effo
re you begin.

Personal Information

As part of signing up and verifying your account, you will be asked to provide the following.

NameAddress Place of birth Citizenship

It is also useful to have the number of your government issued ID or passport available.

Financial Information

As part of the process of opening an account, you will be asked to provide financial details including the following:

Trading knowledgePreferred frequency of tradingPurpose for tradingRisk toleranceBank account information

The Benefits of Trading on eToro

One key benefit is eToro's established, global platform. The company has successfully designed it for ease of use an
social trading necessarily requires input and participation from a larger number of people.

The input from other traders and investors helps improve the value of your information feed. Perhaps even more in
tise from other investors. Further, you can evaluate traders based on user feedback and past performance to ensure

Additionally, eToro's support for fractional shares is a key benefit. This feature allows any investor to access any sec
le capital of the investor. Fractional share purchases can be made for any amount above the $10 minimum deposit.

Lastly, eToro's cash management features can help you keep your money working to grow, or tucked away in safer a
rrencies, and more.

What Are Stocks?
Stock shares represent ownership in a company. When an investor buys a share of a company's stock, they are buyi
ion of the company's profits, in the form of dividends, as well as the right to vote in elections for the board of directo
ing order flow that happens on an exchange. Market participants use an exchange as an ongoing real-time auction a
nstant. Investors justify paying a given price for stocks through a variety of factors, including the company's current f
overall investor sentiment.

What Is eToro?
eToro is an innovative trading platform that provides a social trading experience. With eToro's social trading network
estors for crypto, stock, and ETF assets. The platform's intuitive design helps investors more easily discover trading i
ce their own trades on the platform. The broker operates in more than 140 countries which demonstrates its appeal

Can You Trade After Hours on eToro?
eToro offers extended-hours trading of stocks for shares that trade during a post-market session from 4 p.m. to 8 p.
ing up to the opening bell. Other assets such as commodities or cryptocurrencies can be traded around the clock wh

Can You Buy Tesla Stock on eToro?
Yes. To do so, an investor must first open an account and verify their identity. Once the account is open, investors ca
nical analysis of TSLA's stock. The platform provides detailed information on the company's financial performance, a
TSLA on eToro, investors can navigate to a menu of stocks. From there, they can select or search for "TSLA" and click
rmation. To buy shares of TSLA, investors can then select the "Trade" button and specify the characteristics of the or
ce proper risk management and conduct thorough research before making a trade on eToro.

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"Magnificent Seven" was originally a reference to a 1960 Western film, "The Magnificent Seven," which was directed
d of finance, the term has been repurposed to reference a group of seven high-performing and influential stocks in t
oup.

Bank of America analyst Michael Hartnett coined the phrase in 2023 when commenting on the seven companies co
, and their changes to consumer behavior and economic trends: Alphabet (GOOGL; GOOG), Amazon (AMZN), Apple (
(TSLA).2

Key Takeaways
The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alp
.Bank of America analyst Michael Hartnett used the film name in 2023 when commenting on these seven firms.The p
innovation, market dominance, financial performance, brand equity, research and development, and global econom
ey differences.
For investors considering Magnificent Seven stocks, it is essential to understand their unique position in the market.
icial intelligence, electric vehicles, cloud computing, and digital services and still have the potential for significant gro
ese factors have already been priced in. There are also the usual risks of market volatility, regulatory changes, techn
influence their performance.

Therefore, while these stocks present exciting prospects, they also require a nuanced understanding of the technol

The Magnificent 7 Stocks

The Magnificent Seven stocks are a group of the most influential companies in the U.S. stock market. This term has
larly in the tech sector.

The group comprises Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla and spans four sector
umer durables. They operate across these industries: internet software/services, telecommunications equipment, in
.4

"They are the highest quality names out there and, frankly, if we do go into a recession next year...I actually think th
rategist for BakerAvenue Wealth Management, told Reuters in November 2023.5

Historical Performance of the Magnificent 7 Stocks

The table below displays the performance of the Magnificent Seven stocks over the last three months, one year, and

Magnificent Seven Stock Performance (3 months, 1 year, 5 years)

Name	3-Month (%)	1-Year (%)	5-Year (%)
Alphabet Inc. (GOOG)	4.82	41.82	152.29
Amazon Inc. (AMZN)	6.75	49.59	80.19
Apple Inc. (AAPL)	8.86	25.86	340.40

Meta Platforms Inc. (META)
14.23
199.12
137.05

Microsoft Corp. (MSFT)
15.93
57.12
240.09

NVIDIA Corp. (NVDA)
12.35
215.14
1094.64

Tesla Inc. (TSLA)
3.79
26.11
807.56

Data as of Nov. 17, 2023 (source: TradingView)

Historical Performance of the Magnificent Seven Stocks.
TradingView

Over the past five years, NVIDIA has led the pack with an impressive return of 1094.64%, closely followed by Tesla, w
Magnificent Seven group, Apple, Microsoft, Alphabet, and Meta each delivered returns exceeding 100%. Amazon.con
ster a holding period return below 100% during the same time frame.4

Factors Driving the Magnificent 7 Stocks

The group of stocks known as the Magnificent Seven are at the forefront of technological changes across the econor
ive consumer demand and business growth. Here are other traits common among the Magnificent Seven stocks:

Adaptability: Each has adapted to changing market conditions, including shifts in consumer behavior and technologi
Financially healthy: All have had strong financial health, robust earnings, revenue growth, and healthy balance sheet
Global reach: Their operations and influence span the globe, allowing them to tap into diverse markets and benefit f
Strong market position: The Magnificent Seven have strong market positions in their sectors, often holding the domi
Worldwide brand recognition: The Magnificent Seven companies have strong brand recognition and a loyal custome
introduce new products successfully.

Because of their size and reach, these companies all face regulatory risks. Regulation changes, especially in data priv
ly influence these companies. More broadly, widespread economic changes affect them because of their broad reach
idence, and investor sentiment.7

The Magnificent 7 Stocks Compared to FAANG

In finance and investing, FAANG is an acronym for the shares of five major American tech giants: Meta Platforms (pr
LX), and Alphabet (previously Google, hence the "G"). Jim Cramer, host of CNBC's "Mad Money," and technical analyst
e in 2017.89

FAANG and the Magnificent Seven are both groups of dominant technology firms, yet they have notable differences
d innovation-driven companies than the more narrowly focused FAANG. It includes behemoths like Microsoft and Te
opment, hardware, electric vehicles, and artificial intelligence.2 By contrast, FAANG stocks are predominant within in

Characterized by their robust growth, market-leading roles, and influence across various technology domains, the M
Conversely, FAANG is renowned for its rapid expansion, particularly in the internet and digital media segments. In re
's rally.

Thus, while both groups have overlapping members and are powerful forces in the tech world, the Magnificent Seve

Risks and Challenges of the Magnificent 7 Stocks

Like any investment, putting your money into the Magnificent Seven stocks means taking on risks and challenges. D
gy forward, these companies face factors that could determine their performance. Here are some of them:

Currency fluctuations: As global entities, these companies face risks associated with currency exchange rate fluctuat
Cybersecurity threats: As technology companies, the Magnificent Seven are prime targets for cyberattacks. A signific
their reputations.10
Economic downturns: Global economic conditions, such as recessions or market downturns, can undermine consum
th prospects.
Geopolitical tensions and trade policies: International operations expose these companies to geopolitical risks, inclu
which can affect their global supply chains and market access.5
Key person risk: Some of these companies are closely associated with their founders or executives, whose departure
n.
Market saturation and competition: As these companies continue to grow, they will face challenges in finding new m
om established players and emerging startups can also threaten their market share.7 In short, by leading their mark
a mark in their industries.
Regulatory and legal risks: Tech giants have long been under scrutiny for antitrust concerns, data privacy, and tax pr
gnificant financial and operational impacts.10 Many of them have been investigated for monopolistic practices, and
kets, they will face more scrutiny.11
Technological disruption: Rapid technological change means these companies must continuously innovate to stay ah
oss of market relevance.

What Is the Total Market Capitalization of the Magnificent 7 Stocks?

The total market capitalization of the Magnificent Seven stocks was $11.73 trillion as of Nov. 17, 2023.12AAPL: $2.985
billionMSFT: $2.749 trillionNVDA: $1.218 trillionTSLA: $744.821 billion

What Is the Average Dividend Yield of the Magnificent 7 Stocks?

The average dividend yield for the companies that pay dividends was 0.45% as of Nov. 17, 2023.12AAPL: 0.51%AMZN
META: Meta does not pay a dividendMSFT: 0.81%NVDA: 0.03%TSLA: Tesla does not pay a dividend

How Would the Magnificent 7 Be Influenced by Inflation?

The impact of inflation on the Magnificent Seven is complex. Some key ways that inflation would affect these compa
al expenses. Inflation can reduce consumers' purchasing power, decreasing spending on nonessential goods and ser
sing benchmark interest rates. Higher interest rates increase borrowing costs for companies, harming their investme

ary within the Magnificent Seven group and depends on the company’s specific business model, cost structure, and r

The Bottom Line
The Magnificent Seven stocks represent a cohort of high-performing companies that have garnered significant atten
cal advances, and growth potential. These stocks, which include Microsoft, Tesla, and NVIDIA, along with some FAAN
ch as software, hardware, electric vehicles, and artificial intelligence. They have been pivotal in driving technological
e to investors seeking growth and market leadership.

However, investors need to know the risks and challenges associated with these stocks. The dynamic nature of the t
al economic factors like inflation and geopolitical tensions can affect their performance. Additionally, high market va
se can lead to significant stock price corrections.

Thus, while the Magnificent Seven offer potential for substantial growth, they also require careful analysis and a bal
ernal factors that could influence their future trajectory.

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6.1 – Public Limited company
Having understood the IPO process and the circumstances that lead a company to offer its shares to the public and
rther.
Once a company becomes publicly traded, the company is obligated to disclose all information related to the compa
on the stock exchanges daily. There are a few reasons why market participants trade stocks. We will explore some o
6.2 – What is the stock market?
As we discussed earlier, the stock market is an electronic marketplace. Buyers and sellers electronically express thei
For example, consider the current situation of Infosys. When writing this, Infosys faces a management succession iss
ng. The leadership vacuum is weighing down the company’s reputation heavily. As a result, the stock price dropped t
Assume there are two traders – A and B.
A’s view on Infosys – The stock price will likely go down further because the company will find it challenging to find a
seller of the Infosys stock.
However, B views the same situation differently and has a different point of view. According to her, the stock price o
company will find a great leader. The stock price will eventually move up.
If B trades from her point of view, she should be a buyer of the Infosys stock.
So at, Rs.3000, A will be a seller, and B will be a buyer in Infosys.

Now both A and B will place orders to sell and buy the stocks respectively through their respective stock brokers. Th
ge has to ensure that these two orders are matched and that the trade is executed. This is the primary job of the sto
ket participants.
A stock market is where market participants can access any publicly listed company and trade from their point of vie
fter all, different opinions are what make a market.
6.3 – What moves the stock?
Let us continue with the Infosys example to understand how stocks move. Imagine you are a market participant trac
It is 10:00 AM Infosys is trading at Rs.3000 per share. The management makes a press statement that they have four
are confident that the newly appointed CEO will do good things for the company.
Two questions –

How will the stock price of Infosys react to this news?
If you were to place a trade on Infosys, what would it be? Would it be a buy or a sell?

The answer to the first question is quite simple; the news is positive, so the stock price will increase. Infosys had a le
announcements are made, market participants tend to buy the stock at any given price, which cascades into a stock
Let me illustrate this further :

Sl No	Time	Last Traded Price	What price the seller wants	What does the buyer do?	New Last Trade Price
01	10:00	3000	3002	Buys	3002
02	10:01	3002	3006	Buys	3006
03	10:03	3006	3011	Buys	3011
04	10:05	3011	3016	Buys	3016

Notice that the buyer is willing to pay whatever prices the seller wants; this is when the market is said to be bullish. I
So as you can see, the stock price jumped 16 Rupees in a matter of 5 minutes. Though this is a fictional situation, it is
increases when the news is good or expected to be good.
In this particular case, the stock moves up because of two reasons. One, the leadership issue has been fixed, and tw
ompany to greater heights.
The answer to the second question is now quite simple; you buy Infosys stocks because there is good news surroun
Now, moving forward on the same day, at 12:30 PM, 'The National Association of Software & Services company' (NAS
o have come down by 15%, which could have an impact on the industry in the future. For those unaware, NASSCOM
By 12:30 PM, let us assume Infosys is trading at 3030. Few questions for you...

How does this new information impact Infosys?
What would it be if you were to initiate a new trade with this information?
What would happen to the other IT stocks in the market?

The answers to the above questions are quite simple. Before we answer these questions, let us analyze NASSCOM's
NASSCOM says that the IT budget is likely to shrink by 15%. This means IT companies' revenues and profits will likely
Let us now try and answer the above questions…

Infosys is a leading IT major in the country and will react to this news. The reaction could be mixed because there wa
, a 15% decline in revenue is a serious matter, and hence Infosys stocks are likely to trade lower.
At 3030, if one were to initiate a new trade based on the new information, it would be a sell on Infosys.
The information released by NASSCOM applies to the entire IT stocks and not just Infosys. Hence all IT companies ar

So as you notice, market participants react to news and events, and their reaction translates to price movements! Th
At this stage, you may wonder what would happen to a company's share price if there is no news. Will the stock price
ng on the company in focus.
For example, let us assume there is no news concerning two different companies…

Reliance Industries Limited
Shree Lakshmi Sugar Mills

As we all know, Reliance is one the largest companies in the country, and regardless of whether there is news or not,
res, and therefore the price moves constantly.
The second company is relatively unknown and, therefore, may not attract market participants' attention as there is
es, the stock price may not move, or even if it does, it may be very marginal.
To summarize, the price moves because of expectations of news and events. The news or events can be directly rela
e, the appointment of Narendra Modi as the Indian Prime Minister was perceived as positive news, and therefore the
In some cases, there would be no news, but still, the price could move due to the demand and supply situation.
6.4 – How does the stock get traded?
You have decided to buy 200 shares of Infosys at 3030 and hold on to it for one year. How does it work? What is the
Systems work seamlessly to ensure your transactions go smoothly.
With your decision to buy Infosys, you need to log in to your trading account (provided by your stock broker) and pla
ng details are validated –

Details of your trading account through which you intend to buy Infosys shares.
The price at which you intend to buy Infosys
The number of shares you intend to buy

Before your broker transmits this order to the exchange, the broker has to ensure you have sufficient money to buy
e the order hits the market, the stock exchange (through their order matching algorithm) tries to find a seller who is
Now the seller could be one person willing to sell the entire 200 shares at 3030, or it could be ten people selling 20 s
ely. The permutation and combination do not matter. From your perspective, all you need is 200 shares of Infosys at
ge ensures the shares are available to you as long as sellers are in the market.
Once the trade is executed, the shares will be electronically credited to your DEMAT account. Likewise, the shares wi
6.5 – What happens after you own stock?
After you buy the shares, the shares will reside in your DEMAT account. You are now a part owner of the company to

own 200 shares of Infosys, you own 0.000035% of Infosys at the time of writing this chapter.
By owning the shares, you are entitled to corporate benefits like dividends, stock splits, bonuses, rights issues, voting
es at a later stage.
6.6 – A note on the holding period
The holding period is the period you intend to hold the stock. You may be surprised that the holding period could be
ndary investor Warren Buffet was asked what his favorite holding period was, he replied 'forever.'
In the earlier example quoted in this chapter, we illustrated how Infosys stocks moved from 3000 to 3016 in 5 minute
ng period! If you are satisfied with it, you can close the trade and move on to find another opportunity. To remind yo
hot, such moves are quite common.
6.7 – How to calculate returns?
Now, everything in markets boils down to one thing. Generating a reasonable rate of return! All past stock market si
e usually expressed in terms of annual yield. There are different kinds of returns that you need to be aware of. The f
ulate these returns.
Absolute Return – This is the return that your trade or investment generates in absolute terms. It helps you answer t
much percentage return did I generate?
The formula to calculate is – [Ending Period Value / Starting Period Value – 1]*100
i.e. [3550/3030 -1] *100
= 0.1716 * 100
= 17.16%
A 17.6% is not a bad return at all!
Compounded Annual Growth Rate (CAGR) – An absolute return can be misleading if you want to compare two invest
eld the stock for two years, and sold it at 3550. At what rate did my investment grow over the last two years?
CAGR factors in the time component, which we had ignored when we computed the absolute return.
The formula to calculate CAGR is…

Applying this to answer the question…
{[3550/3030]^(1/2) – 1} = 8.2%
This means the investment grew at a rate of 8.2% for two years. As of today, the bank fixed deposit market offers 5.5
o a fixed deposit.
So, always use CAGR to check returns over multiple years. Use absolute return when your time frame is for a year or
What if you bought Infosys at 3030 and sold it at 3550 within six months? In that case, you have generated 17.16% in
So the point is if you have to compare returns, it's best done when the return is expressed on an annualized basis.
6.8 – Where do you fit in?
Each market participant has a unique style of participating in the market. The style evolves as you progress as a part
lso defined by the risk you are willing to take in the market. Regardless of what you do, you can be categorized as a t
A trader is a person who spots an opportunity and initiates the trade with an expectation of profitably exiting the tra
hort-term view of markets. Trader is alert and on their toes during market hours, constantly evaluating opportunitie
ng or going short. We will discuss what going long or short means at a later stage.
There are different types of traders :

Day Trader – A day trader initiates and closes the position during the day. He does not carry forward trading positio
ng an overnight risk. For example – Buy 100 shares of TCS at 2212 at 9:15 AM and sell it at 2220 at 3:20 PM, making a
to 6 stocks per day, sometimes even more.
Scalper – A type of day trader. A scalper usually trades very large shares and holds the stock for less time to make a s
ares of TCS as 2212 at 9:15 and sells it 2212.1 at 9.16, ending up making 1000/- profit in this trade. On any given day,
have noticed, a scalp trader is highly risk-averse.
Swing Trader – A swing trader holds on to the trade for a slightly longer; the duration can run anywhere between a f
12th June and sell it at 2214 on 19th June.

Some of the successful traders are – George Soros, Ed Seykota, Paul Tudor, Micheal Steinhardt, Van K Tharp, Stanley
An investor is a person who buys a stock expecting a significant appreciation in the stock. The investor is willing to w
of investors usually runs into a few years. There are two popular types of investors.

Growth Investors – The objective here is to identify companies expected to grow significantly because of emerging in

would be buying Hindustan Unilever, Infosys, and Gillette India back in 1990s. These companies witnessed huge grow
e wealth for their shareholders.
Value Investors – The objective here is to identify good companies irrespective of whether they are in the growth or r
market sentiment, thereby making a great value buy. An example of this in recent times is stock tanking in the Covid
st all the good stocks were beaten down significantly around March/April 2020, only to post a V-shaped recovery in t

A few successful investors are – Charlie Munger, Peter Lynch, Benjamin Graham, Thomas Rowe, Warren Buffett, John
So what kind of market participant would you like to be?

Key takeaways from this chapter

A stock market is where a trader or an investor can transact (buy, sell) in shares.
A stock market is a place where the buyer and seller meet electronically
Different opinions make a market
The stock exchange electronically facilitates the transaction of buyers and sellers.
News and events move the stock prices daily.
Demand-supply mismatch also makes the stock prices move
When you own a stock, you get corporate privileges like bonuses, dividends, rights, etc
The holding period is defined as the period during which you hold your shares
Use absolute returns when the holding period is one year or less. Use CAGR to identify the growth rate over multiple

Traders and investors differ on risk-taking ability and the holding period.

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Like building a house, learning how to rebalance your portfolio begins with creating a sound foundation. First, defin
assessment, map out a mix of financial assets such as stock and bond ETFs with the help of a financial advisor or rob

You'll typically own a greater percentage of stock assets when you're younger, while more conservative investors wil
We've compiled the basics every investor should know and have structured this guide for rebalancing your portfolio

Key Takeaways
Rebalancing your portfolio can minimize its volatility and risk and improve its diversification.You may run the risk of
choose from several rebalancing strategies based on triggers from time spans to percentage changes.One option is t
r using a robo-advisor if you feel like you're a little over your head.
How to Rebalance Your Portfolio
The goal in rebalancing your portfolio is not perfection, since as soon as your investments return to their predeterm
o deviate. Rebalance your portfolio at least annually and consider these factors:

How much has my portfolio deviated from my original asset allocation?Am I still comfortable with my current asset a
e asset mix?Have my goals or risk tolerance changed?

Ways to Rebalance Your Portfolio
There are several rebalancing strategies:

Select a percent range for rebalancing, such as when each asset class deviates 5% from its asset weight. The window t all depends on the tolerance of the investor and the time they're willing to dedicate to keeping the portfolio compli is sufficient, although some investors prefer to rebalance quarterly or twice per year. There's no wrong or right strat to greater stock allocations and higher overall returns, along with greater volatility.Add new money to the underwei tion.Use withdrawals to decrease the weight of the overweight asset. If stocks have increased 1%, and you are remov cks and withdraw the proceeds.

Steps Needed to Rebalance Your Portfolio
First, track the asset allocation of your portfolio. You can maintain your records on a spreadsheet or use a free or pa roceed when your assets are listed and percent devoted to each asset class is recorded.

Step 1: Analyze
Compare the current percent weights of each asset class with your predetermined asset allocation. Quicken or othe urrent asset values with the desired percent.

Step 2: Compare
Notice the difference between your actual and preferred asset allocation. If your 80% stock, 20% bond portfolio has , either by adding new money or selling stocks and buying bonds.

Step 3: Sell
To sell 5% of your stock assets, you'll make a simple calculation. Assume your portfolio is worth $100,000 and your c d assets. After the value drifts to $85,000 stocks and $15,000 bonds, you'll sell $5,000 worth of stock investments.

Step 4: Buy
With the $5,000 proceeds from the stock sale, you'll buy $5,000 of bonds. This will return your portfolio to its preferr

Step 5: Add Funds
Let's say that you want to add $10,000 to the portfolio. The value of your portfolio will be $110,000 with a desired as (Multiply $110,000 by 80% for the stock allocation amount and multiply $110,000 by 20% to arrive at your dollar goa

Step 6: Invest the Cash
To rebalance a portfolio after adding additional cash, calculate the difference between the current value and the pre e have $85,000 in stocks so we buy $3,000 of stocks, to reach the desired $88,000 stock allocation. Similarly, we buy bonds.

Follow these steps every time you rebalance your portfolio and don't worry if the asset allocation drifts between you more conservative or more comfortable with greater volatility or risk, you can always adjust your desired asset alloc
How to Use a Robo-Advisor to Rebalance Your Portfolio
A robo-advisor might be the best solution for those who prefer to outsource portfolio selection and rebalancing. Ro are designed to offer investors access to well-diversified investment portfolios, rebalancing, and other features, such most popular robo-advisors administer a quick survey to determine your investment goals, timeline, and risk. Ultima esting, the top robo-advisors will rebalance your holdings on an as-needed basis, to keep your portfolio in line with t

Pros and Cons of Portfolio Rebalancing
Investment management, which includes rebalancing, requires a commitment. You'll need to analyze your investme 'll review the asset allocation you've selected and decide whether you're comfortable with the ups and downs of the

You might choose to increase the stock allocation if you’re comfortable with greater risk, or increase the cash and bo
occasional double-digit declines in your investment values.

Pros

Minimizes a portfolio's volatility and risk
Improves a portfolio's diversification
With a planned rebalancing schedule, you’re less likely to become spooked at a market drop and sell at the bottom

Cons

Opens the door to reducing portfolio exposure to outperforming sectors or adding to underperforming areas of the
Has the potential for conflict with certain tax loss harvesting strategies
Assumes that you’ve chosen your own investments, which requires study and basic financial knowledge

Additional Tips to Rebalance Your Portfolio

Rebalancing is one component of the investment selection and management package. Here are additional tips to ai

Avoid checking your investment values too frequently (daily or weekly). This can lead to a sense that you need to act,
eturns.
Create a personal investment policy statement, which includes your investment mix, asset allocation, and rebalancin
In taxable accounts, look to minimize taxes. This involves selling losing positions to offset capital gains, or tax loss ha
Maintain a long-term focus. It’s easy to get distracted by frequent movements in your investments, but acting on tho

Remember that investing is a way to turn today's earnings into future financial security. Investing and rebalancing a
s five or more years. For shorter-term goals, consider a certificate of deposit or high-yield money market account.

Why Should I Rebalance My Portfolio?

Investors need a mix of higher-return stocks for growth and capital appreciation. But too many individual stocks or s
re volatile than bonds and might increase 20% in one year and decline that amount or more in another. Bonds delive
r projected gains and losses than stock investments.If you don’t rebalance and restore your assets to the 80% vs. 20
rtfolio, then you might experience a greater loss than you’re comfortable with on occasion. Rebalancing helps your in

How Much Does It Cost to Rebalance a Portfolio?

Most investment brokers don’t charge commissions or trading fees for stocks and ETFs. So buying and selling stocks
re apt to pay a commission to buy or sell. Mutual funds might also levy a fee to trade.As long as you’re buying and se
a capital gain, realized in a taxable brokerage account.

Can I Rebalance My Portfolio Without Selling?

Yes, you can rebalance your portfolio without selling. If you’re adding new money into the portfolio, buy the asset cla
return the funds or individual holdings back to their preferred asset allocation. If you need to withdraw funds from y
vest cash dividend payments into an under-allocated asset class.

Does Portfolio Rebalancing Reduce Returns?

Rebalancing reduces returns in most cases. Stocks have returned approximately 10% over the last century, so they'll
out rebalancing.1 Stocks are also riskier and more volatile, so the growing stock allocation of the unbalanced portfol
Rebalancing is usually a tradeoff between greater return and lower volatility.

How Often Should I Rebalance My Portfolio?

Rebalancing too frequently can sacrifice returns. Rebalancing less often can bolster returns and increase portfolio vo
months, and rebalancing if the values drift 5% or more from target.2 There isn't a perfect rebalancing solution. The
ate a reminder, and stick with it.

The Bottom Line

Rebalancing will keep your preferred asset allocation in check and help to smooth out the volatility of your portfolio
ome profits. When prices are lower, and an asset class declines in value, you'll buy at lower levels. Ultimately, the bes
frequent rebalancing saves you time and might allow your winning assets to grow for a bit longer.

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Cyclical vs. Non-Cyclical Stocks: An Overview

The terms cyclical and non-cyclical refer to how closely correlated a company's share price is to the fluctuations of t
relationship to the economy, while non-cyclical stocks repeatedly outperform the market when economic growth sl

Investors cannot control the cycles of the economy, but they can tailor their investing practices to its ebb and flow.
f how industries relate to the economy. There are fundamental differences between companies that are affected by

Key Takeaways

Cyclical stocks are volatile and tend to follow trends in the economy.Non-cyclical stocks outperform the market duri
nd services that many buy when the economy is doing well but cut during downturns, such as luxury goods.Non-cyc
consumables like soap and toothpaste.Cyclicals tend to go up and down with the economy, while non-cyclical stock

Cyclical Stocks

Cyclical companies follow the trends in the overall economy, which makes their stock prices very volatile. When the
y turns down, their stock prices will drop. They follow all the cycles of the economy from expansion, peak, and reces

Cyclical stocks represent companies that make or sell discretionary items and services that are in demand when the
rlines, furniture, high-end clothing retailers, and automobile manufacturers. These are also the goods and services t

When people delay or stop buying anything dispensable, the revenues of the companies that produce and sell them
t to drop. In the event of a long downturn, some of these companies may even go out of business.

Investors may find opportunities in cyclical stocks hard to predict because of the correlation they have to the econo
c cycle, it's tricky to guess how well a cyclical stock will do.

Cyclical industries make or sell products that we can live without or delay buying when times are tough. Examples in

Non-Cyclical Stocks

Non-cyclical stocks repeatedly outperform the market when economic growth slows. They may also be known as co

Non-cyclical securities are generally profitable regardless of economic trends because they produce or distribute go
er, water, and gas. The stocks of companies that produce these goods and services are also called defensive stocks b
ic downturn. They are great places in which to invest when the economic outlook is sour.

For example, non-durable household goods like toothpaste, soap, shampoo, and dish detergent may not seem like
l they can wait until next year to lather up with soap in the shower.

A utility company is another example of a non-cyclical. People need power and heat for themselves and their familie
anies grow conservatively and do not fluctuate dramatically.

This is a key fact about non-cyclical stocks. They provide safety, but they are not going to skyrocket in price when the

Investing in non-cyclical stocks is a good way to avoid losses when highly-cyclical companies are suffering.

Example

Below is a historical example that uses a chart showing the performance of a highly-cyclical company, the Ford Moto
blic Utilities Co. (yellow line). This chart clearly demonstrates how each company's share price reacts to downturns in

Image by Sabrina Jiang © Investopedia 2020

Notice that the downturn in the economy from 2000 to 2002 drastically reduced Ford's share price, whereas the gro
slowdown. This is because cars are considered discretionary goods that are cyclical to the economy. When there is a
ve money for basic needs. Moreover, more people may be unemployed at the time. If a car is needed, perhaps those

On the other hand, regardless of one's employment or the state of the economy. people still need to have water and
heir utility bills (for the most part), even when they begin to struggle financially, making it non-cyclical.

What Are Some Examples of Cyclical Stocks?

Cyclical stocks tend to be for expensive durable goods, luxury, or leisure. Therefore, stocks in the automotive industr
tality stocks would be prime examples.

What Are Consumer Cyclical Stocks?

Sometimes analysts break down cyclical stocks into consumer and non-consumer. A non-consumer cyclical would be
s and which is also sensitive to the state of the economy. A consumer cyclical would be a cyclical stock that markets t

What Types of Stocks Are Non-Cyclicals?

Non-cyclical stocks are companies from which people will continue to consume their products even during an econo
ne, utilities, and pharmaceuticals/healthcare.

The Bottom Line

Cyclical companies follow the trends in the overall economy, and therefore their stock prices are volatile. Non-cyclica

d regardless of the state of the economy. Therefore, non-cyclical stocks can be profitable regardless of economic tre
ws.

Investing in non-cyclical stocks is considered to be safer than investing in cyclical stocks. During economic turndown
-cyclical companies do. But for the same reason, when the economy grows, non-cyclical stocks won't surge in price e

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What Is a Back Stop?

In corporate finance and investment banking, a back stop (or backstop) is to provide last-resort support or to make
hares.

When a company is trying to raise capital through an issuance—and wants to guarantee the amount received throu
reholder, such as an investment bank, to buy any of its unsubscribed shares.

Key Takeaways

A back stop is the act of providing last-resort support or security in a securities offering for the unsubscribed portion
an issuance, it may get a back stop from an underwriter or a major shareholder, such as an investment bank, to buy
insurance" and support for the overall offering, ensuring that the offering does not fail if all shares are not subscribe

How a Back Stop Works

A back stop functions as a form of insurance. While not an actual insurance plan, a company can guarantee that a c
nizations, usually investment banking firms, if the open market does not produce enough investors and a portion of

If the organization providing the back stop is an investment banking firm, sub-underwriters representing the investr
eement is referred to as a firm-commitment underwriting deal or contract, and it provides overall support for the of
es.

By entering into a firm-commitment underwriting agreement, the associated organization has claimed full responsil
old, and promises to provide the associated capital in exchange for the available shares.

This gives assurance to the issuer that the minimum capital can be raised regardless of the open market activity. Ad ectively transferred to the underwritten organization.

If all of the offering is purchased through regular investment vehicles, the contract obligating the organization to pu
surrounding the promise to purchase no longer exist.

The contracts between an issuer and the underwriting organization can take various forms. For example, the underw
oan to boost credit ratings for the issuer. They may also issue letters of credit as guarantees to the entity raising cap
Special Considerations
If the underwriting organization takes possession of any shares, as specified in the agreement, the shares belong to
ed the same way as any other investment purchased through normal market activity. The issuing company can impo

The underwriting organization may subsequently hold or sell the associated securities per the regulations that gove

Example of a Back Stop
In a rights offering, you may see a statement to this effect: "ABC Company will provide a 100 percent back stop of up
y rights offering." If XYZ is trying to raise $200 million, but only raises $100 million through investors, then ABC Comp

What Is a Back Stop in a Bond Issue?
Similar to the back stop in an equity placement, a back stop for a bond issue is a type of guarantee whereby the und
any unsold or unsubscribed bonds.

Who Are Backstop Purchasers?
If the underwriting bank or investment banking syndicate cannot or do not want to back stop a new issue, third-part
subscribed portion of a securities issue. These purchasers may provide a bid substantially below the issue price and/
sell off the holdings over time at a profit.

What Are Volcker Rule Backstop Provisions?
The Volcker Rule is a set of financial regulations that separates the commercial and investment banking activities of a
air practices to the detriment of a bank's customers. One provision of the Rule is to prevent the backstopping of a se
lict of interest. Moreover, a back stop would be prohibited if it would "result, directly or indirectly, in a material expos
risk trading strategy; or pose a threat to the safety and soundness of the banking entity or to the financial stability of

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IPO, OFS, and FPO – How are they different?
IPO
Initial Public Offering is when a company is introduced into the publicly traded stock markets for the first time. In the
entage of shares to the public. The reason for going public and the process of an IPO is explained in detail in Chapte
The primary reason for going public is to raise capital to fund expansion projects or cash out early investors. After th
y market, promoters of the company might still want additional capital. There are three options available: Rights Issu
Rights Issue
The promoters can choose to raise additional capital from its existing shareholders by offering them new shares at a
y offers new shares in the proportion of shares already held by the shareholders. For example, a 1:4 Rights Issue wo
Although this option looks good, it limits the company to raise the capital from a small number of investors who are
st more. A rights issue leads to the creation of new shares that are offered to the shareholders, which dilutes the val

An example of a Rights issue is South Indian Bank which announced a 1:3(One share for every 3 held) issue for Rs 14
s 20 as on Record date 17 Feb 2017). The bank offered 45.07 lakh shares to the existing shareholders.
The rights issue is covered in detail in Chapter 11, covering key Corporate Actions.
OFS
The promoters can choose to offer the secondary issue of shares to the whole market, unlike a rights issue restricted
ow through the stockbrokers for the Offer for Sale. The exchange allows a company to route funds through OFS only
nimum public shareholding requirements (Govt. PSU have a public shareholding requirement of 25%).
There is a floor price set by the company, at or above which both Retail and Non-Retail investors can make bids. The
l be settled by the exchange into the investor Demat account in T+1 days.
An example of an Offer for Sale is NTPC limited, which offered a maximum of 46.35 million shares at a floor price of
held on 29th August 2017 for Non-Retail Investors and 30th August 2017.
FPO
An FPO also has the same intent of raising additional capital after it has been listed but follows a different mechanism
d fresh shares can be created and offered in an FPO. Just like an IPO, an FPO requires that Merchant Bankers be app
proved by SEBI after which bidding is allowed in a 3-5 day period. Investors can place their bids through ASBA and sh
ook-building process. Since the introduction of OFS in 2012, FPOs are seldom used due to the lengthy approval proc
The company decides on a Price Band, and the FPO is publicly advertised. Prospective investors can bid for the issue
through a Bank Branch. After the bidding process is complete, the cut-off price is declared based on the demand and
ding in the secondary markets.
An example of an FPO is of Engineers India Ltd which underwent an issue in February 2014 with Rs 145-Rs 150. The i
arting date of the issue were trading at Rs 151.1. The lower price band was at a 4.2% discount from the market price
Difference between OFS and FPO

An OFS is used to offload Promoters' shares while an FPO is used to fund new projects.
Dilution of shares is allowed in an FPO leading to change in Shareholding structure while OFS does not affect the nu
Only the companies with a Market Capitalisation of Rs 1000 crores and above can use the OFS route to raise funds w
Ever since SEBI has introduced OFS, FPO issues have come down, and companies prefer to choose the OFS route to

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The 20 Market Depth (level 3 data) Window
I've driven a car for many years and I've even changed my car a few times now. Each time I changed my car, the engi
icle and its aesthetics continuously changed. Air conditioner, power steering, and power windows were all luxury fea
ar without these essential features. The game-changer for me though was parking assist. The little camera at the ba
ilable. I was no longer required to pop and twist my head out and struggle to park the car, nor did I have to bug my c
ing spot. The parking assist feature did everything and helped me execute a perfect parallel park. The parking assist
I feel the same edge while trading the markets with the level 3 data

Level 3 or the 20 market depth feature is unique and has multiple uses. You'll probably appreciate the level 3 marke
etail trader would not understand this feature anytime soon, simply because this feature was unavailable all these y
retail traders.
The purpose of this chapter is to help you understand how useful this feature is and get you started on building trad
If you are entirely new to this, I'd suggest you read this blog to understand what the level 3 data is all about.
Assuming you know what it is, this chapter will help you understand the multiple uses of this feature.
Contract availability
For the option traders, the 20-depth order book gives great visibility into the availability of contracts to trade and he
out this visibility, it becomes really hard to trade illiquid contracts. While I'm specifically talking about options here, y
lly the illiquid ones.
Let us put this in context, have a look at the regular market depth (i.e. the top 5 bid-ask) of the 13000 CE expiring in J

We can see narrow bids on the left and a notch better offer on the right. You'd probably hesitate to trade this contra
But check what's hiding under the hood here by opening the level 3 data –

As you can see, there are many contracts available, but they are not visible in the regular market depth. In fact, the b
h row respectively.

Given the availability of the contracts in this strike, the perspective to trade or not completely changes and will now c
Execution control
Level 3 data gives you full visibility of the approximate execution price for your trade. This is particularly useful when
—

You trade large quantities, i.e. buy and sell large amounts in quick succession to profit from small tick moves in the s
Since these are quick trades, you place market orders only

Let us say you want to buy and sell 5000 shares of Hindustan Zinc; the regular market depth window gives you the fo

As you can see, there is no visibility on how these 5000 shares will get filled. Now, take a look at the 20 depth windov

The 20 depth window paints an entirely different picture. It not only tells me that I'll get the 5000 shares, but it also g
were to place a market order for 5000 shares, I'd be buying this order book from 210.5 to 211.25. I also see at 211; th
ce is at or around 211.
Now, my decision to scalp the stock should depend on the pop I'd expect over and above 211. Maybe 211.5 or so. Of
o use a brokerage calculator.
Position sizing
Level 3 market window plays a critical role in 'guesstimating' the number of shares to trade, given the liquidity of the
the availability of capital is not an issue.
Now, have a look at the regular market depth —

You expect Siemens to move from 1675 to about 1690 over the next hour. So, given the fact that you are not constra
de?
The regular market depth window suggests that you can buy close to 175 shares. However, the 20 depth opens up a

In fact, the liquidity in this stock lies below the best five bid and ask, and the impact cost is reasonable. The regular m
ming you intend to buy about 1500 shares, the buy price will lie somewhere within 1675.5 to 1678, which is spread o
In this case, assuming you are sure about the target price (1690), you can go all in and buy through whatever is avail
Order placement
You can extend the position sizing concept and use the 20 depth market watch to place a stop loss or a limit order. A
.

The question is, where you would place the stop loss for this trade? Can the 20 market depth help us with this?
Of course. Have a look at the 20 depth window for VST Tillers. As you can see, there is a concentration of bids in 129
highest (35) in 1290.
This implies that several traders have placed an order at 1290, indicating some sort of price action at that level. This
A prudent trader would probably place a stoploss not at 1290, but maybe at a price just below it.

So I was a buyer in this stock, then purely based on 20 depth I'd probably place my SL at 1290 or below, maybe at 12
Validate the support and resistance level
I find this extremely interesting. In the example above, we identified 1290 as the stoploss price, simply because there
s a support price.
If this is indeed true, then it should show up on the charts as well, right? Have a look at the chart below –

Clearly, there is some price action around 1296. Remember, support and resistance is not one price point, but rather
this stock.
This is a perfect example of seeing the price action concept play out in the market.
Another way to look at this is first to identify the S&R level and then check the 20 depth to figure if there is a concent

Hopefully, by now you've started to appreciate the immeasurable value 20 depth order book brings to you while trad
Remember, irrespective of which technique you use to develop a point of view (technical or quantitative analysis), th
e.
The 20 depth market window is essentially your ticket to validate the truth of this price action. Make sure you use yo
Do post your comments and tell us how differently you will use the 20 depth window for identifying trading opportu
Good luck!

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If you've ever wanted to invest in a particular company's stock, but didn't have enough money to buy even one share ractional shares might be an affordable way to get started. Fractional shares allow investors to buy a portion, or frac n afford–not based on a particular number of shares. Implementing this type of strategy is propitious for investors w want to build a diversified portfolio. We'll take an in-depth look at how investing in fractional shares works and answ rted.

How to Buy Fractional Shares

In order to buy fractional shares, you will need to open an investment account through either an online broker or a want to have full control over which fractional shares you are investing in, or if you want to have a more hands-off a lar amount to invest and your investment goals, and based on that, the robo-advisor will choose your fractional shar investment goal range.

Step 1: Research the fractional shares you want to buy. Fractional share offerings will differ between brokerages, so tional shares can also help determine which brokerage you may want to use.

Step 2: Open an online broker or robo advisor account. Not all online brokers or robo-advisors offer fractional share h offers that service. It is also important to remember that every brokerage has slightly different nuances to the way

Which stocks can be bought in fractional sharesHow trades are executed and settledFees

Step 3: Fund the account. You will need to fund the account once you open it. Many online brokers can be funded vi the funds to settle, so you may not be able to invest right away.

Step 4: Complete and monitor your investment. Most online accounts make it very easy to monitor your portfolio us account holdings at a glance, but you may also be able to utilize more advanced options, such as setting up stock ale ur particular online brokerage.

Compare Top Platforms for Investing in Fractional Shares

Platform
Fractional Share Purchases
Fractional dividend reinvestment
Available Securities

Fidelity
Yes
Yes
More than 7,000 stocks and ETFs

Interactive Brokers
Yes
No
More than 11,000 stocks, ETFs and ADRs

Charles Schwab
Yes
Yes
All S&P 500 Stocks only, No ETFs

Robinhood
Yes
Yes
ETFs and stocks above the volume and size thresholds

Is There a Downside to Fractional Shares?
While there are several benefits to investing in fractional shares, the following drawbacks are also worth considering

Limited stock selection: Just because a stock is publicly traded does not mean that you will be able to buy fractional
ocks that investors can buy fractional shares of.

Potential problems transferring fractional shares to a different broker: If you want to transfer your account to anoth
hares. You may need to liquidate any fractional shares in order to transfer.

Proxy voting may not be an option: Again, each firm also handles proxy voting differently regarding fractional shares
e.

Additional fees: Some brokerages charge additional fees for fractional share investing. This can potentially decrease
t if there are fees associated with fractional shares and if they are flat fees or a percentage.

Trade execution may not take place in real time: If the brokerage that you are investing with does not settle your tra
will settle all the fractional shares in one or more bulk orders rather than settling each order individually. Obviously,
nding how this will be settled is important.

Can complicate tax returns: Because you are buying fractional shares, and may buy several fractional shares throug
up holding several different tax lots that may be difficult to match up at tax time. If a stock you own has a dividend th
lots to deal with.

Factors to Consider When Investing in Fractional Shares
Selection of stocks and ETFs available for fractional share investing: Because each online brokerage has its own sele
investing, it is important to know this ahead of time. Some firms will offer ETFs, others will not. One company may of
y not. Be sure to check out each brokerage's list of fractional share stocks and ETF offerings before opening an accou

Fees and commissions: Some brokerages will be commission-free when it comes to investing in fractional shares, w the brokerage’s policy on this prior to opening an account.

Account minimums: Many companies have no account minimum to open or maintain the account. Often, investors
ms will differ from broker to broker.

Research amenities: Once you open an account with an online broker or robo-advisor, you will have access to resea
ies, which can help you determine which stocks you’d like to invest in.

Educational content: Knowing how to invest, what to invest in, and how to reach your financial goals are important.
etter understand which investments will help you reach your goals, and even how to better utilize your account ame

FAQs

What Are Fractional Shares?

Fractional shares are very simply a portion, or fraction, of a whole share. When investing in fractional shares, you wil
investing based on a dollar amount, not an individual stock’s price or certain number of shares. Buying fractional sh
ty, thereby allowing investors to gain market entry sooner. While the concept of trading in fractional shares has bee
e—or financially feasible—until 2019. A few low-fee companies offered fractional shares at that time, but this didn’t l
ly to offer low fees or no monthly fees, thus creating a path for investing in fractional shares to become advantageou
but it was most likely due to a few, limited circumstances: owning mutual funds, stock splits, dividend reinvestment

How Does Fractional Share Investing Work?

Your experience with investing in fractional shares will differ depending on which brokerage you decide to invest thr
tly what is offered will be important before deciding to invest. For example:The list of stocks will differ from broker to
hare investing.Some brokers charge additional fees for fractional shares.Some brokers may offer fractional share tra
in one or more large orders–which could affect share price, depending on how much the stock price fluctuated throu
e only buying a fraction of a share, you will also only get a fraction of the dividend, if the stock receives one. For exan
100 per share, you don’t need to have $100 to buy a full share, you can instead invest $25 and own one-fourth of a s
per share, you would likewise get one-fourth of the dividend, or $0.10. One online brokerage to offer fractional share
slice.” When buying a Schwab stock slice, investors have the choice to buy slices of 30 stocks in companies on the S&
d independently. One way to think of it is like investing in a mutual fund, but you have the flexibility to trade the indi

Are Fractional Shares a Good Idea?

Buying fractional shares can be beneficial in several ways: affordability, diversification, and dollar cost averaging.Affo
r thousands of dollars in order to buy enough shares of a stock. You can start investing with many online brokerages
ower dollar amounts and being able to diversify used to only be available in mutual funds. However, now that many
anies they want to invest in, and can trade the fractional shares at any time—unlike a mutual fund, which is bought a
t in a fractional share allows investors to choose several stocks rather than putting all of their money into just one co
Dollar cost averaging: Because investing in fractional shares is an option, investors can choose to pick a specific dolla
a regular basis, investors can take advantage of price fluctuations in the market while also hedging against risk.

Can You Buy Fractional Shares Through Fidelity?

Yes, you can buy fractional shares through Fidelity. With a minimum account balance of $0, and fractional share inve
ount and start investing in fractional shares. In fact, Investopedia ranks Fidelity as the Best Online Broker for ETFs, so
you, this company may be a great option. In all, Fidelity offers over 7,000 US stocks and ETFs in which investors can b

Do Fractional Shares Make You Money?

Investing in such small dollar amounts may not seem like a way to make money. If you treat this like contributing to
investments will add up over time and create a very nice savings account. While one individual purchase is only buyi
over months or years will allow those fractional shares to keep building, potentially into several full shares of severa

Can You Buy Exchange-Traded Funds (ETFs) as Fractional Shares?

Yes, some companies will offer ETFs as fractional shares. Because each brokerage has different fractional share offer
with offers ETFs as fractional shares and what other stocks are on its fractional share list.

Are Fractional Shares Harder to Sell?
The answer to this will depend upon how your brokerage handles the selling of fractional shares. Some brokerage fi
er from broker to broker, so it is something to consider when choosing which firm you want to invest with. Liquidity
vert to cash. Even though you can buy fractional shares, you may not be able to sell fractional portions as easily as w

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Issued Share Capital vs. Subscribed Share Capital: An Overview
Share capital refers to the amount of funding a company raises through the sale of stock to public investors. This m
the company in exchange for monetary investment. Share capital constitutes the main source of equity financing an

Common stock is what most people think of when they talk about the stock market. Common, or ordinary, sharehol
lthough companies at times pay dividends on common shares, they are not required to pay them.

Key Takeaways
Share capital is the total of all funds raised by a company through the sale of equity to investors.Issued share capital
share capital is the value of shares investors have promised to buy when they are released.Subscribed shared capit
Preferred shares, also called preference shares, do not entail the same kinds of ownership rights as common shares
that must be paid before any dividends can be distributed to common shareholders. In short, though preferred shar
ssets.2

Although share capital refers to a dollar amount, it is dictated by the number and selling price of a company's share
are, it generates $25,000 in share capital.

Share capital is only generated by the initial sale of shares by the company to investors. If the investor goes on to tra
le does not contribute to the issuing company's share capital.

Issued Share Capital
Issued shares are the shares sold to and held by company investors. These investors can include large institutions o
rchases of shares may only be partially paid for and will be accounted as called-up share capital. The amount already
id, the amount is recorded as paid-in share capital.

Issued share capital is simply the monetary value of the shares of stock a company actually offers for sale to investo
mount of subscribed share capital, though neither amount can exceed the authorized amount.

When a company prepares to "go public" by issuing stock for the first time, investors can submit an application expre
Subscribed Share Capital

Subscribed shares are shares that investors have promised to buy. These shares are usually subscribed as part of a

Underwriters often promise to deliver a certain number of subscribed shares prior to the IPO. The subscribers are u
capital refers to the monetary value of all the shares for which investors have expressed an interest.

Special Considerations
Share capital can fall into one of several other categories, depending on where the company is in the equity-raising

Authorized Share Capital
The maximum amount of share capital a company is allowed to raise is called its authorized capital. Though this doe
a ceiling on the total amount of money that can be raised by the sale of those shares.

Called-Up vs. Paid-Up Share Capital
Depending on the business and applicable regulations, companies may issue stock to investors with the understand
issued but not fully paid for are called-up share capital. Any funds remitted for shares are considered as paid-up cap

Other types of capital, such as debt financing or mezzanine financing, are not considered share capital. Debt capital
oans, and credit card balances. While mezzanine financing, like share capital, is included under the equity section of

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What Is CANSLIM?
CANSLIM is a system for selecting growth stocks by using a combination of fundamental and technical analysis tech
J. O'Neil.

The acronym is sometimes written as CAN SLIM.

Key Takeaways
CANSLIM, created by Investor's Business Daily William J. O'Neil, is a system for selecting growth stocks using a combi
is a bullish strategy for fast markets, with the goal being to get into high-growth stocks before the institutional funds
d as much of the value is being priced in for future growth, meaning any slowing in the growth trajectory, or the mar
Understanding CANSLIM
CANSLIM, or CAN SLIM, identifies a process that investors can use to identify stocks that are poised to grow faster th
to look for when purchasing shares.

Stocks that are CANSLIM candidates show the following attributes:1

C: Current quarterly earnings per share (EPS) have increased sharply from the same quarter in the prior year. Genera
higher the better.
A: Annual earnings increases over the last five years. Again, annual EPS growth should ideally be in excess of 20% ov
N: New products, management, or positive new events that push the company's stock to new highs. This type of hea
imism within the market and subsequent price appreciation.

S: Scarce supply coupled with a strong appetite for a stock creates excess demand and an environment in which sha
ock reduces market supply and can indicate an expectation of increased demand along with insider confidence in th
L: Laggard stocks are preferred within the same industry. Use the relative strength index (RSI) as a guide. The RSI is a
ges to determine whether the price of a stock or asset is overbought or oversold. The RSI ranges from zero to 100. A
uld be undervalued—creating a buying opportunity (bullish). An RSI reading of above 70 signifies that a stock could b
h).

I: Pick stocks that have institutional sponsorship by a few institutions with recent above-average performance. For ex
by a small handful of well-known private equity firms. Be cautious of stocks that are over-owned by institutions as y
M - Determine market direction by reviewing market averages daily. A market average measures the overall price lev
ch as the Dow Jones Industrial Average. CANSLIM stocks tend to be over-performers in bull markets.

The L in CANSLIM
The L in the original CANSLIM model created by O'Neil stands for both "Leader" or "Laggard". Some have argued tha
y would be stocks that possess superior fundamentals and are part of a leading industry group or sector.2
Advantages and Disadvantages of CANSLIM
CANSLIM is a bullish strategy for fast markets, so it is not for everyone. The idea is to get into high-growth stocks be

The elements of CANSLIM can be read like a wish list for fund managers seeking growth, so it is a matter of time unt
t the CANSLIM strategy can be among the fastest to drop if the market direction shifts and those big-spending institu

CANSLIM can be a good fit for an experienced investor with high risk tolerance. These stocks cannot be bought and
wth. Any slowing in the growth trajectory, or the market as a whole, may result in the stock being punished.

Investopedia does not provide tax, investment, or financial services and advice. The information is presented withou
financial circumstances of any specific investor and might not be suitable for all investors. Past performance is not i
luding the possible loss of principal.

Correction—Dec. 2, 2022: This article has been edited to reflect that the L in CANSLIM stands for both "Leaders" anc
O'Neil, and not only for "Laggards".

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What Is a Theoretical Ex-Rights Price – TERP?
A theoretical ex-rights price (TERP) is the market price that a stock will theoretically have following a new rights issue
ares to shareholders, usually at a discounted price. Stock prices are affected by new rights issuance because it increa

Key Takeaways
TERP is the theoretical market price of a stock after the completion of a rights offering.New rights issues result in an
e an impact on the price of the underlying stock.Typically, rights offerings give shareholders the chance to buy more
ly, the TERP will be lower than the pre-offering market price immediately following the rights issuing period.
Theoretical Ex-Rights Price Explained
A theoretical ex-rights price is a consideration for stock issued through a rights offering. Typically, rights offerings ar
d for a short time (approximately 30 days). Rights offerings usually give shareholders the option to buy a proportion
rtion each shareholder is allowed to purchase is based on the shareholder's current stake in the organization. The g
nt shareholders.

Stock rights offerings can be a popular event for investors and traders as they may create potential arbitrage oppor
offering period can somewhat mitigate efficient market trading as it creates uncertainty over the stock's price.

Generally, stock rights offerings are tools managers can use in raising capital through the stock. Management may c
st in a company's stock. Since rights offerings are commonly offered at a discounted price, stock rights usually have a
lly lower than the pre-offering market price.

Calculation of a Theoretical Ex-Rights Price

The theoretical ex-rights price is usually calculated immediately following the last day of a stock's rights offering. Thi
nd potentially more enticing for arbitrage trades throughout the rights offering period.

The simplest way to create a TERP estimate is to add the current market value of all shares existing before the rights
This number is then divided by the total number of shares in existence after the rights issue is complete. This calcula
ering.

Throughout the offering period, all types of investors can speculate on the number of shares expected to be taken b
ipate. The basis for speculation in this scenario involves the number of share rights available, the expected demand,
of disclosure for this information which can make the estimate even more difficult.

The theoretical ex-rights price (TERP) is often lower than the stock's price before the offering because rights offering

Investor Analysis

Investors can compare the TERP to the current value of a share and their expectations for future market appreciatio
s exercised, the more the stock's price becomes diluted. However, throughout the rights offering period, supply and
ng, investor demand can still increase the prevailing market price. Investors who are bullish on the stock long term n
m investors may not see as much upside.

Real-World Example

Management of ABC Company has chosen to issue a rights offering. The provisions of the offering allow each share
r outstanding shares. The new shares are offered to investors at a discounted price to the market price. Shareholder
after the rights issue. This amount will differ from the current market price.

It is possible for multiple theoretical estimated values to be calculated for the stock before the end of the offering pe
ook at the TERP value if 25% of the shares are purchased in the rights offering versus 50%, 75%, or 100%. Overall the
the shares are sold at a discounted offering price.

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What Is a Shareholder Register?

A shareholder register is a list of active owners of a company's shares, updated on an ongoing basis. The sharehold
The register includes each person's name, address, and the number of shares owned. In addition, the register can d
s.

The shareholder register is fundamental to the examination of the ownership of a company. Shareholder register is
used in the U.S. is shareholder list.

Key Takeaways

A shareholder register is a list of active owners of a company's shares, updated on an ongoing basis.Included in the r
some registers detail the last decade of shareholder transactions.The shareholder list is used for several purposes, i
ts.

How a Shareholder Register Works

A shareholder register must note all shares issued by a company. In addition, it should detail any possible restrictio
vailable. For each share class, the register must also list shareholders by name, in alphabetical order, and each party

Some shareholder registers go as far as to detail all issues of shares to each individual shareholder in the last 10 yea
This can also include the name of the party to whom shares have been transferred.

The shareholder register should include the purchase prices of these shares, too. If shares are not fully paid for, the

Special Considerations

Additional critical components of company record keeping include a current and projected capital structure. This do
y's present operations and future goals for growth.

Sources of funds can come from issuing equity (new shares of which would be noted in real-time in the shareholder
red stock, while debt can be short-term or long-term in nature.

Requirements for a Shareholder Register

A shareholder register is a clear record of beneficial owners of shares—shareholders who are entitled to and may e
ticular rights and powers, and receive dividends.

Access is free for current shareholders and may require a small fee for non-shareholders. This will allow communica
ce per share in a takeover bid.

Per the rules outlined by the Securities and Exchange Commission (SEC), a company must provide shareholders with
is proxy solicitations and the second is in a tender offer. A proxy solicitation contains information to be sent to voting
ion might include information about the company and the items on the agenda that need a shareholder vote. A tend
es in a corporation.

The company can either mail the list to the requesting party or send the materials directly to shareholders. Meanwh
state laws or a company's by-laws and charter.

What Is a Bearer Share?

A bearer share is equity security wholly owned by the person or entity that holds the physical stock certificate, thus
he owner of the stock nor tracks transfers of ownership; the company disperses dividends to bearer shares when a
egistered to any authority, transferring the ownership of the stock involves only delivering the physical document.

Key Takeaways

Bearer shares are unregistered equity securities owned by the possessor of the physical share documents. The issui
le bearer shares were often used internationally in Europe, South America, and other regions, many large corporatio
ares.The use of bearer shares has dwindled worldwide because they incur increased costs and are convenient instru

How a Bearer Share Works

Bearer shares lack the regulation and control of common shares because ownership is never recorded. Bearer shar
onging to the holders of physical certificates rather than registered owners.

Bearer shares are often international securities, common in Europe and South America — although the use of beare
nonymity-related illegal activity. While some jurisdictions, such as Panama, allow the use of bearer shares, they impo
iscourage their use. The Marshall Islands is the only country in the world where the shares can be used without prob

Many large foreign corporations over the past decade or so have also chosen to transition to full usage of registered
le, started to convert all its bearer shares to registered shares in 2009,1 and in 2015, the United Kingdom abolished t
l Business, Enterprise and Employment Act 2015.2

Switzerland, a jurisdiction known for its emphasis on secrecy in banking transactions, has abolished bearer shares. I
d a new Federal Act declaring the end of bearer shares, with the exception of publicly-listed companies and intermed
ted into registered shares.3

In the United States, bearer shares are mostly an issue of state governance, and they are not traditionally endorsed
t state in the U.S. to ban the sale of bearer shares in 2002.4

Bearer shares appeal to some investors because of privacy, but the tradeoff is the increased costs associated with m

Benefits of Using Bearer Shares

The only tangible benefit to be gained from using bearer shares is privacy. The highest degree of anonymity possibl
older of bearer shares. Although the banks that handle the purchases know the contact information of the people p
l obligation to disclose the identity of the purchaser. Banks may also receive dividend payments on behalf of the sha
eral meetings. Moreover, purchases can be made by a representative, such as a law firm, of the actual owner.

Bearer shares have some valid uses, despite their inherent detriments. Asset protection is the most common reaso
ple, individuals who do not want to risk their assets being seized as part of a legal proceeding such as a divorce or a

Disadvantages and Risks of Bearer Shares

The ownership of bearer shares often coincides with an increased cost incurred from hiring professional representa
vide. Unless the bearer shareholder is a financial and/or legal expert in these matters, avoiding the many legal and t
enge.

Also, in a post-9/11 world in which the threat of terrorism looms heavily, part of the strategy to counter the threat is
in a worldwide effort to deter terrorism funding, money laundering, and other illicit nefarious corporate activity, ma
tight restrictions on the use of bearer shares or, has altogether abolished their use.

Bearer Shares Example
For example, the Panama Papers scandal extensively used bearer shares to conceal the true ownership of shares. T
a network of more than 200,000 tax havens involving high net worth individuals, public officials, and entities from 20
nancial institutions to open accounts or have any associations with corporations or shareholders that deal with bear
willing to deal with bearer shares has narrowed significantly.

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What Is a Tracking Stock?
A tracking stock is a special equity offering issued by a parent company that tracks the financial performance of a pa
e open market separately from the parent company's stock.

Tracking stocks allow larger companies to isolate the financial performance of a higher growth segment. In turn, tra
ecific aspect of a larger company's business (e.g., the mobile division within a large telecom provider).

Key Takeaways
A tracking stock is a specialized equity security issued by a parent company to "track" a certain segment or division c
open market independent of the parent stock.The tracking stock's performance will largely be tied to the success of
tracking shares in order to raise capital and to give investors the opportunity to gain exposure to one specific divisio
typically don't include shareholder voting rights.
Understanding Tracking Stocks
When a parent company issues a tracking stock, all revenue and expenses of the applicable division are separated f
rmance of the tracking stock is tied to the financials of the division or segment it follows, not the parent company.

If the division does well financially, the tracking stock will likely appreciate even if the parent company is performing
e tracking stock will likely fall even if the parent company is doing well.

Large companies might issue tracking stocks in order to separate a segment that doesn't quite fit with the core busi
mall software development division.

Companies also issue tracking stocks to isolate a high-growth division from the larger slower-growth parent. Howev
division's operations.

Tracking stocks are registered similarly to common stocks per the regulations enforced by the U.S. Securities and Ex
lly the same as they are for any new common shares. Companies include a separate section for the tracking stock ar
rts.

Tracking stocks were more frequently used in the late 1990s technology boom than they are now, although some co
Tracking Stocks Benefits and Risks for Investors
Tracking stocks allow investors the opportunity to invest in a particular portion of a much larger business. The appre
imited due to them having multiple divisions across various business lines. Tracking stocks can give investors access

Tracking stocks also allow investors to participate in the business segments that best fit their own risk tolerance. Th
n buying a tracking stock when the parent company is struggling or not well established.

The parent company and its shareholders do not give up control of the tracking segment's operations. Investors of t
the event of corporate bankruptcy at the parent company, creditors would have a claim on the tracking segment's as

Tracking Stocks Benefits and Risks for Companies
Companies raise money through the issuance of tracking stocks. The proceeds can then be used to pay down debt,
n.

Companies can gauge investor interest in specific segments of the business through the associated activity of each t
se to use tracking stocks to separate its wireless segment and its landline services. Investor interest in each division c
king stocks.

Tracking stocks also eliminate the need for management to create a separate business or legal entity for the tracked
ment would require its own board of directors and management team.

On the flip side, companies that issue tracking stocks might be parsing out the best parts of their company. If the pa
t associated with the tracking stock won't be able to help offset that poor performance.

Pros

Tracking stocks give investors access to the more promising divisions of a company.
The performance of tracking stocks comes only from the tracked segment—not from the parent company as a whol
New issuance of tracking stocks provides companies with capital to pay down debt and fund growth.

Cons

Investors can lose money on tracking stocks if the division performs poorly even if the parent company does well.
Tracking stocks typically come with limited or no voting rights.
If the parent company goes into bankruptcy, creditors may have a claim on the tracking segment's assets (even if it is

Example of a Tracking Stock
In 1999, the Walt Disney Company issued a tracking stock for its internet holdings division, Go.com. Go.com's websi
aily Blast. The tracking stock traded under the ticker symbol "GO."1

In January 2001, just as the tech bubble was popping, Disney was forced to close Go.com, lay off hundreds of emplo

2.1 – What is the stock market?
In the previous chapter, we established that investing in equities is vital to generate inflation-beating returns. Having
 we dwell further into this topic, it is essential to understand the market ecosystem and the many different entities ir
Just like the way we go to the neighborhood kirana store or a supermarket to shop for our daily needs, similarly, we
s. The stock market is where all the participants who wish to transact in shares go. Transact means to buy or sell sha
 stock market is to help you facilitate your transactions. So if you want to buy shares of a company, the stock market

Unlike a supermarket, the stock market does not exist in a brick-and-mortar form. It exists in electronic form. You ac
ransactions (buy or sell). It is also important to note that you can access the stock market via a registered intermedia
t a later point.
India has two stock exchanges – the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). There we
u talk about the stock markets in India, you are essentially referring to either NSE or BSE. Older stock exchanges like
 Calcutta Stock Exchange (CSE) have either merged with BSE/NSE or shut shop.
2.2 – Market Participants and the need to regulate them
The stock market attracts individuals and corporations from diverse backgrounds. Anyone who transacts in the stock
be classified into various categories –

Domestic Retail Participants – These are people like you and me transacting in markets
NRI's and OCI – These are people of Indian origin but based outside India
Domestic Institutions – These are corporate entities in India
Domestic Asset Management Companies (AMC) – Mutual fund companies like SBI Mutual Fund, HDFC AMC, Edelweis
Foreign Institutional Investors – Non-Indian corporate entities. These could be foreign asset management companies

Now, irrespective of who participates in the market, the agenda for all is to make profitable transactions. More blunt
When money is involved, human emotions such as greed and fear run high. One can easily fall prey to these emotion
such unethical practices. Given this, the stock markets need someone who can set the game rules (commonly referr
these regulations and compliance, thereby making the markets a level playing field for everyone.
2.3 – The Regulator
In India, the stock market regulator is called The Securities and Exchange Board of India, often referred to as SEBI. SE
t the interest of retail investors, and regulate market participants' and financial intermediaries' activities. In general, S

The stock exchange conducts its business fairly
Stockbrokers conduct their business fairly
Participants don't get involved in unfair practices
Corporates don't use the markets to benefit themselves (Satyam Computers) unduly
Small investors' interests are protected
Large investors with mega cash piles should not manipulate the markets
Overall development of markets

Given the above objectives, it becomes imperative for SEBI to regulate all the entities which are involved in the mark
he stock markets. Malpractice by any of the following entities can disrupt what is otherwise a harmonious market in
SEBI has prescribed a set of rules and regulations for each entity. The entity should operate within the legal framewo
ecific entity are made available by SEBI on its website. They are published under the 'Legal Framework' section of the

Entity
Example of companies
What do they do?

In simpler words

Credit Rating Agency (CRA)
CRISIL, ICRA, CARE
They rate the creditworthiness of corporate and governments
If a corporate (or Govt) entity wants to avail loan (debt financing), CRAs check for creditworthiness and assign a ratin
oan or not.

Debenture Trustees
Almost all banks in India
Act as a trustee to corporate debenture
When companies want to raise a loan, they can issue debentures against which they promise to pay interest. The pu
that the
debenture obligation is honored

Depositories
NSDL and CDSL
Safekeeping, reporting, and settlement of clients' securities
They act like a digital vault for your shares. The depositories hold your shares and facilitate the exchange of your sec
tary account, usually referred to as the DEMAT account.

Depository Participant (DP)
Most of the banks and few stockbrokers
Act as an agent to the depositories
You cannot directly interact with NSDL or CDSL. You must liaise with a DP to open and maintain your DEMAT accoun

Foreign Institutional Investors (FII)
Foreign corporate, funds and individuals
Make investments in India
These are foreign entities with interest in investing in India. They usually transact large amounts of money, and henc
t sentiment.

Merchant Bankers
Karvy, Axis Bank, Edelweiss Capital
Help companies raise money in the primary markets
If a company plans to raise money by floating an IPO, then merchant bankers are the ones who help companies with

Asset Management Companies
(AMC)
HDFC AMC, Reliance Capital, SBI Capital
Offer Mutual Fund Schemes
An AMC collects money from the public, puts that money in a single account, and then invests that money in market

Portfolio Managers/
Portfolio Management System
(PMS)
Capitalmind Wealth PMS, Motilal PMS, Parag Parikh PMS
Offer PMS schemes
They work similarly to a mutual fund except in a PMS; you have to invest a minimum of Rs.50,00,000; however, there

Stock Brokers

Zerodha, Sharekhan, ICICI Direct
Act as an intermediary between an investor and the stock exchange
Stock brokers act as a gateway to the stock markets, giving electronic access to stock markets to facilitate transactio

We will elaborate on some of these market intermediaries in the next chapter.

Key takeaways from this chapter

The stock market is the place to transact in equities.
Stock markets exist electronically and can be accessed through a stockbroker.
There are many different market participants operating in the stock markets.
Every entity operating in the market has to be regulated and can operate only within the framework prescribed by t
SEBI is the regulator of the securities market in India. They set the legal framework and regulate all entities intereste
Most importantly, you need to remember that SEBI is aware of what you are doing, and they can flag you down if yo

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What Is the Adjusted Closing Price?
The adjusted closing price amends a stock's closing price to reflect that stock's value after accounting for any corpo
ns or doing a detailed analysis of past performance.

Key Takeaways
The adjusted closing price amends a stock's closing price to reflect that stock's value after accounting for any corpor
the cash value of the last transacted price before the market closes.The adjusted closing price factors in corporate a
he adjusted closing price can obscure the impact of key nominal prices and stock splits on prices in the short term.
Understanding the Adjusted Closing Price
Stock values are stated in terms of the closing price and the adjusted closing price. The closing price is the raw price
before the market closes. The adjusted closing price factors in anything that might affect the stock price after the m

A stock's price is typically affected by the supply and demand of market participants. However, some corporate acti
t a stock's price. Adjustments allow investors to obtain an accurate record of the stock's performance. Investors shou
k's adjusted closing price. It is especially useful when examining historical returns because it gives analysts an accur

Types of Adjustments
Adjusting Prices for Stock Splits
A stock split is a corporate action intended to make the firm’s shares more affordable for average investors. A stock
but it does affect the company's stock price.

For example, a company's board of directors may decide to split the company's stock 3-for-1. Therefore, the compa
share price is divided by three. Suppose a stock closed at $300 the day before its stock split. In this case, the closing
maintain a consistent standard of comparison. Similarly, all other previous closing prices for that company would be

Adjusting for Dividends
Common distributions that affect a stock's price include cash dividends and stock dividends. The difference betwee

tled to a predetermined price per share and additional shares, respectively.

For example, assume a company declared a $1 cash dividend and was trading at $51 per share before then. All othe
$1 per share is no longer part of the company's assets. However, the dividends are still part of the investor's returns
ain the adjusted closing prices and a better picture of returns.

Adjusting for Rights Offerings

A stock's adjusted closing price also reflects rights offerings that may occur. A rights offering is an issue of rights give
ers to subscribe to the rights issue in proportion to their shares. That will lower the value of existing shares because
es.

For example, assume a company declares a rights offering, in which existing shareholders are entitled to one additio
g at $50, and existing shareholders can purchase additional shares at a subscription price of $45. After the rights offe
djusting factor and the closing price.

Benefits of the Adjusted Closing Price

The main advantage of adjusted closing prices is that they make it easier to evaluate stock performance. Firstly, the
y would have made by investing in a given asset. Most obviously, a 2-for-1 stock split does not cause investors to lose
dly, graphs of their performance would be hard to interpret without adjusted closing prices.

Secondly, the adjusted closing price allows investors to compare the performance of two or more assets. Aside from
nds tends to understate the profitability of value stocks and dividend growth stocks. Using the adjusted closing price
t classes over the long term. For example, the prices of high-yield bonds tend to fall in the long run. That does not m
ields offset the losses and more, which can be seen by looking at the adjusted closing prices of high-yield bond funds

The adjusted closing price provides the most accurate record of returns for long-term investors looking to design ass

Criticism of the Adjusted Closing Price

The nominal closing price of a stock or other asset can convey useful information. This information is destroyed by c
practice, many speculators place buy and sell orders at certain prices, such as $100. As a result, a sort of tug of war o
f the bulls win, a breakout may occur and send the asset price soaring. Similarly, a win for the bears can lead to a bre
cures these events.

By looking at the actual closing price at the time, investors can get a better idea of what was going on and understan
ds, they will find many examples of tremendous public interest in nominal levels. Perhaps the most famous is the ro
During that period, the Dow Jones Industrial Average (DJIA) repeatedly hit 1,000, only to fall back shortly after that. Th
opped below 1,000 again. This phenomenon is covered up somewhat by adding dividends to obtain the adjusted clo

In general, adjusted closing prices are less useful for more speculative stocks. Jesse Livermore provided an excellent
$300, on Anaconda Copper in the early 20th century. In the early 21st century, similar patterns occurred with Netflix
stock splits, far from being irrelevant, marked the beginnings of real declines in the stock price. While arguably irrati
example of a self-fulfilling prophecy.

File: /Users/avanidhagam/Desktop/aiwir/www.investopedia.com_how-to-invest-in-ai-7504987.txt

Artificial Intelligence (AI), or the use of machines to replicate and replace human intelligence processes across a vari
e amount of attention through its increasing relevance to our everyday lives and economy. As AI’s capabilities contin

capitalize on this very important growth industry.

Similar to past emerging technologies, such as the railroads in the late 1800s or the personal computer in the 1980s
e companies will have wild success, other early adopters will fail.

The computer revolution is a great analogy for AI investing because while computers set the stage for automation o
to the next level through the automation of tasks that previously required human thought and intelligence. This arti
's anticipated growth as the technology starts to move from conceptual ideas to actual use in our economy.

How to Invest In AI

There are many ways to invest in an industry or market sector, and AI appears to be fast becoming an important dis
ese disruptor trends and investing in new companies, but there is tremendous competition building and it is not alw

Sometimes, the innovator takes and holds a market-leading position, but other times an imitator is able to use an in
over time.

Some people will want to invest directly in companies that develop AI, while others may choose to invest in those co
Using the introduction and growth of the personal computer industry as an example, investors could have had succe
de routers and switches. Others invested in software companies that produced the programs used by computers, w
st from the automation that computers offered.

Some of these investments were direct bets in computers and the actual technology, while others were more conse
benefit further from the growth of computer usage; but the point is that there are often winners and losers when n

Finally, with many believing that AI may have a strong economic impact and displace many workers in many industr
focused on worker retraining, that may benefit from these large shifts in the workforce. We will now discuss some in
ment in AI.

Invest in AI Stocks and ETFs

Leading Companies in AI

Tesla (TSLA): Tesla is one of the most visible AI companies, and is easy to understand. The company uses AI to autom
entify other cars, road conditions, traffic signals, and pedestrians. As anyone who has driven knows, this requires co
hanging conditions.
NVIDIA (NVDA): NVIDIA is a leader in AI and has a very strong position in the marketplace through its generative artif
ew content in multiple output forms that include audio, computer code, images, text, simulations, and videos. NVIDI
ent tools to create start-to-finish AI systems. NVIDIA utilizes thousands of graphic processing units (GPUs) to drive a
hare of 88%.
Microsoft (MSFT): Microsoft has invested $13 billion in AI initiatives, including an early $1 billion investment in OpenA
n AI). Microsoft has embedded AI into many of its systems, including its Bing search engine, Microsoft 360, its sales a
o outlined a framework for building AI apps and copilots and expanding its AI plug-in ecosystem.
Taiwan Semiconductor Manufacturing (TSM): Taiwan Semiconductor Manufacturing is the world's largest chip maker
cial intelligence. As AI grows, the need for robust computing chips will grow with it. TSM is a mature company that co
ay represent less risk than other pure plays on AI.
Meta Platforms (META): Meta has made significant investments in AI. It utilizes large language module (LLM) AI to he
nt to see. Meta has also developed its own silicon chip for AI processing applications and created a next-generation
Amazon.com (AMZN): Amazon uses AI in its Alexa system and also offers machine learning (ML) and AI tools to its cu
S), provides an AI infrastructure that allows its customers to analyze data and incorporate AI into their existing syste
AI and ML services to personalize recommendations, improve safety and security, analyze their business, and increa
Apple (APPL): In addition to Siri, which utilizes AI to interact with customers, Apple will continue to make a percentag
mple of this is OpenAI, which just launched its iPhone app for ChatGPT; it will pay Apple 30% of the revenue generat
through Apple's platform, the company can also use its massive cash reserves to make major investments in AI that

Compare Some Top Brokers for Investing in AI Stocks

Platform
Account Minimum
Fees

Merrill Edge
$0
$0.00 per stock trade. Options trades $0 per leg plus $0.65 per contract

E*TRADE
$0
No commission for stock/ETF trades. Options are $0.50-$0.65 per contract, depending on trading volume.

Best AI ETFs

Utilizing professionally managed ETFs or mutual funds that invest in AI companies lets professionals perform the re
t in. This also provides the investor with a portfolio of multiple AI stocks within a single investment. Investing in funds
and also paying attention to the fees charged by the funds to ensure total returns.

iShares Exponential Technologies ETF (XT): XT is a large capitalization fund that selects global stocks trying to disrupt
y stocks, which make up nearly half of the fund. The other half of the fund invests in healthcare and industrial stocks
ized difference in their more mature industries. This fund has an expense ratio of 0.46% and an annual dividend yiel
Defiance Machine Learning & Quantum Computing ETF (QTUM): QTUM has only $112 million under management. Th
lopment in quantum computing systems. Its benchmark is the BlueStar Quantum Computing and Machine Learning
d of 0.45%.
ROBO Global Robotics & Automation Index ETF (ROBO): ROBO invests in companies focused on robotics, automation
s. The fund's expense ratio is 0.95%, and it has an annual dividend yield of 0.17%.

Compare Some Top Brokers for Investing in AI ETFs

Company
Account Minimums
Fees

Fidelity
$0
$0 for stock/ETF trades, $0 plus $0.65/contract for options trade

Interactive Brokers
$0
$0 commissions for equities/ETFs available on IBKR's TWS Light, or low costs scaled by volume for active traders that
.65 per contract for options on TWS Light; that is also the base rate for TWS Pro users, with scaled rates based on vo

Charles Schwab
$0
$0 for stock/ETF trades, $0.65 per contract for options

How to Search for AI Investments

Buying individual AI stocks represents more work for the investor. The first step is to read about the industry to und
to invest in this sector. As outlined earlier, there are pure plays and more conservative plays within the AI universe, a
ant to this market sector. Once the investor has an idea of the overall parts of the AI market they want to invest in, th
mental and technical.

Earnings forecasts: Earnings are a great way to judge the performance of a company, and AI companies with consist
anies will be viewed as growth stocks, so earnings growth will be an important criterion for many investors. Earnings
ply.
Annual reports: Annual reports provide important narrative information about the activities of the company, and the
metrics, such as debt to equity and other accounting ratios used to make financial decisions about stocks.
Relative performance vs. the market: Relative performance is looking at how an individual stock performs relative to
st to look at the relative performance between similar companies.
Growth analysis: This analysis deals with the growth of a company over time, with the investor looking at earnings, m
rength of the company and its prospects.
Analyst projections: Analysis projections and research reports may be particularly helpful for investors new to AI. Thi
company prospects changing much more quickly than with stocks in more mature industries. Therefore, it is helpful
d understanding of the overall AI space, as well as the prospects of individual stocks relative to competitors in the se

FAQs

Can Investors Make Money in AI?

Artificial intelligence use has been growing, and the technology appears poised to break out further and deliver on e
businesses and real-world applications. Like any disruptive technology that requires capital investment, AI offers ple
ologies also involve risk, so investors should determine the best way to gain exposure to this market. Options includ
or investing in ETFs and mutual funds that offer a portfolio of multiple companies in the AI space. Investors may als
increase their revenues as AI becomes more widely adopted across the economy to their portfolios.

How Can You Invest in AI Art?

Art can now be created using artificial intelligence. A user can type or speak of an image they want to create, and an
vided by the user. These AI programs use the user's description in conjunction with images available throughout the
AI-generated artwork has been utilized by people of all ages and backgrounds. Copyright is an issue related to AI-ge
xamples, many artists feel their copyrights are being violated by these programs, putting their livelihoods at risk. The
f artwork utilized by AI art generators, such as Pinterest, Getty Images, Snap Inc., and Shutterstock.

How Can You Invest in AI Startups?
Startup companies are often created in new and promising fields, such as artificial intelligence and machine learning
d by venture capital investors, then taken public to capitalize on their initial investment and to raise more capital as t
s products to a wider customer base. While investing in startup companies is risky, the rewards for investing in a suc
rtup companies include Apple, Amazon, and Microsoft, and its early investors have, obviously, been very well reward

Can You Invest Directly in AI?
Yes, investors can make direct investments in artificial intelligence and machine learning. This can be done by investi
ds that focus their investments in AI stocks. There are widely held, well-known AI stocks, as well as much less known

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1.1 – Why should I invest?
Before we address the above question, let us understand what would happen if one chooses not to invest. Assume y
day-to-day living; this can include expenses like housing, food, transport, shopping, medical, etc. The balance of Rs.2

For the sake of simplicity, let us ignore the tax effect in this discussion.
To drive the point across, let us make a few simple assumptions –

The employer is kind enough to give you a 10% salary hike every year.
The cost of living is likely to go up by 8% yearly.
You are 30 years old and plan to retire at 50, this translates to 20 working years.
You don't intend to work after you retire.
Your expenses are fixed, and you don't foresee any other expenses.
The balance cash of Rs.20,000/- per month is retained as hard cash.

Going by these assumptions, here is what the cash balance will look like in 20 years.

Years
Yearly Income
Yearly Expense
Cash Retained

1
600,000
360,000
240,000

2
6,60,000
3,88,800
2,71,200

3

7,26,000
4,19,904
3,06,096

4
7,98,600
4,53,496
3,45,104

5
8,78,460
4,89,776
3,88,684

6
9,66,306
5,28,958
4,37,348

7
10,62,937
5,71,275
4,91,662

8
11,69,230
6,16,977
5,52,254

9
12,86,153
6,66,335
6,19,818

10
14,14,769
7,19,642
6,95,127

11
15,56,245
7,77,213
7,79,032

12
17,11,870
8,39,390
8,72,480

13

18,83,057
9,06,541
9,76,516

14
20,71,363
9,79,065
10,92,298

15
22,78,499
10,57,390
12,21,109

16
25,06,349
11,41,981
13,64,368

17
27,56,984
12,33,339
15,23,644

18
30,32,682
13,32,006
17,00,676

19
33,35,950
14,38,567
18,97,383

20
36,69,545
15,53,652
21,15,893

Total Income
17,890,693

If one were to analyze these numbers, one would soon realize this is a scary situation. A few things are quite obvious

After 20 years of hard work, you have accumulated Rs.1.7Crs.
Since your expenses are fixed, your lifestyle has not changed over the years, and you probably even suppressed you
After you retire, assuming the expenses will continue to grow at 8%, the retirement corpus of Rs.1.7Crs is good enou
th year onwards, you will be in a tight spot with literally no savings left to back you up.

What would you do after you run out of money in 8 years? How do you fund your life? Is there a way to ensure that y
At this point, you may think that the assumptions are simple and that real life does not work like this. I agree, and I w
ove calculation is that no investments are made, hence the cash retained has a flat or zero growth.
Let's consider another scenario where instead of keeping the cash idle, you choose to invest the cash in an investme
in the first year, you retained Rs.240,000/- which, when invested at 12% per annum for 20 years (19 years assuming y
nd of the 20th year. For those interested in math, here is how that works –
= 240000*(1+12%)^(19)
= 2067063
Dont worry about the math at this point. We will explain that later in this module (and several other modules in Vars

Years
Yearly Income
Yearly Expense
Cash Retained
Retained Cash Invested @12%

1
600,000
360,000
240,000
20,67,063

2
6,60,000
3,88,800
2,71,200
20,85,519

3
7,26,000
4,19,904
3,06,096
21,01,668

4
7,98,600
4,53,496
3,45,104
21,15,621

5
8,78,460
4,89,776
3,88,684
21,27,487

6
9,66,306
5,28,958

4,37,348
21,37,368

7
10,62,937
5,71,275
4,91,662
21,45,363

8
11,69,230
6,16,977
5,52,254
21,51,566

9
12,86,153
6,66,335
6,19,818
21,56,069

10
14,14,769
7,19,642
6,95,127
21,58,959

11
15,56,245
7,77,213
7,79,032
21,60,318

12
17,11,870
8,39,390
8,72,480
21,60,228

13
18,83,057
9,06,541
9,76,516
21,58,765

14
20,71,363
9,79,065
10,92,298
21,56,003

15
22,78,499
10,57,390
12,21,109
21,52,012

16
25,06,349
11,41,981
13,64,368
21,46,859

17
27,56,984
12,33,339
15,23,644
21,40,611

18
30,32,682
13,32,006
17,00,676
21,33,328

19
33,35,950
14,38,567
18,97,383
21,25,069

20
36,69,545
15,53,652
21,15,893
21,15,893

Total cash after 20 years
4,26,95,771

Your cash balance has increased significantly with the decision to invest surplus cash. The cash balance has grown t
(when you choose not to invest). Clearly, with the decision to invest, you are in a much better situation to deal with y
Now, going back to the initial question of why invest? There are a few compelling reasons –

Fight Inflation – By investing, one can deal better with the inevitable reality of life – the growing cost of living – gener
Create Wealth – By investing, one can build a bigger corpus by the end of the target period. In the above example, th
's education, marriage, house purchase, retirement holidays, etc
Better life – To meet life's financial aspirations.

1.2 – Where to invest?
Having figured out the reasons to invest, the next obvious question is – where would one invest, and what return car
asset class that suits the individual's risk and returns profile. For example, one individual will be open to taking a lot c
ake moderate risk, while another would want zero risk.
Think of an asset class as an investment vehicle defined by its risk and return characteristics. The following are some

Fixed income instruments
Equity
Real estate
Commodities (precious metals)

Fixed Income Instruments
Fixed-income instruments are investment avenues where your principal amount (the money you invest) is perceived
nvest. The bank's fixed deposit scheme is the simplest example of a fixed investment instrument. The interest paid c
d to the investor at the end of the investment period, also known as the maturity period.
A few examples for fixed-income instruments are –

Bank's Fixed deposits
Bonds issued by the Government of India (also called G Sec bonds and T Bills)
Bonds issued by Government related agencies such as GAIL, HUDCO, NHAI, etc
Bonds issued by corporate's (Tata, Bajaj, Reliance, Adani)

As of October 2022, the typical return from a fixed-income instrument (bank's FD) varies between 5 – 6%. Governme
or 10%. The rates across different instruments vary because of the risk varies. The Govt bonds are considered the sa
, the govt can't cheat and run away with your money. Corporate bonds are risky, though; investment in corporate bo
past.
Equity
Investment in Equities involves buying shares of publicly listed companies. The shares are traded on the Bombay Sto
When an investor invests in equity, unlike a fixed-income instrument, there is no capital guarantee. However, as a tra
Indian Equities have generated upwards of 12% CAGR (compound annual growth rate) over the past 10 to 15 years.
Investing in some of the best and most well-run Indian companies has yielded over 20% CAGR in the long term. Iden
patience.

Real Estate
Real Estate Investment involves transacting (buying and selling) commercial and non-commercial land. Typical exam
buildings. There are two income sources from real estate investments: Rental income and Capital appreciation of th
%, which is not so attractive, in my opinion. The appreciation in land prices is in select pockets and is not uniform.
The transaction procedure can be quite complex involving legal verification of documents. The cash outlay in real est
ic to measure the returns generated by real estate. Hence it would be hard to comment on this.

Commodity – Bullion
Gold and silver are considered one of the most popular investment options. Gold and silver, over the long term, hav
turn of approximately 5-8% over the last 20 years. There are several ways to invest in gold and silver. One can invest
ds, popularly called as SGBs.
Going back to our initial example of investing the surplus cash, it would be interesting to see how much one would h
y one – fixed income, equity, or bullion.

By investing in fixed income at an average rate of 9% per annum (good corporate bond), the corpus would have grov
Investing in equities at an average rate of 15% per annum, the corpus would have grown to Rs.5.4Crs.
Investing in bullion at an average rate of 8% per annum, the corpus would have grown to Rs.3.09Crs.

Equities tend to give you the best returns, especially when you have a multi-year investment perspective.
Many of you reading this may wonder why I've not considered Cryptocurrencies as an asset class. When you invest y
nd regulatory frameworks to protect you as an investor. Crypto, lacks all these; hence I'd suggest you stay away from
egulatory framework.

It is best if your investments have a mix of all asset classes. It is wise to diversify your investment among the various
et classes is termed 'Asset Allocation', and we will discuss asset allocation later in Varsity.
For instance, a young professional may take a higher risk given the age and years of investment available. Typically in
t in equity, 20% in precious metals, and 20% in fixed-income investments. The percentage mix changes based on risk
fixed income (Govt bonds maybe), 10% in equity markets, and 10% in precious metals.
1.3 – Things to note before investing
Investing is an integral part of financial planning, but before you start your investment journey, it is good to be aware

Risk and Return go hand in hand. Higher the risk, the higher the return. The lower the risk, the lower the return.
Investment in fixed income is a good option if you want to protect your principal amount. It is relatively less risky. Ho
inflation return. Example – A fixed deposit that gives you 9% when the inflation is 10% means you lose a net of 1% p
orporate fixed-income instrument.
Investment in Equities is a great option. It is known to beat inflation over a long period. Historically equity investmen
estments can be risky.
Real Estate investment requires a significant outlay of cash and cannot be done with smaller amounts. Liquidity is an
whenever you want.
Gold and silver are relatively safer, but the historical return on such investment has not been very encouraging.

You can download the excel sheet used in the chapter to generate the two tables.

Key takeaways from this chapter

One has to invest, to secure his or her's financial future.
The corpus you build at the end of the investment period is sensitive to the return percentage. A slight variation in th
Choose an instrument that best suits your risk and return appetite.
Equity should be a part of your investment if you want to beat inflation in the long run.
A good investment practice is to build a portfolio that mixes all asset classes.

File: /Users/avanidhagam/Desktop/aiwir/www.investopedia.com_terms_m_midcapstock.asp.txt

What Is Mid-Cap?
Mid-cap (or mid-capitalization) is the term that is used to designate companies with a market cap (capitalization)—or market value—between $2 and $10 billion. As the name implies, a mid-cap company falls in the middle between large-cap (or big-cap) and small-cap companies. Classifications, such as large-cap, mid-cap, and small-cap are approximations of a company's current value; as such, they may change over time.

Key Takeaways

Mid-cap is the term given to companies with a market cap (capitalization)—or market value—between $2 billion and $10 billion.
For companies, some of the appealing features of mid-cap companies are that they are expected to grow and increase profits, market share. and productivity; they are in the middle of their growth curve.
Mid-cap stocks are useful in portfolio diversification because they provide a balance of growth and stability.

Understanding Mid-Cap
There are two main ways a company can raise capital when it's needed: through debt or equity. Debt must be paid back but can generally be borrowed at a lower rate than equity (due to tax

advantages). Equity may cost more, but it does not need to be paid back in times of crisis. As a result, companies strive to strike a balance between debt and equity. This balance is referred to as a firm's capital structure. Capital structure, especially equity capital structure, can tell investors a lot about the growth prospects for a company.

One way to gain insight about a company's capital structure and market depth is by calculating its market capitalization. Companies with low market capitalization, also referred to as small-caps, have $2 billion or less in market capitalization. Large-capitalization firms have over $10 billion in market capitalization, and mid-cap firms fall somewhere in between these two categories (ranging from $2 billion to $10 billion in market capitalization). Additional categories such as mega-cap (over $200 billion), micro-cap ($50 million to $500 million) and nano-cap (less than $50 million) have been added to the spectrum of market capitalization for the sake of clarity.

For investors, a mid-cap company may be appealing because they are expected to grow and increase in profits, market share, and productivity; they are in the middle of their growth curve. Since they are still considered to be in a growth stage, they are deemed to be less risky than small-caps, but more risky than large-caps. Successful mid-cap companies run the risk of seeing their market capitalization rise, mainly due to an increase in their share prices, to the point where they fall out of the 'mid-cap' category.

While a company's market cap depends on market price, a company with a stock priced above $10 is not necessarily a mid-cap stock. To calculate market capitalization, analysts multiply the current market price by the current number of shares outstanding. For example, if company A has 10 billion shares outstanding at a price of $1, it has a market capitalization of $10 billion. If company B has one billion shares outstanding at a price of $5, company B has a market capitalization of $5 billion. Even though company A has a lower stock price, it has a higher market capitalization than

company B. Company B may have the higher stock price, but it has one-tenth of the shares outstanding.

Advantages of Mid-Caps

Most financial advisors suggest that the key to minimizing risk is a well-diversified portfolio; investors should have a mix of small-, mid- and large-cap stocks. However, some investors see mid-cap stocks as a way to diversify risk, as well. Small-cap stocks offer the most growth potential, but that growth comes with the most risk. Large-cap stocks offer the most stability, but they offer lower growth prospects. Mid-cap stocks represent a hybrid of the two, providing a balance of growth and stability.

No one can accurately predict when the market will favor a specific kind of company, whether it’s a large-, mid- or small-cap. So it’s important to diversify your portfolio, as we mentioned above. But the percentage of mid-caps that you’ll want to invest in depends on your specific goals and risk tolerance.

However, there are many advantages to mid-cap companies that investors may want to consider. When interest rates are low and capital is cheap, corporate growth is generally stable. Mid-cap companies typically can get the credit they need in order to grow, and they do well during the expansion part of the business cycle.

Mid-caps are not as risky as small-cap companies, which means they tend to do relatively well financially during times of economic turbulence. In addition, many mid-caps are well known, are often focused on one specific business, and have been around long enough to make a niche in their target market. And finally, because they are riskier than large caps, they may have a higher return, which could be more appealing to a less risk averse investor's bottom line.

Investor's can either buy a mid-cap company's stock directly or buy a mid-cap mutual fund—an investment vehicle that focuses on mid-cap companies.

7.1 – Overview

If I were to ask you to give me a real-time summary of the traffic situation in your city, how would you possibly do it?

Your city may have thousands of roads and junctions; it is unlikely you would check every road in the city to find the answer. The wiser thing for you to do would be to quickly check a few important roads and junctions across the city's four directions and observe how the traffic is moving. If you observe chaotic conditions across these roads, you can conclude the traffic situation is chaotic; else, traffic can be considered normal.

The few important roads and junctions you tracked to summarize the traffic situation served as a barometer for the entire city's traffic situation!

Drawing parallels, if I were to ask you how the stock market is moving today, how would you answer my question? There are approximately 5,000 listed companies on the Bombay Stock Exchange and about 2, 000 on the National Stock Exchange. It would be clumsy to check every company, figure out if they are up or down for the day, and then give a detailed answer.

Instead, you would check a few important companies across key industrial sectors. If a majority of these companies are moving up, you would say markets are up; if the majority are down, you would say markets are down; and if there is a mixed trend, you would say markets are sideways or flat for the day.

So essentially, identify a few companies to represent the broader markets. Whenever someone asks you how the markets are doing, you check the general trend of these selected stocks and then answer. These companies that you have identified collectively make up the stock market index!

7.2 – The Index

Luckily you need not track these selected companies individually to get a sense of how the markets are doing. The important companies are pre-packaged and continuously monitored to give you this information. This pre-packaged market sentiment indicator is called the 'Stock market Index.'

There are a few important indices in India. The S&P BSE Sensex represents the Bombay stock exchange, and the Nifty 50 represents the National Stock exchange. Apart from these two, there is the Nifty Bank Index (Bank Nifty), which is quite popular. Bank Nifty represents the banking sector as a whole.

S&P stands for Standard and Poor's, a global credit rating agency. S&P has the technical expertise in constructing the index they have licensed to the BSE. Hence the index also carries the S&P tag. NSE itself maintains the indices via a related company called NSE Indices Limited.

Nifty 50 consists of the most frequently traded stocks on the National Stock Exchange; we will soon discuss the methodology basis on which these indices are constructed. An ideal index gives us an updated, accurate representation of the market sentiment. The movements in the Index reflect the changing expectations of the market participants. When the index goes up, it is because the market participants think the future will be better. The index drops if the market participants perceive the future pessimistically.

7.3 – Practical uses of the Index

Some of the practical uses of Index are discussed below.

Information – The index reflects the overall sentiment and trend in the market. The index broadly represents the country's state of the economy. A stock market index that is up indicates people are optimistic about the future. Likewise, people are pessimistic about the future when the stock market index is down.

For example, the Nifty 50 value as of 21st November 2022 is 18150, but around six months ago, the Nifty 50 was at 15820. The index has moved 2300 points or about 14.75% higher in six months,

indicating bullishness in the market. In other words, market participants have been optimistic about the Indian economic future.
The time frame for calculating the index can be for anything. For example, the Index at 9:30 AM on 21st November was 18140, but an hour later, it moved to 18099. A drop of nearly 40 within an hour. Such movement indicates that the market participants are not enthusiastic from a short-term perspective.
Benchmarking – A yardstick to measure the performance is required for all the trading or investing activity people do. Assume over the last year, you invested Rs.100,000/- and generated Rs.20,000 return to make your total corpus Rs.120,000/-. How do you think you performed? Well, on the face of

it, a 20% return looks great. However, what if Nifty moved to 30% during the same year?
Well, suddenly, it may seem to you that you have underperformed in the market! Usually, the objective of market participants is to outperform the Index. Now, if not for the Index, you can't figure out how you performed in the stock market. It would be best if you had the index to benchmark the performance.
Trading – Trading on the index is probably one of the most popular uses of the index. Majority of the traders in the market trade the index. They take a broader call on the economy or general state of affairs and translate that into a trade. The trader usually takes a short-term call on the index to trade.
For example, imagine this situation. At 10:30 AM, the Finance Minister is expected to deliver the budget speech. An hour before the announcement Nifty index is at 18,150 points. You expect the budget to be favorable to the nation's economy. What do you think will happen to the index? Naturally, the index will move up. So to trade your point of view, you may want to buy the index at 18,150. After all, the index is the representation of the broader economy.
So as per your expectation, the budget is good, and the index moves to 18,450. You can now book your profits and exit the trade at a 300 points profit! Trades such as these are possible through what is known as the 'Derivative' segment of the markets. We are probably a bit early to explore derivatives, but for now, do remember that index trading is possible through the derivative markets.
Portfolio Hedging – Investors usually build a portfolio of stocks. A typical portfolio contains 15 – 20 held for the long term. While the stocks are held from a long-term perspective, they could foresee a prolonged adverse movement in the market (ex-2008), potentially eroding the capital in the portfolio. Investors can use the index to hedge the portfolio in such a situation. We will explore this topic in a futures trading module.

7.4 – Index construction methodology

Knowing how the index is constructed is important, especially if one wants to advance as an index trader. As we discussed, the Index is a composition of many stocks from different sectors representing the economy's state. To include a stock in the index, it should qualify for certain criteria. Once qualified as an index stock, it should continue to qualify on the stated criteria. If it fails to maintain the criteria, the stock gets replaced by another stock that qualifies the prerequisites.
Based on the selection procedure, the list of stocks is populated. Each stock in the index should be assigned a certain weightage. Weightage, in simpler terms, defines how much importance a certain stock in the index gets compared to the others. For example, if ITC Limited has a 3.85% weightage in the Nifty 50 index, it is as good as saying that 3.85% of Nifty's movement can be attributed to ITC. You can check the weights of all index stocks here.
The obvious question is – How do we assign weights to the stock that make up the Index?
There are many ways to assign weights, but the Indian stock exchange follows a free-float market capitalization method. The weights are assigned based on the company's free-float market capitalization. The larger the market capitalization, the higher the weight.
Free float market capitalization is the product of the total number of shares outstanding in the market and the stock price.
For example, company ABC has 100 shares outstanding in the market, and the stock price is at 50, then the free-float market cap of ABC is 100*50 = Rs.5,000.
At the time of writing this chapter, the following are the top 10 index heavyweight-

Sl No	Name of the company	Industry	The weightage (%)
01	Reliance Industries Ltd	Oil & Gas	11.03
02	HDFC Bank Ltd	Bank	8.26
03	ICICI Bank Ltd	Bank	7.94
04	Infosys Ltd	IT	7.06
05	HDFC Ltd	Housing	5.62
06	TCS Ltd	IT	4.1
07	ITC Ltd	FMCG	3.85
08	Kotak Mahindra Bank	Bank	3.51
09	L&T Ltd	Infra	3.07

10
Axis Bank Ltd
Bank
3.0

As you can see, Reliance Industries Ltd has the highest weightage. This means the Nifty index is most sensitive to price changes in Reliance.

7.5 – Sector-specific indices

While the Sensex and Nifty represent the broader markets, certain indices represent specific sectors. These are called sectoral indices. For example, the Bank Nifty on NSE represents the mood specific to the banking industry. The CNX IT on NSE represents the behavior of all the IT stocks in the stock markets. Both BSE and NSE have sector-specific indexes. The construction and maintenance of these indices are similar to the other major indices.

Key takeaways from this chapter

An index acts as a barometer of the whole economy.
An index going up indicates that the market participants are optimistic.
An index going down indicates that the market participants are pessimistic.
There are two main indices in India – The BSE Sensex and NSE's Nifty 50
An index can be used for various purposes – information, benchmarking, trading and hedging.
Index trading is probably the most popular use of the index.
India follows the free-float market capitalization method to construct the index.
There are sector-specific indices that convey the sentiment of specific sectors.

What Are LUPA Stocks?

LUPA stocks are a nickname for four companies that were born in the mobile app generation. Also referred to as the PAUL stocks, they include Lyft, Uber, Pinterest, and Airbnb. All four companies have completed their initial public offerings (IPOs) and are now actively traded on public stock exchanges.

Key Takeaways

LUPA stocks include Lyft, Uber, Pinterest, and Airbnb.These stocks were formed during the rise of the app economy.All four have completed their IPOs.Lyft has the smallest market cap of the four at $4.0 billion, while Airbnb has the largest at $61.2 billion.

Understanding LUPA Stocks

The L in LUPA stands for Lyft, the mobile ride-sharing company that emerged as a competitor to Uber in 2012. U stands for Uber, of course, the ubiquitous ride-sharing company that has expanded into other markets. It was founded in 2009. P stands for Pinterest, the web-based photo bulletin board that is also a social network. A stands for Airbnb, the popular short-term rental and experience platform that has revolutionized the travel and lodging industry.

All of these companies emerged as part of the app economy and were funded by venture capital and private equity money. They have become strong brands with wide adoption and consumer loyalty, but profits were elusive (as with most startups). Still, their scale and popularity have enticed public markets and investors, with all four having completed their IPOs in the last few years.

Lyft

Lyft, the popular ride-sharing app based in San Francisco, was originally founded in 2007 as Bounder Web, Inc. It changed its name to Zimride in 2008 and then to Lyft in 2012. It was founded by entrepreneurs Logan Green and John Zimmer, who are CEO and President of the company.

The company completed its initial public offering (IPO) in March 2019. Its stated mission is "to improve people’s lives with the world’s best transportation."1

Since its IPO, and as of November 23, 2022, shares have fallen nearly 84%. In terms of market cap, Lyft is the smallest of the four with a market value of $4 billion.

Uber

Uber, Lyft's key competitor in the ride-sharing economy, has had a busy decade since it was formed in 2009 as UberCab. The brainchild of entrepreneurs Travis Kalanick and Garrett Camp, the ride-sharing app operates globally and has expanded into other businesses including food delivery, trucking, and scooter rental. Its popularity.

In May 2019, Uber went public. Shares are down over 31% since then, as of late November 2022. Now, the company has faced multiple lawsuits and several cities have sharply restricted or moved to ban the service. In 2017, co-founder Kalanick stepped down amid controversy and was replaced by former Expedia CEO Dara Khosrowshahi.

Pinterest

The popular photo-sharing online pin-up board was the vision of entrepreneurs Ben Silbermann, Paul Sciarra and Evan Sharp, who founded the company in 2010.

The company is headquartered in San Francisco but has offices all over the world. Half of its users are outside of the U.S. Pinterest completed its IPO in April 2019. As of late November 2022, the company's stock is up almost 32% since then.

Airbnb

The popular peer-to-peer short-term lodging rental platform has disrupted the travel industry in ways its founders may not have imagined when it was launched in 2008. The company also has expanded into tourism services and other ventures. The brainchild of entrepreneurs Brian Chesky, Joe Gebbia and Nathan Blecharzyk, Airbnb has faced pushback in some cities, like New York, that has restricted Airbnb's ability to operate, given intense lobbying efforts from the hotel industry, as well as safety and taxation concerns.

Airbnb completed its IPO in December 2020. Shares are up just around 42% since then, as of late November 2022. Airbnb is also the largest company of the four LUPA stocks by market cap—coming in at $61 billion. For context, that's more than the market cap of the largest hotel chain operator in the world—Marriott (MAR).

The Bottom Line

These four companies were some of the biggest unicorns, which are private startup companies with estimated valuations of more than $1 billion.2 These companies have grown into multi-billion dollar companies.

Investors have shown they are willing to reward other technology-based companies that lose money as they did with Amazon (AMZN) and Netflix (NFLX) in their early days. While the LUPA or PAUL stocks have been able to grow their businesses backed by venture capital and private equity investments, and then cash in on the public markets.

What Is the S&P 500 Index?

The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. The index actually has 503 components because three of them have two share classes listed.

It is not an exact list of the top 500 U.S. companies by market cap because there are other criteria that the index includes. Still, the S&P 500 index is regarded as one of the best gauges of prominent American equities' performance, and by extension, that of the stock market overall.

Key Takeaways

The S&P 500 Index features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization.The S&P 500 Index was launched in 1957 by the credit rating agency Standard and Poor's.The S&P is a float-weighted index, meaning the market capitalizations of the companies in the index are adjusted by the number of shares available for public trading.Because of its depth and diversity, the S&P 500 is widely considered one of the best gauges of large U.S. stocks, and even the entire equities market.You can't directly invest in the S&P 500 because it's an index, but you can invest in one of the many funds that use it as a benchmark, tracking its composition and performance.

Investopedia / Julie Bang

Weighting Formula and Calculation of the S&P 500

The S&P 500 uses a market-cap weighting method, giving a higher percentage allocation to companies with the largest market capitalizations.1

Company Weighting in S & P=Company market capTotal of all market caps\text{Company Weighting in S \& P}= \frac{\text{Company market cap}}{\text{Total of all market caps}}Company Weighting in S & P=Total of all market capsCompany market cap

Determining the weighting of each component of the S&P 500 begins with adding up the total market cap for the index by adding together the market cap of every company in the index.
To review, the market cap of a company is calculated by taking the current stock price and multiplying it by the company's outstanding shares. Fortunately, the total market cap for the S&P 500 as well as the market caps of individual companies are published frequently on financial websites, saving investors the need to calculate them.
The weighting of each company in the index is calculated by taking the company's market cap and dividing it by the total market cap of the index.2

Other S&P Indices

The S&P 500 is a part of the S&P Global 1200 family of indices. Other indices included are the S&P MidCap 400, which represents the mid-cap range of companies, and the S&P SmallCap 600, which represents small-cap companies. The S&P 500, S&P MidCap 400, and S&P SmallCap 600 combine to cover 90% of all U.S. capitalization in an index known as the S&P Composite 1500.34

The offers that appear in this table are from partnerships from which Investopedia receives compensation. This compensation may impact how and where listings appear. Investopedia does not include all offers available in the marketplace.

S&P 500 Index Construction

The S&P only uses free-floating shares when calculating market cap, meaning the shares that the public can trade. The S&P adjusts each company's market cap to compensate for new share issues or company mergers. The value of the index is calculated by totaling the adjusted market caps of each company and dividing the result by a divisor. The divisor is proprietary information of the S&P and is not released to the public. The S&P Index (SPX) is not a total return index and does not include cash dividend gains for the companies listed.5

However, you can calculate a company's weighting in the index, which can provide investors with valuable information. If a stock rises or falls, you can get a sense as to whether it might have an impact on the overall index. For example, a company with a 10% weighting will have a greater impact on the value of the index than a company with a 2% weighting.

The S&P 500 is one of the most widely quoted American indexes because it represents the largest publicly traded corporations in the U.S. The S&P 500 focuses on the U.S. market's large-cap sector and is also a float-weighted index (a type of capitalization weighting), meaning company market caps are adjusted by the number of shares available for public trading.1

The S&P 500's most recent rebalancing was announced on Sep. 1, 2023, and took effect before markets opened on Sept. 18, 2023. Blackstone Inc. and Airbnb Inc. replaced Lincoln National Corp. and Newell Brands Inc., respectively.6

S&P 500 Competitors

S&P 500 vs. Dow Jones Industrial Average (DJIA)

Another common U.S. stock market benchmark is the Dow Jones Industrial Average (DJIA). The S&P 500 is often the institutional investor's preferred index given its depth and breadth, while the DJIA has historically been associated with significant equities from the retail investor's point of view. Institutional investors perceive the S&P 500 as more representative of U.S. equity markets because it comprises more stocks across all sectors (500 versus the Dow's 30).

Furthermore, the S&P 500 uses a market-cap weighting method, giving a higher percentage allocation to companies with the largest market caps, while the DJIA is a price-weighted index that gives companies with higher stock prices a higher index weighting. The market-cap-weighted structure tends to be more common than the price-weighted across U.S. indexes.7

S&P 500 vs. Nasdaq

Nasdaq is a global electronic marketplace for trading securities. There are several equity market indexes that include stocks traded on Nasdaq. Note that a given stock included in the S&P 500 Index may also be in one or more of the various Nasdaq indexes.

Among the most-watched Nasdaq stock indices are the:

Nasdaq 100 Index, which includes 100 of the largest, most actively traded common equities listed on Nasdaq.

Nasdaq Composite Index, which the media often simply refers to as the Nasdaq (and which includes more than 2,500 common stocks that trade on Nasdaq).
Nasdaq Global Equity Index (NQGI), which includes international stocks.
PHLX Semiconductor Sector Index (SOX), which is the leading barometer of stocks related to the semiconductor industry.
OMX Stockholm 30 Index (OMXS30), which includes 30 actively traded stocks on the Stockholm Stock Exchange.8

S&P 500 vs. Russell Indexes

The S&P 500 is a member of a set of indexes created by Standard & Poor's. The Standard & Poor's set of indexes is like the Russell index family in that both are market-cap-weighted indexes unless stated otherwise (as in the case of equal-weighted indexes, for example).

However, there are two large differences between the construction of the S&P and Russell families of indexes. First, Standard & Poor's chooses constituent companies via a committee, while Russell indexes use a formula to choose stocks to include. Second, there is no name overlap within S&P style indices (growth versus value), while Russell indexes will include the same company in both the value and growth style indexes.9101112

S&P 500 vs. Vanguard 500 Fund

The Vanguard 500 Index Fund seeks to track the price and yield performance of the S&P 500 Index by investing its total net assets in the stocks comprising the index and holding each component with approximately the same weight as the S&P index. In this way, the fund barely deviates from the S&P, which it is designed to mimic.13

The S&P 500 is an index, so it can't be traded directly. Those who want to invest in the companies that comprise the S&P must invest in a mutual fund or exchange-traded fund (ETF) that tracks the index, such as the Vanguard 500 ETF (VOO).

Limitations of the S&P 500 Index

One of the limitations of the S&P and other market-cap-weighted indexes arises when stocks in the index become overvalued, meaning they rise higher than their fundamentals warrant. If a stock has a heavy weighting in the index while being overvalued, the stock typically inflates the overall value or price of the index.

A company's rising market cap isn't necessarily indicative of a company's fundamentals so much as it reflects the stock's increase in value relative to shares outstanding. As a result, equal-weighted indexes have become increasingly popular whereby each company's stock price movements have an equal impact on the index.1415

Example of the S&P 500 Market Cap Weighting

In order to understand how the underlying stocks affect the S&P index, the individual market weights must be calculated by dividing the market cap of each company by the total market cap of the index. Below is an example of Apple's weighting in the index:

Apple (AAPL) reported 15.7 billion shares outstanding in its quarterly filing for the period ending July 1, 2023, and had a stock price of $173.93 at the end of the trading day on Sept. 21, 2023.1617
Apple's market cap is $2.7 trillion as of Sept. 21, 2023.18
The S&P 500 total market cap is approximately $39.7 trillion as of Aug. 31, 2023, which is the sum of the market caps for all of the stocks in the index.19
Apple's weighting in the index was approximately 6.8%, or $2.7 trillion divided by $39.7 trillion.

Overall, the larger the market weight of a company, the more impact each 1% change in a stock's price will have on the index. Note that S&P does not currently provide the total list of all 503 components on its website, outside of the top 10.

Why Is It Called Standard and Poor's?

The first S&P Index was launched in 1923 as a joint project by the Standard Statistical Bureau and Poor's Publishing. The original index covered 233 companies. The two companies merged in 1941 to become Standard and Poor's.207

Which Companies Qualify for the S&P 500?

In order to be included in the S&P 500 Index, a company must be publicly traded and based in the United States. It also needs to meet certain requirements for liquidity and market capitalization, have a public float of at least 10% of its shares, and have positive earnings over the trailing four quarters.1

How Do You Invest in the S&P 500?

The simplest way to invest in the S&P 500 Index (or any other stock market index) is to buy shares of an index fund that targets that index. These funds invest in a cross-section of the companies represented on the index, meaning that the fund's performance should mirror the performance of the index itself.

The Bottom Line

The S&P 500 Index is one of the most widely used indexes for the U.S. stock market. These 500 companies represent the largest and most liquid companies in the U.S., from technology and software companies to banks and manufacturers. Historically, the index has been used to provide insight into the direction of the stock market. Although the index was created by a private company, the S&P 500 is now a popular yardstick for the performance of the market economy at large.

If you are looking to start investing in the market but don't feel like you have enough money to buy enough shares to fully diversify your portfolio, fractional shares are a great solution. This strategy allows you to invest in stocks based on a specific dollar amount rather than buying a specific number of shares. This allows you to diversify your funds and start investing at a lower threshold. Buying fractional shares on Webull's platform is streamlined and easy. You simply open and fund an account to access fractional shares from an approved list of thousands of stocks and ETFs. We'll take an in-depth look at how to buy fractional shares through Webull and cover the basics to help you decide if fractional share trading is the right fit for your portfolio needs.

How to Buy Fractional Shares on Webull

Buying fractional shares on Webull is a very simple process. To open an account, you have to provide some basic personal information as well as details on your employment, financial status, and what type of securities you want to invest in. Once the application has been filled out, most investors will receive an email with account approval within minutes. Once the account has been approved, you merely need to fund the account and you will be ready to start investing.

Step 1: Open a Webull account. Opening an account with Webull is straightforward. Users can sign up using their phone number and verification code, or sign up using their Facebook or Google profile. You will then have the option to select "open an account." Next you will be asked to verify your identity by uploading a photo of your driver's license or another form of identification. From there, you will enter in your basic personal information, employment information, financial information, and the type of account you want to open. Once all this is filled out, you will enter your email address for verification of account application approval. When you receive the email letting you know your account is approved, you are ready to fund your account and start investing. You can fund the account via an ACH transfer with a linked bank account using the “make your first deposit” button.

It is important to note that you can choose between a cash account and a margin account. With the cash account, you can purchase stocks with whatever funds you deposit. A margin account requires an account balance above $2,000 and unlocks the ability to use leverage beyond your balance to increase your buying power.

Step 2: Log in to your Webull account. Once you have opened a Webull account, you can login and search for the stock or exchange traded fund (ETF) that you’d like to buy fractional shares of. If fractional share trading is available for that particular stock, there will be a green diamond icon on the stock.

Step 3: Click the “Trade” tab. After deciding on the stock that you’d like to buy and determining that it can be traded in fractional shares, you will click the “trade” button at the bottom of your screen. From there, switch the order type to “market,” as fractional share trading at Webull can only take place currently as a market order during market hours.

Step 4: Change setting from “Shares” to “Dollars.” You will then need to change the setting from “share” to “USD” in order to buy fractional shares. Enter the dollar amount that you’d like to invest and review all order information for accuracy.

Step 5: Submit your order. Once you have verified your order information, click the “buy” button at the bottom of the screen to place your order. You will want to carefully review your order before clicking the “buy” button because once an order is placed, Webull does not have the option to modify an open order.

Compare Some Top Online Brokers

Platform
Fractional Share Purchases
Fractional dividend reinvestment
Available Securities

Webull
Yes
Yes
Equities and ETFs ONLY. The list of active symbols is maintained by Webull.

Fidelity
Yes
Yes

More than 7,000 stocks and ETFs

Interactive Brokers
Yes
No
More than 11,000 stocks, ETFs and ADRs

Charles Schwab
Yes
Yes
All S&P 500 Stocks only, No ETFs

Robinhood
Yes
Yes
ETFs and stocks above the volume and size thresholds

What You Need to Open a Webull Brokerage Account

To open your new account at Webull, you will need to provide your basic personal and financial information.

Personal Information

When opening your account online, you will be asked to provide personal and contact information:

NameAddressSocial Security number Date of birthPhone numberEmail addressDriver's license or other valid form o

Financial Information

In addition to providing your personal information, you will be asked to provide your employment and basic financi you will then have the option to fund your account via ACH transfer from your current U.S. bank account or wire tra s).

Unlike a full service brokerage, Webull does not ask you about your financial goals or long-term financial planning. The platform currently offered is transactional in nature only. If you are looking for a low-cost, no-commission platform that is easy to use for placing trades, Webull is a good option. However, if you are looking for a more comprehensive platform–offering account consolidation, goal planning, or research–you may need to look elsewhere.

The Benefits of Trading on Webull

The most obvious benefit of opening an account and trading fractional shares at Webull is the speed of the process. You can literally open an account within minutes and start trading. Webull offers thousands of U.S. stocks and ETFs for fractional share trading. However, you can really only determine which stocks and ETFs are currently on the list by searching in your account dashboard and seeing if the green diamond icon that indicates fractional share availability is by the stock or ETF.

In terms of the quality of the trading platform, Webull offers a decent selection of charting tools and a basic stock screener. Webull may not be as full-featured as larger brokers, but for a streamlined, no-fee brokerage, it is more than adequate for fundamental stock research and basic technical analysis. Webull also offers access to other assets, including options that will appeal to more active traders.

Another differentiating factor is that Webull offers margin trading. Because of the volatility of the market and the fact that trading on margin is actually borrowing money from Webull that you must pay back with interest, this option may be best suited for a more seasoned investor. It is important to remember that when investing using a margin account that you will still have to pay back the original amount borrowed plus interest even if the stocks lose value.

All that said, buying fractional shares with a cash account is quick and easy, and funding your Webull account can be done via either ACH funds transfer or wire transfer.

Investopedia Gives Webull Top Ratings For:

Best Broker for Low-Cost Options Trading
Best Low-Cost Day Trading Platform
Best Low-Cost Options Broker

Factors to Consider When Investing in Fractional Shares

Selection of stocks and ETFs available for fractional share investing: Webull offers thousands of stocks and ETFs for fractional share investing. However, in order to find which stocks or ETFs are approved, you must search the specific stock from your Webull account dashboard and look for the green diamond icon to determine if the stock can be traded in fractional shares or not.

Fees and commissions: Getting started at Webull is simple with $0 commissions for online U.S. stock and ETF trades. There are also no account management fees or inactivity fees to buy and sell fractional shares.

Account minimums: Investors at Webull can buy fractional shares for as low as $5; there is no minimum to open an account.

Research amenities: Once you open an account with Webull, you will have access to limited research amenities from your account dashboard. Investors can go to the “markets” tab and search any stock or ETF to see the current market price and basic information. The “news” tab is another resource that compiles articles from multiple sources across the internet on trending financial topics.

Educational content: The educational content provided by Webull is basic information on how to invest, what investment products the brokerage offers, and how to use the Webull app. Investors can access this library of videos from the “learn” tab.

FAQs

What Are Fractional Shares?

Fractional shares allow investors to buy a fraction, or portion, of a whole share of a stock. Investing in fractional shares helps you to easily diversify your portfolio and invest in companies that you may otherwise not be able to easily buy shares of. For instance, if you want to invest in a company, but the stock price is $100 per share, you don’t need to have $100 to buy a full share. At Webull, you can invest in this company for as little as $5. In this case, your stake in the company will be 0.05 of a full share (5/100). With this strategy, you are investing based on a specific dollar amount that you set, not an individual stock’s price or a certain number of shares. Buying fractional shares provides investors with a lower entry point of accessibility, thereby allowing them to gain market entry sooner into expensive stocks. Moreover, with fractional shares of ETFs, investors can diversify their portfolio at smaller account values than would otherwise be possible.

What Is Webull?

Webull, founded in 2017, is a Chinese-owned company headquartered in New York. Webull is a discount broker that offers limited services and a straightforward, no-frills platform. Offering commission-free trades, no fees, and no account minimum requirements, Webull has positioned itself to serve newer and more active traders. Currently, the company offers standard brokerage accounts, which provide the choice to invest in: StocksETFsOptionsFractional share trading is currently offered on thousands of stocks and ETFs at Webull, but it is only available for the latest version of the mobile app. Keep in mind that only stocks and ETFs from an approved list are available for fractional share trading, so while you may want to invest in options or crypto, that cannot be done fractionally at this time.

Do Fractional Shares Make You Money?

Investing in fractional shares is a good way to dollar-cost average your money into the market. When utilizing this strategy on a regular basis, you will be buying fractions of several stocks over the course of time, which will accumulate into a portfolio that includes full shares of multiple stocks. Buying shares of a stock over time reduces the effect of market timing where you may be paying a premium or getting a discount on a transaction based on market factors. Lowering the total cost paid for an asset can make you money, provided that the asset appreciates over time. Over time, diversified portfolios are more likely than not to appreciate.

Can You Buy Fractional Shares on Charles Schwab?

Webull is not the only option when it comes to fractional share trading. Charles Schwab is an excellent online platform to buy fractional shares of stocks. Investors can choose from any stock listed on the approved list of S&P 500 stocks for an investment as low as $5. Schwab also allows investors to choose up to 30 “slices” each time they place an order, so diversifying your portfolio is quite easy to do. As many options as investors have when buying fractional shares at Charles Schwab, ETFs are one product that is not currently available. Webull offers fractional shares on select ETFs, as do other Schwab competitors like Fidelity.

Are Fractional Shares Harder to Sell?

Not owning a full share of a company can make it more complicated when you want to sell it. Webull offers investors fractional share trading as market orders only. When selling, there is a minimum of 0.00001 shares per order for closing fractional share positions. It is also noted on the website that “the rule of $5 minimum doesn't work for closing fractional share positions.” Fractional shares are not able to be transferred, so any fractional share would need to be sold prior to a transfer taking place.

What Is Floating Stock?

Floating stock is the number of shares available for trading of a particular stock. Low float stocks are those with a low number of shares. Floating stock is calculated by subtracting closely-held shares and restricted stock from a firm’s total outstanding shares.

Closely-held shares are those owned by insiders, major shareholders, and employees. Restricted stock refers to insider shares that cannot be traded because of a temporary restriction, such as the lock-up period after an initial public offering (IPO).

A stock with a small float will generally be more volatile than a stock with a large float. This is because, with fewer shares available, it may be harder to find a buyer or seller. This results in larger spreads and often lower volume.

Key Takeaways
Floating stock refers to the number of shares a company has available to trade in the open market.To calculate a company's floating stock, subtract its restricted stock and closely held shares from its total number of outstanding shares.Floating stock will change over time as new shares may be issued, shares may be bought back, or insiders or major shareholders may buy or sell the stock.Low float stocks tend to have higher spreads and higher volatility than a comparable larger float stock. Investors can find it difficult to enter or exit positions in stocks that have a low float.

Understanding Floating Stock
A company may have a large number of shares outstanding, but limited floating stock. For example, assume a company has 50 million shares outstanding. Of that 50 million shares, large institutions own 35 million shares, management and insiders own 5 million, and the employee stock ownership plan (ESOP) holds 2 million shares. Floating stock is therefore only 8 million shares (50 million shares minus 42 million shares), or 16% of the outstanding shares.

The amount of a company's floating stock may rise or fall over time. This can occur for a variety of reasons. For example, a company may sell additional shares to raise more capital, which then increases the floating stock. If restricted or closely-held shares become available, then the floating stock will also increase.

On the flip side, if a company decides to implement a share buyback, then the number of outstanding shares will decrease. In this case, the floating shares as a percentage of outstanding stock will also go down.

A stock split will increase floating shares, while a reverse stock split decreases float.
Why Floating Stock Is Important
A company's float is an important number for investors because it indicates how many shares are actually available to be bought and sold by the general investing public. Low float is typically an impediment to active trading. This lack of trading activity can make it difficult for investors to enter or exit positions in stocks that have limited float.

Institutional investors will often avoid trading in companies with smaller floats because there are fewer shares to trade, thus leading to limited liquidity and wider bid-ask spreads. Instead, institutional investors (such as mutual funds, pension funds, and insurance companies) that buy large blocks of stock will look to invest in companies with a larger float. If they invest in companies with a big float, their large purchases will not impact the share price as much.

Special Considerations
A company is not responsible for how shares within the float are traded by the public—this is a function of the secondary market. Therefore, shares that are purchased, sold, or even shorted by investors do not affect the float because these actions do not represent a change in the number of shares available for trade. They simply represent a redistribution of shares. Similarly, the creation and trading of options on a stock do not affect the float.

Example of Floating Stock
As of September 2023, General Electric (GE) had 1.088 billion shares outstanding.1 Of this, 0.20% were held by insiders and 75.81% were held by large institutions.2 Therefore, a total of 76% or 830 million shares were likely not available for public trading. The floating stock is therefore about 260 million shares (1.088 billion - 830 million).

It is important to note that institutions don't hold a stock forever. The institutional ownership number will change regularly, although not always by a significant percentage. Falling institutional ownership coupled with a falling share price could signal that institutions are dumping the shares. Increasing institutional ownership shows that institutions are accumulating shares.

Is Floating Stock Good or Bad?

Stock float isn't good or bad, but it can affect an investor's decisions. The amount of floating stock a company has—the shares made available to trade—can affect the liquidity of that stock. Stocks with a smaller float tend to have high volatility, while stocks with a larger float tend to have lower volatility. Some investors may prefer stocks with higher float, because it's easier to enter and exit positions for these stocks.

What Is Stock Flotation?

Stock flotation is when a company issues new shares to the public. It can help the company raise capital. The opposite of stock flotation is a float shrink, such as with stock buybacks: fewer shares are available to trade.

What Is the Difference Between Floating and Non-Floating Shares?

The floating shares are the shares available to trade, while non-floating shares are those held by shareholders and company insiders and are not available for trading.

The Bottom Line

A company's floating stock is the shares it has available to trade on the open market. Traders tend to prefer stocks with larger floats, as they find it easier to enter and exit a stock that has greater liquidity. Stocks with larger floats have more shares available, making them more liquid and easier for investors to buy or sell.

The meanings of big-cap and small-cap are generally understood by their names, which indicate how valuable they are in terms of market capitalization. Big-cap stocks—also referred to as large-cap stocks—are shares of larger companies. Small-cap stocks, on the other hand, are shares of smaller companies.

Labels like these can often be misleading because many people run under the assumption that they can only make money by investing in large-cap stocks. And that can't be further from the truth—especially nowadays. If you don't realize how big small-cap stocks have become, you could miss some potentially promising investment opportunities.

Small-cap stocks are often attractive due to their lower relative valuations and potential to grow into big-cap stocks eventually, but the dollar-amount definition of a small-cap has changed over time. What was once considered a big-cap stock in previous decades may be thought of as a small-cap stock today. This article will define the caps and provide additional information to help investors understand terms that are often taken for granted.

Key Takeaways

Big-cap (large-cap) stocks have a market cap of $10 billion or more.
Small-cap stocks generally have a market cap of $250 million to $2 billion.
Small-cap stocks shouldn't be overlooked when putting together a diverse portfolio.
Big-cap stocks don’t always mean larger returns on investment.
Mid-cap stocks fall somewhere in between small-caps and big-caps.

Scaling up Stocks

Before we do anything else, we first need to define the word cap—which is short for capitalization. The term in its entirety, though, is market capitalization or market cap. This is the market's estimate of the total dollar value of a company's outstanding shares.1

To get this figure, you need to multiply the price of a stock by the number of shares outstanding.1 One thing to keep in mind, though, is that though this is the common conception of market capitalization, you actually need to add the market value of any of the company's publicly traded bonds to calculate the total market value of a company.

The market cap shows the size of the company, which is something of interest to most investors. That's because it generally points out several of a company's key characteristics, including its risk assessment. Although the value of small-cap stocks may vary from broker to broker, the general consensus today is that they have market caps ranging from $250 million to $2 billion.1

One misconception people have about small-caps is that they are startup companies or are just brand-new entities that are breaking out. But many small-cap companies are just like their larger counterparts in that they have strong track records, are well established, and have great financials. And because they are smaller, small-cap share prices have a greater chance of growth.1 This means they have more potential for investors to earn money faster.

In general, small-cap stocks are thought to be more volatile than big-cap stocks and thus provide both greater risk but also opportunity. This is because big-cap stocks are often larger, more mature companies that are not seeking aggressive growth.

The Big-Caps

Big-cap stocks refer to the largest publicly traded companies, with market caps of more than $10 billion, like General Electric and Walmart.1 These companies are also called blue-chip stocks—companies with a history of dependable earnings, solid reputations, and strong financials. Some examples of blue-chip stocks are IBM Corp., Microsoft, Coca-Cola Co., and Boeing Co.2 Though companies like these tend to perform well and provide safe returns for investors, you should not see this as a blanket expectation for all large-caps.

In general, big-cap stocks are established, mature, and stable. They tend to be less volatile and reward investors with stable and growing dividend streams. However, some investors have the misconception that the large-cap moniker means there is no risk at all. There have been several cases in financial history that point to the opposite.

Enron is just one example. It serves to demonstrate that the bigger they are, the harder they fall. The company, which was a darling of the energy industry, was the subject of an accounting scandal. The company used mark to market (MTM) accounting to make the company look like it was much more profitable than it actually was. Its subsidiaries were losing money, but the company continued to hide its losses and debt, using off-balance-sheet entities to mask toxic assets. The company buckled and ended up filing for bankruptcy.3 Key personnel, including CEO Jeffrey Skilling and the company's accounting firm, faced criminal charges.4

The lesson? Just because it's a large-cap doesn't mean it's always a great investment. You still have to do your research, which means looking at other, smaller companies that can provide you with a great basis for your overall investment portfolio.

Dow vs. Nasdaq: The average market cap for the Dow remains much larger than the average market cap for the Nasdaq 100.56

The Small-Caps

Small-cap stocks, as the name implies, are far smaller in terms of market valuation—but also, generally, scale, scope, and influence. These companies have a market cap of $250 million to $2 billion and are found in all business types, economic sectors, and growth phases.1

One common misconception about small-caps is that they are startups or brand-new companies. In reality, many small-cap companies are well-established businesses with strong track records and great financials. And because they are smaller, small-cap share prices have a greater chance of growth.

Historically, small-cap stocks may have outperformed large-cap stocks.7 However, whether smaller or larger companies perform better varies over time from period to period based on other factors like the broader economic climate.8 For instance, big-caps seem to hold their own better during bear markets and recessions.9

At the same time, small-cap stocks tend to be more volatile (and thus riskier) than their larger-cap peers. It often takes less trading volume to move their prices, and it is common for a small-cap stock's price to fluctuate more in a single trading day than those of larger companies. That is something that many investors simply cannot stomach, but it does attract more active traders like day traders. Note that because these stocks often have less liquidity, it is also more difficult to exit a position at the market price.

Ranking Market Capitalizations

The definitions of big- or large-cap and small-cap stocks differ slightly from one brokerage company to the next and have changed over time. The differences between the brokerage definitions are relatively superficial and only matter for the companies that lie on their edges. The classifications are important for borderline companies because mutual funds use these definitions to determine which stocks to buy.

The current approximate definitions are as follows:

Mega-cap: Market cap of $200 billion and greater10
Big-cap: $10 billion and greater, up to $200 billion
Mid-cap: $2 billion to $10 billion
Small-cap: $250 million to $2 billion1
Micro-cap: $50 million to $250 million
Nano-cap: Under $50 million11

These categories have increased over time along with the market indexes. And it is important to note that these definitions are fluid and not fixed—they are relative. For example, in several circles, stocks with market caps greater than $100 billion are seen as mega-caps.

Remember market capitalization is based on the stock price and therefore the perceived value of a company, not the actual value.1

Shifting Numbers

The big-cap stocks get most of Wall Street's attention because that's where you'll find the lucrative investment banking business. Large-cap stocks make up the majority of the equity market in the United States, which is why they make up the nuclei of many investors' portfolios.

Mega-cap stocks, on the other hand, tend to shift in numbers. There were at least 7 of these stocks in existence in 2007, but that number shrunk by 2010 due to the 2008 mortgage meltdown and the Great Recession.1213 In the years since, mega-cap stocks have made a resurgence, and behemoths such as Apple (AAPL) and Microsoft (MSFT) have reached historic market-cap highs approaching $2 trillion each. As of 2022, the total number of mega-cap companies around the world is around 48.14

But what about small-caps? Remember, just because they have a smaller market cap doesn't mean you won't find value or great returns. In fact, you can find much of the value in the stock market in small-cap stocks because some of them have some of the strongest track records around.

What Are Some Characteristics of Big-Cap Stocks?

Aside from having a market capitalization of $10 billion or more, large-cap stocks also tend to be those of older, more mature corporations. These companies may be more likely to pay regular dividends to their shareholders because they see stable, established sources of income and profitability. Large-caps are typically market leaders and household names, many of which are also blue-chip stocks.

What Are Some of the Risks of Investing in Small-Cap Stocks?

Small-cap stocks can be great growth opportunities, but investors should also be aware of the risks associated with smaller companies' stocks. First, they tend to be more volatile, meaning that price swings and drawdowns can be larger than with bigger companies' stocks. These shares may also be less liquid and more thinly traded, with larger bid-ask spreads, making it more costly to enter and exit positions.At the company level, smaller companies may have a harder time accessing funding or raising capital than larger companies do. This can be a limiting factor for operations and growth.

What Indexes Track Big-Cap Stocks?

If you want to invest in big-caps, you can look to index funds or ETFs that track indexes such as the S&P 500 (the 500 largest companies in the U.S.) or the Dow Jones Industrial Average (DJIA), which covers 30 blue-chip stocks.15

What Indexes Track Small-Cap Stocks?

If you want to invest in small-caps, you can look to index funds or ETFs that track indexes such as the Russell 2000 Index or the S&P Small-Cap 600.1617

Which Are Better: Big-Caps or Small-Caps?

This will depend on the type of investor you are. If you have a greater risk tolerance and longer time horizons, small-cap stocks tend to outperform big-caps over time because they are able to grow more rapidly than larger companies. If you prefer stable appreciation and dividend income, big-caps may be more suitable. In general, investors are encouraged to diversify and hold a mix of stocks containing both large and small companies.

The Bottom Line

The big and small labels are also attached to the major stock exchanges and indexes, which also leads to confusion. The Dow Jones Industrial Average (DJIA) is viewed as consisting of only big-cap stocks while the Nasdaq is often viewed as being comprised of small-cap stocks. These perceptions were generally true before 1990, but have since changed. Since the tech boom, the market caps of the stock exchanges and indexes vary and overlap.

Labels such as big and small are subjective, relative, and change over time. Big does not always mean less risky, but the big-caps are the stocks most closely followed by Wall Street analysts. This attention, however, generally means that there are no value plays in the big-cap arena.

3.1 – Overview

Many corporate entities work in tandem to ensure transactions in the market flow smoothly. Right from the time you log in to a trading terminal (let's say to buy shares), to the time these shares hit your DEMAT account, market intermediaries work seamlessly together to ensure your transactions flow without any hiccups.

These entities play their role quietly behind the scene, always complying with the rules laid out by SEBI and ensuring an effortless and smooth experience for your transactions in the stock market. These entities are generally referred to as Financial Intermediaries or market intermediaries. Together, these financial intermediaries, interdependent on one another, create an ecosystem in which the financial markets operate. Let us quickly review a few of these key market intermediaries and the roles they play in the ecosystem.

3.2 – The Stock Broker

The stockbroker is probably one of the most important financial intermediaries you need to know. A stockbroker is a corporate entity registered as a trading member with the stock exchange and holds a stockbroking license. SEBI grants the license through due diligence, and the broker is expected to comply with the rules prescribed by SEBI.

A stockbroker is your gateway to the stock markets to make investments in stocks, bonds, ETFs, and Mutual funds. To transact in the stock market, you must set up (open account) with a stockbroker of your choice. Many stock brokers are registered in India, and you can choose a broker based on personal criteria. A few popular filters based on which people select stockbrokers are –

The simplicity of the broker platform
The efficiency of the broker's support system
Access to ready reports – Profit & Loss reports, Tradebook, Tax P&L
Broker's net worth (you dont want to deal with a broker who is not profitable or does not have a good P&L)
Initiatives like education

Once you decide on your broker and open a trading and DEMAT account, you can start transacting in the stock market. After setting up your account, there are a few standard ways to interact with your broker.

You can call your broker, identify yourself with your client code (account code) and place an order for your transaction. The dealer at the other end will execute the order for you and confirm the status of the same while you are still on the call.

Do it yourself – this is perhaps the most popular way to transact in the markets. The broker gives you access to the market via a 'Trading Terminal'. After you log in to the trading terminal, you can view live price quotes from the market and place orders yourself. For example, Zerodha's trading platform is called 'Kite'.

Advanced users can access the market programmatically via APIs. Some of the brokers provide APIs for a fee.

The essential services provided by the broker include…

Access to the markets and allow you to transact
Margins for trading, we will discuss this point at a later point
Support in terms of call and trade, help you resolve queries, educate you on markets
Issue contract notes for the transactions – A contract note is a written confirmation detailing the transactions you have carried out during the day.
Facilitate the fund transfer between your trading and bank account
Provide you with a back-office. The back office is a portal to access many reports about your account. Zerodha's back office is called Console.
The broker charges a fee for the services provided, also called the 'brokerage charge' or just brokerage. The brokerage rates vary, and it's up to you to find a broker you think strikes a balance between the brokerage charged and the services provided.

3.3 – Depository and Depository Participants

When you buy a property, the only way to identify and claim that you own the property is by producing the property papers. Hence, it becomes essential to keep the property papers safe and secure.
Likewise, when you buy a share (a share represents part ownership in a company), the only way to claim ownership is by producing your share certificate. A share certificate is nothing but a document entitling you as the owner of the shares in a company. Before 1996 the share certificate was in paper format; however, post-1996, the share certificates were converted to digital form. Converting a paper format share certificate into a digital format share certificate is called "Dematerialization," often abbreviated as DEMAT.
Did you know the Harshad Mehta scam of 1992, played a significant role in digitizing the share certificate? I'd suggest you watch the SonyLiv series on the Harshad Mehta saga, it gives you a good perspective of the market's ecosystem before it went digital.
The share certificate in DEMAT format has to be stored digitally. The storage place for the digital share certificate is the 'DEMAT Account. A Depository is a financial intermediary that offers the Demat account service. Think of the demat account as a digital vault for your shares. As you may have guessed, your broker's trading account and the DEMAT account from the Depository are interlinked.
For example, if your idea is to buy Infosys shares, then all you need to do is open your trading account, look for Infosys' prices, and buy it. Once the transaction is complete, the role of your trading account is done. After you buy, the shares of Infosys will automatically get credited to your demat account.
Likewise, when you wish to sell Infosys shares, you must log in to your trading account and sell the stock. The act of selling is carried out in your trading account. But in the backend, because your trading account and demat account are linked, the broker debits your demat account of the shares you have sold.
At present, only two depositaries offer DEMAT account services. The National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited. There is virtually no difference between the two, and both operate under strict SEBI regulations.
You cannot walk into National Stock Exchange's (NSE) office to open a trading account, likewise, you cannot walk into a Depository (NSDL or CDSL) to open a demat account. To open a demat account, you must speak to a Depository Participant (DP). A DP helps you set up your DEMAT account with a Depository. A DP acts as an intermediary between you and the Depository. Even the DP is governed by the regulations laid out by the SEBI.
Zerodha is a depositary participant of Central Depository Services (India) Limited (CDSL).

3.4 – Banks

Banks play a straightforward role in the market ecosystem. They help facilitate the fund transfer from your bank account to your trading account. Both the trading account and bank account are linked. Broker's link these accounts after verifying your bank account.
You can link multiple bank accounts to your trading through which you can transfer funds and trade. Irrespective of how many bank accounts you choose to link with your trading account, funds can be withdrawn to only one bank account. The account you choose to withdraw funds (from your trading account) is called the 'Primary account.' At Zerodha, you can add one primary bank account and up to 2 secondary bank accounts. You can add funds to all the bank accounts, but withdrawals are only processed to the primary bank account.

Also, dividend payments and money from buybacks will be sent to the primary bank account. The primary bank account is connected to your trading account, the Depository, the Registrar, and the transfer agents (RTA).
At this stage, you must have realized that the three financial intermediaries operate via three different accounts – a trading account offered by your broker, demat account offered by the depositary participant, and a Bank account offered by a bank. All three accounts operate electronically and are interlinked, giving you a seamless experience.

3.5 – NSE clearing Limited and ICCL

NSE Clearing Limited and Indian Clearing Corporation (ICCL) are wholly owned subsidiaries of the National Stock Exchange and Bombay Stock Exchange, respectively.
The job of the clearing corporation is to ensure guaranteed settlement of your trades/transactions. For example, if you buy one Biocon share at Rs.446 per share, someone must sell that one share to you at Rs.446. For this transaction, you will be debited Rs.446 from your trading account, and the seller must be credited that Rs.446 toward the sale of Biocon. In a typical transaction like this, the clearing corporation's role is to ensure the following:

Identify the buyer and seller and match the debit and credit process
Ensure no defaults – The clearing corporation also ensures no defaults by either party. For instance, after selling the shares, the seller should not be able to back out, thereby defaulting in his transaction.

For all practical purposes, it's ok not to know much about NSE Clearing Limited or ICCL simply because you, as a trader or investor, would not be interacting with these agencies directly. You need to know these institutions are also heavily regulated and work towards a smooth settlement and efficient clearing activity.
Clearing corporations are also involved in the margining process, which is critical while trading complex instruments like futures and options. Perhaps, we will discuss this aspect in a related discussion.

The key takeaway from this chapter

The market ecosystem is built by a cluster of financial intermediaries, each offering services unique to the functioning of markets.
A stockbroker is your market access, so choose a broker that matches your requirements.
A stockbroker provides you with a trading account that is used for all market-related transactions (buying and selling of financial instruments like shares)
A Depository is a corporate entity that holds the shares electronically in your name in your account. Your account with the depository is called the 'DEMAT' account.
There are only two depositories in India – NSDL and CDSL.
To open a DEMAT account with one of the depositaries, you must liaise with a Depository Participant (DP). A DP functions as an agent to the Depository
A clearing corporation works towards clearing and settling trades executed by you.

What Is a Meme Stock?

A meme stock refers to the shares of a company that have gained viral popularity due to heightened social sentiment. This social sentiment is usually due to activity online, particularly on social media platforms. These online communities can dedicate heavy research and resources toward a particular stock. Meme stocks often have heavier discourse and analysis in discussion threads on websites like Reddit and posts to followers on platforms like X (formerly Twitter) and Facebook.

Though some believe meme stock communities coordinate efforts to influence the prices of those shares, meme stock shareholders are often an unorganized set of independent individuals, each with their own investment views and preferences. Collectively, their independent actions have been shown to initiate short squeezes in heavily shorted names. As a result, meme stocks can become overvalued relative to fundamental technical analysis.

Key Takeaways

Meme stocks are shares of companies around which online communities have formed to promote and build narratives.Meme stocks, in their present form, arose in the year 2020 out of the subreddit r/wallstreetbets.GameStop (GME) is widely regarded as the first meme stock, whose price rose as much as 100 times over several months as its meme community crafted a short squeeze.Meme stocks have generated their own slang and language that's used in online forums and social media.These stocks carry an added risk of higher-than-normal volatility that could be driven by viral posts on various social media platforms.

Understanding Meme Stocks

A meme is an idea or some element of popular culture that spreads and multiplies across people's minds. Memes gained increasing prevalence and relevance as the internet and social media grew. They allow people to rapidly spread humorous, interesting, or sarcastic videos, images, or posts to others around the world. The rapid and multiplicative effect of sharing such posts could make them go viral.

With the internet, chat rooms and discussion boards devoted to investing and promoting stocks also arose. In the late 1990s and early 2000s, these sites helped promote and drive up the prices of so-called dotcom stocks—a bubble that famously burst with far-reaching economic consequences.

Meme stocks, however, didn't truly emerge until the year 2020 via the Reddit forum r/wallstreetbets. Unlike its predecessors and other investing message boards, WallStreetBets became known for its unconventional and often irreverent tone. In this and other forums that have popped up since, users work together to identify target stocks and then promote them, while also putting their own money to work.

Unlike online pump-and-dump schemes aimed at defrauding unwitting investors, the promotion of meme stocks largely involves buying and holding with the above-mentioned strong hands even after the price spikes.

GameStop: The First Meme Stock

The YouTube persona Roaring Kitty posted a future viral video laying out the case for why shares of brick-and-mortar video game retailer GameStop Corp. (GME) could soar from $5 to $50 per share in August 2020. In the video, he explained that the stock had among the highest short interest in the market, largely with short positions held by hedge funds—and that these funds would need to cover their positions in the event of a massive short squeeze, driving the stock much higher.1

Roaring Kitty's real name is Keith Gill who was also on Reddit as u/deepF...Value and active on the subreddit r/wallstreetbets.
A few days later, the former CEO of Chewy.com and investor Ryan Cohen purchased an unknown amount of GME stock, which Gill acknowledged on Twitter (now X).2 In November 2020, it became public knowledge Cohen owned a 10% share in the company.3 On Jan. 12, he joined the board and the stock rose rapidly. By closing two days later, the value doubled; an 8x increase from the price at the time of Cohen's and Gill's previous posts.45

Then, in January 2021, the short squeeze that The Roaring Kitty had suggested took place in earnest, with the price c
vering and panic buying.6

The main victims of the squeeze ended up being a handful of hedge funds, some of which were forced to shut dowr
avid vs. Goliath or Robin Hood connotation of taking from the rich Wall Street elite and rewarding the small retail inv

Meme stock activity was given a great boost from bored individuals stuck at home during COVID-19 lockdowns comb
app saw overwhelming trading volume in meme stocks at times, causing multiple trade delays, outages, and platfor
as well as regulatory fines and restitution of approximately $70 million.7

Other Meme Stocks

While GameStop was the first successful meme stock, it was not the only one. WallStreetBets users quickly identifie
ese included AMC Entertainment Holdings Inc. (AMC), the movie theater chain that saw flagging profits amid the CO
e maker.

Both stocks also saw their shares rapidly increase by multiples.8 Indeed, as these became recognized meme stocks,
ge the humor (for the "lulz") of seeing such legacy companies emerge from the ashes in the stock market.

Some meme stocks did not fare as well as others, even with the occasional short squeeze. Other meme names have
SS), Vinco Ventures (BBIG), Support.com, and even the meme stock enabler Robinhood Markets Inc. (HOOD).9

A Meme Stock Glossary

Meme stock communities have developed a specific lingo used in their posts online. Some of these terms include (a

Apes: □ Members of the meme stock community. Some have attributed this to a meme related to the movie Rise of t
from the banding together of "dumb apes" to take on the Wall Street elite.
BTFD: An acronym for "buy the f***ing dip." Buying the dips means going long on a stock after its price has declined
wdown.
Diamond hands: □□ This has come to mean holding onto a stock despite (even heavy) losses, confident that the pric
FOMO: "Fear of missing out," that if you don't catch the meme stock wave, you'll regret it.
Hold the line: a battle cry to encourage others to stand firm with diamond hands in the face of volatility.
Paper hands: □□ This is a derogatory slur leveled against those who fail to maintain diamond hands. These are perce
too quickly.
Stonks: An ironic misspelling of the word "stocks." This meme predates WallStreetBets and often depicts a crudely de
ward in price.
Tendies: □□ Short for chicken tenders, "tendies" refer to profits made in meme stocks. There are several claims for w
To the moon: □□ The idea that a stock will rise extraordinarily high, as if to the moon.
YOLO: "You only live once," so why not buy into a meme stock?

Special Considerations

Meme stocks have been a boon to investors, day traders, and brokerage platforms but companies have also capitali persistent demand for shares among individual investors, AMC Theaters CEO Adam Aron took advantage of the elev ngs in 2021. This raised more than $1.5 billion in the first quarter (Q1) from voracious meme stock buyers.10

GameStop followed suit in 2021, raising nearly $1.7 billion via a secondary offering of 8.5 million additional shares a

In 2022, Bed Bath & Beyond announced intentions to sell 12 million shares in a secondary offering as meme stock p eply following the company's announcement of the plan.13

Meme Stocks and Short Selling

One of the features of meme stocks, especially early on, has been that they tend to be heavily shorted names. This r a large proportion of the company's outstanding shares have been sold short.

Short selling is when somebody sells shares that they do not own, hoping to buy them back at a lower price. It is thu s from somebody who is long the stock in order to sell them. As more and more shares are sold short in this way, th s hard to borrow, even the most motivated short seller may be unable to do so.

Meme stocks often happened to be hard to borrow, with a high short-interest ratio.

Short Squeeze

Stocks are sold short on margin (because they involve borrowed shares). As the price of the shorted stock rises, the be covered in a timely fashion, often prompted via margin calls, whereby the broker demands funds to make up for

Ultimately, a short seller may run out of available funds to hold on to the short and will be forced to buy back the sh orts are forced to cover at once, it adds additional upward pressure on the stock's price as they are all forced to buy short squeeze, and it accelerates a stock's price increases as more and more short sellers are forced to bail out to cu

The GameStop Squeeze

GameStop, among the first meme stocks, is a prime example of how the retail investor community identified a highl

GameStop (GME) became a heavily shorted stock due to a decline in foot traffic at malls and dwindling revenues. Th outstanding. The case that a short squeeze could be precipitated was then developed and touted on Reddit and othe Management's Michael Burry and Chewy co-founder Ryan Cohen, also took long positions.

From there, the number of retail investors buying shares and call options snowballed, driving up the price. The price various big-name investors and public figures, such as Elon Musk and venture capitalist Chamath Palihapitiya.

GameStop's stock price then surged due to a massive short squeeze affecting some major hedge funds that were sh he stock price went from less than $5 a share to $325 (by January 2021) in less than six months.14

Why Are They Called Meme Stocks?

A meme is an idea that spreads rapidly among people. Memes began to take the form of humorous social media po -named because ideas about them spread rapidly on social media and web forums. Meme stocks also see communi meme, inventing specific terms and symbols to accompany the stock.

Is There a Meme Stock ETF?

Roundhill Investments came out with a meme stock-focused ETF in December of 2021 under the ticker symbol 'MEM al media popularity and market sentiment. Eligible securities are initially given a social media activity or “meme” scor

pecific social media platforms over a trailing 14-day period, with consideration paid to their short interest. The top 25
ned and rebalanced twice a month.15Single stock ETFs have also recently been introduced, which provide leveraged
ese have been approved for trading so far, but do include some meme stocks like Tesla and NVIDIA.

Are Meme Stocks Real Investments?
Meme stocks are actual stocks listed on exchanges and available for trade. In that sense they are real. However, criti
do with their fundamentals and much to do with their entertainment value as speculative playthings, much like casi

Where Are the Meme Stocks Today?
In general, many of the meme stocks that saw sky-high stock prices in 2021 have come down quite a bit in 2022, som
n elevated, although still far lower than the all-time highs.While some thought that the meme stock craze would be s
ock communities pumped the brick-and-mortar retailer Bed Bath & Beyond (BBBY) to extreme levels in the summer
n.Retail investors are also likely to remain keen to pick up on the latest meme stock. Dominated by younger investor
ns in a short period, especially in the face of rising housing costs and inflation in general. But meme stocks also rema
o be the ones to experience the most losses if it all comes crashing down.

The Bottom Line
So-called meme stocks became a hot investment theme for day traders and retail investors early in 2021, resulting i
(GME) and AMC Entertainment Holdings, Inc. (AMC). Named after the virality of internet memes found on social med
d hype their prospects, even though meme company fundamentals remained questionable.

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What Is the Clientele Effect?
The clientele effect explains the movement in a company's stock price according to the demands and goals of its inv
d, or other policy change or corporate action which affects a company's shares.

The clientele effect assumes that specific investors are preliminarily attracted to different company policies, and tha
djust their stock holdings accordingly. As a result of this adjustment, stock prices can fluctuate.

Key Takeaways
The clientele effect is a common occurrence whereby stock prices are influenced by shareholder demands.One side
rs seek out stocks from a specific category.A specific instance of this effect is dividend clientele, a term for a group of
company conducts its dividend policy.
How the Clientele Effect Works
The clientele effect is a change in share price due to corporate decision-making that triggers investors' reactions. A c
e may cause them to sell some or all of their holdings, depressing the share price.

Large policy shifts can be disruptive for both the company’s long-term interests, as well as shareholders’ portfolios.
ven clientele, it is generally best not to tinker with it too much.

There is a good deal of controversy about whether the clientele effect is a real phenomenon in the markets. Some b
y’s clientele to move a stock’s price greatly. Moreover, even though investors could switch to companies that offered
fees, taxable events, and other costs.

Dividend Clientele

Public equities are typically categorized either as dividend-paying securities or not. Each of these categories links to
.

For example, high-growth stocks traditionally do not pay dividends. However, they are more likely to exhibit substar
dividend-paying stocks tend to show smaller movements in capital gains but reward investors with stable, periodic c

Shareholders in a dividend clientele generally base their preferences for a particular dividend payout ratio on comp
r age.

The clientele effect is often connected with dividend rates and payouts by a company.

Special Considerations

Some investors, like the legendary Warren Buffett, seek investment opportunities in high-dividend stocks. Others, su
with the potential for extravagant capital gains. Thus, the effect first outlines the way in which the company's matur
tor type.

The second facet of the clientele effect describes how current investors react to substantial changes in a company's
idends and reinvests all of its profits back into its operations, it initially attracts growth investors. However, if the con
channeling money to dividend payouts, high-growth investors may be inclined to exit their positions and seek other
me investors may now view the company as an attractive investment.

Consider a company that already pays dividends and has consequently attracted clientele seeking high dividend-pay
o decrease its dividend offerings, the dividend investors may sell their stock and reinvest the proceeds in another co
pany's share price is apt to decline.

Example of the Clientele Effect

In 2016, the CEO of Northwestern Mutual publicly announced in a press release a 45-basis-point drop in the dividen
s dividend policy negatively. Following the disclosed plans, the company depressed its dividend rate from 5.45% to 5

Meanwhile, in 2001, Winn-Dixie slashed its dividend and altered its payment structure, opting to distribute income c
ers, many of which valued the regular current income, were not happy, and the stock tanked. Some experts see this

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It's never been easier for traders to invest in today's volatile financial markets with a plethora of online trading platfo
ider, selecting an online platform that meets your specific investment needs can be both time-consuming and overw

To speed up the learning curve, let's walk through the basics of online investing and outline some of the important f
trade.

Key Takeaways

Online investing allows investors easy, cost-effective access to global financial markets.
Things to consider when selecting an online broker include regulation, platform security, fees/commissions, product
When investing online, traders can use market, limit, stop, and take-profit orders.
Investors can use Yahoo! Finance and Google Finance as a starting point for researching stocks, futures, options, and

Selecting an Online Broker

When selecting an online broker, here are several essential things to consider.

Regulation

Ensure that the broker is registered to sell securities. Investors can do this easily by checking the Financial Industry I
s name in the search function.

Platform Security

To protect your funds and identity, select an online broker that has enhanced security features—such as two-factor
erts—and agrees not to sell your personal information to third parties.

Fees/Commissions

If you intend to trade actively, it's important to choose an online broker that offers competitive trading commissions
r zero commission, be aware that they may make money through a wider spread between the bid and ask price. Also
ly account maintenance fees, data fees, and activity fees. Yes, some brokers will charge you for not trading within on

Product Offerings

Make sure that the platform you select offers all the products that you want to trade. For instance, if you like to trad
uments, ensure that the platform offers stocks, exchange-traded funds (ETFs), options, and futures trading. Well-kno
g to offer leading cryptocurrencies on their trading platform and trialing a new crypto wallet.1 Traders just starting m
ing or stock simulation account to hone their skills before risking real money.

Online Reviews

What are other customers saying? Pay particular attention to reviews about customer service, platform usability, an
e broker has many reviews, and look for patterns in what customers are saying. For example, if many reviews are co
he broker may need to improve in that area.

Two-factor authentication (2FA) is a security system that requires two distinct forms of identification to access somet
ng accounts by setting up 2FA.

Understanding Basic Order Types

Investors should familiarize themselves with basic order types that are universal across all trading platforms. Knowi
ion and manage risk.

Market Order

This is an order to buy or sell a security at the best available price. For example, suppose the bid/ask spread in Appl
the stock at market. They would get an immediate fill at $180.10—the best ask price. Traders typically use market o

Limit Order

A limit order specifies the maximum price that a trader is willing to pay for a security (buy limit order) or the minimu
revisit the example bid/ask spread in Apple being $180.00–$180.10, but the trader thinks they can sell at a higher pr
stock will not sell unless the bid price reaches at least $200. Limit orders are useful for traders who are more concer

Stop-Loss Order
This order helps control a trader’s risk by buying or selling at the market price once a security has traded at or throu
s the trader’s stop price, the order becomes a market order and executes at the next best available price. Let’s say a
ade if the share price falls below $150. They would place a stop-loss order at $150. If the stock drops to $150, then th
filled at the best available bid price. Online investors should get in the habit of always using stop-loss orders to minir

Take-Profit Order
As its name suggests, this type of order sets a specific price to close an open position at a profit. If the price of a secu
ger a sale. However, if the price doesn’t reach the limit price, then the order remains unfilled. It’s also called a buy sto
is has noticed overhead resistance on the Apple chart at $180. Therefore, they decide to place a take-profit order at
level.

More Complex Orders
As well as these basic orders, many online trading platforms offer more complex order types, such as all or none (A

The size of the global online trading market topped over $8 billion in 2021, according to market research.4
Online Investing Research
There are plenty of free resources on the web to help with online investing. Traders can check the latest stock quote
e fundamental data like market capitalization, price-to-earnings (P/E) ratio, and company financials. If you’re a charti
tive web-based charting platform and social network that allows traders to perform detailed technical analysis, share

Those who want to run scans based on technical and/or fundamental metrics should check out FINVIZ. As well as sc
s are moving by using the site’s heatmap. This research tool—which has both a free and a premium service—even a
or both buy-and-hold investors and online day traders.

Even if investors plan on executing their trades, they still may consider seeking the services of a registered investme
cess to exclusive full-service broker research.

What are the main things to consider when selecting an online broker?
When selecting an online broker, things to consider include regulation, platform security, fees/commissions, produc

What are the basic order types that a trader needs to understand when investing online?
Basic order types for online investing include market, limit, stop, and take-profit orders. These orders help investors

What are some credible sites to undertake online investment research?
Investors can visit Yahoo! Finance and Google Finance to find stock quotes, a stock’s fundamentals, and company fin
s (ETFs), or commodities should explore FINVIZ, a research tool offering both a free and a premium service.

The Bottom Line
Investing online allows traders easy, cost-effective access to global financial markets. Before getting started, it’s imp
platform and to conduct some basic research to ensure that the broker meets all of your investing needs and comp
rs the flexibility to make their own financial decisions or collaborate with a registered investment advisor.

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The Basic Materials Sector: An Overview

The basic materials sector is an industry category made up of businesses engaged in the discovery, development, ar
ed in mining and metal refining, chemical products, and forestry products.

Within this sector are the companies that supply most of the materials used in construction. That makes the compa
hey tend to thrive when the economy is strong.

The category is sometimes referred to simply as the materials sector.

Basic Materials Explained

Companies in the basic materials sector are involved in the physical acquisition, development, and initial processing
l, gold, and stone are examples.

Key Takeaways

The basic materials sector is made up of companies involved in the discovery, development, and processing of raw r
are sold for use in nearly all other industry sectors.The sector is particularly sensitive to the ups and downs of the ec
For the most part, raw materials are naturally occurring resources. Some are considered finite. That is, it takes millic
plans of any company. Others are reusable but are not available in infinite quantities at any given point in time.

The Basic Materials Stock Sector

For the purposes of stock categorization, the most common materials within the sector are mined products, such as
rtain chemical producers and energy sources also are included in the basic materials sector.

Containers and packaging are categorized as basic materials, whether they're made of glass, metal, or cardboard.

Basic Materials or Not?

Not all businesses that work with basic materials are included in the sector. For example, while a metal mining comp
, even one which works only with mined metal, is not. It is deemed a retailer or a wholesaler who is a buyer of the ba

Not even all chemicals qualify as basic materials. For example, industrial fertilizers and paint additives are categorize

More than 200 mutual funds, index funds, and ETFs focus their investments in the basic materials sector.

Energy Sources

Certain energy sources, notably natural gas, are considered basic materials. Crude oil and coal qualify in their natura

The refined versions of these products are included because the demand for them is nearly universal. They are critic

Demand for Basic Materials

The basic materials sector is subject to the law of supply and demand in the same way as consumer goods are. In fa
s drops, the demand for the raw materials involved in their production also drops.

The basic materials sector also is affected by shifts in the housing market as many raw materials are finished in orde
ent slows, the demand for lumber products decreases.

Key Takeaways
The basic materials sector is made up of companies involved in the discovery, development, and processing of raw r
aw materials they need to manufacture their goods.Basic materials are substances that occur naturally such as oil, s
d demand.

Examples of Basic Materials Companies

Three of the biggest American companies are included in the basic materials sector, and all three are involved in the
the oil field services company Schlumberger Ltd.

DuPont de Nemours and Co. and Monsanto Co., both chemicals companies, are listed in this sector. So are two big p
r of crushed stone, gravel, and concrete, and Steel Dynamics Inc., a maker of finished steel products.

Basic Materials Stocks

More than 300 stock mutual funds, index funds, and exchange-traded funds (ETFs) focus on investments in the basi

The many ETFs include Vanguard's Vanguard Materials ETF, Blackrock's iShares Global Materials ETF, and iShares U.

Mutual funds in the sector sometimes focus narrowly on one segment, such as the Fidelity Select Chemicals Fund ar

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Automated investing might be the smartest way to simplify wealth-building. By automating your investing you're les
d transferred directly into your 401(k) or an investment account. From beginners to sophisticated options traders, a
growth. We've designed this guide to help you explore the ways to automate your investing from simply reinvesting

How to Automate Your Investing

It's usually quick and easy to automate your investing. Before setting up the account, review the platform's FAQ pag
ded to open an automated investing account. Each platform will have its own process. Next, gather your bank accou
e investment account platform will walk you through the process step-by-step.

Here's what you can expect when setting up your automated investing account:

Create an investment account: Account setup involves choosing a user ID and password for the account. Then you'll
or IRA account. Advanced traders that look to use leverage in their swing trading may first need approval to open ce
Choose your assets: With robo-advisors and micro-investing apps, you'll answer several questions about your goals,
the assets for you. Workplace retirement accounts provide a list of investments from which to choose, while self-dire
and mutual funds. Frequently, you'll find helpful articles to help you choose your investments on the website's educ
Link your funding account: This is where you choose the checking or savings account for the fund transfer. For this s
's routing number, and your account number. With a 401(k), 403(b), or 457 account, this step is unnecessary, as mon
ment account.
Set your funding schedule: For robo-advisors, round-up apps, and self-directed accounts, you'll select how frequently
into the automated investment account. With your workplace retirement account, make sure to set up a large enoug
m contribution limit into your 401(k).

Best Automated Investing Platforms

Platform	Best For	Account Minimum	Fees
Wealthfront	Best Overall, Best for Portfolio Management, Portfolio Contents, & Best for Goal Planning	$500 for investment accounts, $1 for cash accounts, $0 for financial planning	0.25% for most accounts, no trading commission or fees for withdrawals, minimums, or transfers. 0.42%–0.46% for 5
Betterment	Best for Beginners & Cash Management	$0, %10 to start investing	0.25% (annual) for investing plan or $4/month fee for balances under 20K, 0.40% (annual) for the premium plan
M1 Finance	Best for Low Costs, Socially Responsible Investing, & Sophisticated Investors	$100 ($500 minimum for retirement accounts)	$0
E*TRADE Core Portfolios	Best for Mobile	$500	0.30%
Merrill Guided Investing	Best For Education	$1000 or $20,000 with an advisor	0.45% annually of assets under management, assessed monthly. With advisor—0.85%. Discounts available for Bank

Understand the Top Automated Investment Types

You can set up an automated investment plan in a variety of ways. From robo-advisors to your employer 401(k), we'
pes to ensure that you are converting today's earnings into wealth for tomorrow.

Robo-advisors: Robo-advisors such as Wealthfront, Betterment, Fidelity Go, and Schwab Intelligent Portfolios provide
r of your goals and timeline and the digital investment manager will create an investment portfolio that meets your r
r retirement, and the robo-advisor keeps your investments allocated according to your preferences. Some robo-advi
ors.

Employer-sponsored retirement accounts: Most employers provide a way for you to save for retirement through a 4
o transfer into the account. Some employers also include an additional matching contribution, up to a specific perce
you select. While in the account, your money grows without being taxed.

Dividend reinvestment plans (DRIP): A DRIP is an option within your investment account to have all of your dividends
asset. By reinvesting your investment income into additional shares, your account value will compound more quickly
Recurring transfer: You can direct your bank to have a specific amount of money regularly transferred from checking
ically transferred into taxable investment, retirement, and any financial account on a daily, weekly, monthly, or other
account.
Rounding up: Acorns and other round-up micro saving and investing apps allow you to link a debit and/or credit card
dollar, up to 10 times the original amount.1 Whenever you spend with that card, the round-up amount will automat

What You Need to Open an Automated Investing Account

First, find out what information is required to open an automated investing account.

Personal Information

The personal information and documentation required to complete the onboarding process typically includes:2

NameSocial Security number (or taxpayer identification number)AddressTelephone numberE-mail addressDate of b
vernment-issued identificationEmployment status and occupationWhether you are employed by a brokerage firmAn

Minimum Deposits

Fortunately for investors, there are many automated investment accounts with low-minimum deposit requirements
rokerage firms up to $100,000 for the comprehensive Empower robo-advisor, which also includes access to certified

If you are new to investing and just starting out, you might open your automated investing account at a major broke
ADE, Fidelity, or Charles Schwab. Or, if you're seeking a robo-advisor with low minimums, SoFi Automated Investing,
$100 to get started.

Factors to Consider When Opening an Automated Investing Account

With so many choices about how to automate investing, it can be confusing to narrow down your selection. To make

Customer service: Phone customer service can be very important for both new and experienced investors. Be aware
o a human matters to you, then look into live customer service availability and contact times.

Fees and commissions: Research from Vanguard and other firms has shown a direct correlation between lower fees
m, understand the fees you'll be paying, including management fees and fund expense ratios. Determine whether th

Account minimum: Investigate how much money you'll need to open the account as well as maintain it. Determine w
or your financial situation.

Research tools: For self-directed investment accounts, carefully review the screeners, calculators, trading platforms,
nvestor, make certain, before opening an account, that the research tools match up with your needs.

What Is Automated Investing?

Automated investing is a strategy to ensure that you regularly save and invest for the future. We all have the tenden
tions are frequently forgotten by February. Automated investing pre-programs our behavior to put investing for the
converting today's earnings into tomorrow's prosperity. This strategy works when saving for retirement, a child's coll
that is more than five years in the future. The automated investment concept involves implementing a few simple st
nt from which the investment funds will be drawn. Next, choose where you want to invest. The choices include your
micro-investing app, or a robo-advisor. Reinvesting your dividends and capital gains within your brokerage account
ents, and then set up a regular transfer from the cash account into the investment account. Finally, you choose the a
lan is enacted, your money will automatically transfer into the designated accounts and investments. That way, wher

e the entire process is automated. In fact, when markets go down, you'll be set up to benefit from one of the best inv

How Does Automated Investing Work?
Think of automated investing like automated bill pay. You set up the parameters, such as amount to be invested, the
transfers from your bank account or paycheck go directly to your investment accounts. This automates the contribu
nt, you may have another step to them put that money to work. Often this can be eliminated if you are buying into p
te the investment portfolio through a robo-advisor where the contributions will automatically be invested according
count setup.

Is Automated Investing a Good Idea?
Automated investing is a good idea for nearly everyone. Behavioral finance research suggests that we are not always
nvestment behavior, such as irregular investing or avoiding investment, automated investing can improve your long-
account before you can spend it and diverts it into long-term financial assets, leading to wealth-building,

Is Automated Investing Risky?
Investing in financial markets is risky in that the value of your initial investment can decline. In fact, automated invest
esting. By regularly deploying money into the financial markets during both up and down markets, you are practicing
when prices are lower and fewer shares when prices are higher. This is the “buy low” recommendation in action.

Are Micro-Investing Apps a Good Choice?
Micro-investing apps have their pros and cons. The benefit of these round-up investment apps is that you can get sta
f you only invest your spare change and do not set up a larger automated deposit into the app, it will take you a long
me that monthly, you invest $50 in spare change into your investment account, which earns an average 7% per year.
0 monthly auto deposit in addition to the $50 spare change investment and you're investing $400 per month. With a
7 in 10 years.

Should I Use an Automated Investing Platform?
Yes, there are multiple reasons to use an automated investing platform.Automated investing removes the tendency
dvisors provide excellent pre-made, set-it-and-forget-it investment portfolios.Workplace retirement accounts offer a
the employer match.Dividend reinvestment answers the question of what to do with capital gains and income paym
nsider setting up automated investment strategies.

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What Is the October Effect?
The October effect refers to the belief that stocks tend to decline during the month of October. It is considered to be
n, as most statistics contradict the theory.

Some investors may be nervous during October because some large, historical market crashes occurred during this

Along with the September effect (which also predicts weaker markets during October), actual evidence for the existe
lid.

Indeed, October's 100-year stock market history has, in fact, been net positive. That's in spite of being the month of
and Black Monday in 1987, when the Dow plummeted 22.6% in a single day, (and remains arguably the worst single-

Key Takeaways
The October effect is the perception that stock markets decline during the month of October, and it is classified as a
with the supposed September effect and Santa Claus rally.The October effect is considered to be more of a psycholo
nter the theory.The October effect, as well as other calendar anomalies, largely have seemed to disappear over the p
h, on average, over the past century or more.

Understanding the October Effect

Proponents of the October effect, one of the most popular of the so-called calendar effects, argue that October is w
d. These include 1929's Black Tuesday and Black Thursday and the 1987 stock market crash.2

While statistical evidence doesn't support the phenomenon that stocks trade lower in October, the psychological ex

The October effect, however, tends to be overrated. Despite the moniker, this seeming concentration of dark marke

In fact, September historically is more often down than October.3 And from a historical perspective, October has ma

This makes October an interesting prospect for contrarian buying. Investors who tend to see a month negatively ca
, the end of the October effect, if it ever was a market force, may be at hand, as the month's stock market results ha
or more.

October Crashes

What is true about October is that it traditionally has been the most volatile month for stocks. According to research
ober in the S&P 500 than in any other month in history, dating back to 1950.

Some of that can be attributed to the fact that October precedes elections in early November in the U.S. every othe

September, not October, has more historical down markets. However, October also has had its fair share of record
given October the reputation for stock losses include:

The Panic of 1907Black Tuesday (1929)Black Thursday (1929)Black Monday (1929)Black Monday (1987)

Interestingly, the catalysts that set off both the 1929 crash and the 1907 panic happened in September or earlier, a

In 1907, the panic nearly occurred in March. Throughout the year, the public's confidence in trust companies persist
ck of regulation. Eventually, public skepticism came to a head in October and sparked a run on the trusts.5

The 1929 Crash arguably began in February, when the Federal Reserve banned margin-trading loans and cranked u

In contrast to October effect predictions, October 2022 was one of the most positive months in U.S. stock market his
o 6%.7

The Disappearance of the October Effect

The numbers don't support the October effect. If we look at all October monthly returns going back more than a ce
October is a losing month.

Not surprisingly, some historical events have occurred in the month of October, but they most likely have remained
nous. Markets have also crashed in months other than October.

Many investors today have a better memory of the dotcom crash and the 2008–2009 financial crisis, yet none of tho
month.

Lehman Brothers' collapse happened on a Monday in September and marked a major escalation in the global stake
nday.

For whatever reason, the news media no longer leads with black days—and Wall Street doesn't seem eager to revive

Moreover, an increasingly global pool of investors doesn't have the same historical perspective when it comes to the
s, in reality, a gut feeling mixed with a few random occurrences and a media label created the myth.

In a way, this is unfortunate, as it would be ideal for investors if financial disasters, panics, and crashes occurred in j

Is the October Effect Real?
The data suggest that it isn't. But some people seem to believe in it, perhaps because many of the events that happe
nt at the time. Because there is a psychological bias toward predicting a negative outcome for this month, there is po
.

Are Stocks Usually Down in October?
No. Since 1928, stocks have, on average, risen in the month of October by more than 0.6%.8

Which Has Been the Worst Month for Stocks Historically?
That depends on the time period you look at. Over the past century, September has been the worst-performing mon

The Bottom Line
The October effect is the belief that stocks fall, on average, during the month of October. This supposed market ano
ave occurred during this month, such as 1987's Black Monday.

However, actual evidence for the October effect is scant—and, in fact, October has been a net positive month, on av
of the best-performing months in recent stock market history.

As with other supposed market anomalies, the reality is that they probably don't exist, as markets do tend to be effi
own). As such, one probably should not use the notion of the October effect to make trading decisions.

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What Is the Secured Overnight Financing Rate (SOFR)?
The Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and lo

SOFR took the place of LIBOR in June 2023, offering fewer opportunities for market manipulation and current rates r

Key Takeaways
The Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and lo based on transactions in the Treasury repurchase market and is preferable to LIBOR since it is based on data from o es.While SOFR became the benchmark rate for dollar-denominated derivatives and loans, other countries have soug

Understanding the Secured Overnight Financing Rate (SOFR)

The SOFR is an influential interest rate banks use to price U.S. dollar-denominated derivatives and loans. The daily S , where investors offer banks overnight loans backed by their bond assets.

Benchmark rates such as the SOFR are essential in derivatives trading—particularly interest-rate swaps, which corpo speculate on changes in borrowing costs.

Interest-rate swaps are agreements in which the parties exchange fixed-rate interest payments for floating-rate inte s to pay a fixed interest rate, and, in exchange, the receiving party agrees to pay a floating interest rate based on the the party's credit rating and interest-rate conditions.

In this case, the payer benefits when interest rates go up because the value of the incoming SOFR-based payments i he counterparty remains the same. The inverse occurs when rates go down.

History of the SOFR

The LIBOR was previously the go-to interest rate at which investors and banks pegged their credit agreements to. Co termined by calculating the average interest rate at which major global banks borrow from one another. The five cur), Japanese yen (JPY), and the Swiss franc (CHF). The most commonly quoted LIBOR was the three-month U.S. dollar r

A Financial Crisis Solution

Following the financial crisis of 2008, regulators grew wary of overreliance on LIBOR. For one, it was based largely on sarily on actual transactions.

The downside of giving banks that much freedom became apparent in 2012 when it was revealed that more than a profits from LIBOR-based derivative products.1

In addition, banking regulations after the financial crisis meant that there was less interbank borrowing happening, lume of trading activity made the LIBOR even less reliable. Eventually, the British regulator that compiled LIBOR rates ding information after 2021. This update sent developed countries around the world scrambling to find an alternativ

Federal Reserve Action

In 2017, the Federal Reserve (Fed) responded by assembling the Alternative Reference Rate Committee, composed o e United States. The committee chose the Secured Overnight Financing Rate (SOFR), an overnight rate, as the new be

The Federal Reserve Bank of New York began publishing the SOFR in April 2018 as part of the effort to replace LIBOI

SOFR vs. LIBOR

Unlike the LIBOR, there's extensive trading in the Treasury repo market—roughly $4.8 trillion in June 2023—theoreti

Moreover, the Secured Overnight Financing Rate (SOFR) is based on data from observable transactions rather than o se with LIBOR.4

Transitioning to the SOFR

On Nov. 30, 2020, the Federal Reserve announced the LIBOR would be phased out and eventually replaced by June 2 contracts using LIBOR by the end of 2021.5

The LIBOR and the Secured Overnight Financing Rate (SOFR) coexisted until June 2023, when SOFR became the stand

Transition Challenges

The move to the SOFR is expected to have the greatest impact on the derivatives market. However, it should also pla justable-rate mortgages and private student loans—as well as debt instruments such as commercial paper.

In the case of an adjustable-rate mortgage based on the SOFR, the movement of the benchmark rate determines ho ends. If the SOFR is higher when the loan "resets," homeowners will be paying a higher rate as well.

Special Considerations

Other countries have sought alternatives to the LIBOR. For instance, the United Kingdom chose the Sterling Overnig ark for sterling-based contracts going forward.

The European Central Bank (ECB), on the other hand, opted to use the Euro Overnight Index Average (EONIA), which rate, called the Tokyo overnight average rate (TONAR).

What Is the Current Secured Overnight Financing Rate?

On June 1, 2023, the SOFR was 5.08%, according to the Federal Reserve Bank of New York.6

What's the Difference Between LIBOR and SOFR?

SOFR measures the broad cost of overnight cash borrowing, using Treasury securities as collateral. LIBOR was the ra setted in June 2023.76

Is There a 3-Month SOFR Rate?

The Federal Reserve does not publish a three-month SOFR rate, but the Chicago Mercantile Exchange publishes one- 8

The Bottom Line

The Secured Overnight Lending Rate (SOFR) is the benchmark for interest rates on dollar-denominated loans and de

ich was the globally accepted rate before SOFR was adopted. SOFR reflects an overnight rate, whereas LIBOR was a f
uctuations and manipulation.

Chip Stapleton is a Series 7 and Series 66 license holder, CFA Level 1 exam holder, and currently holds a Life, Acciden
finance, from financial planning and wealth management to corporate finance and FP&A.

Vikki Velasquez is a researcher and writer who has managed, coordinated, and directed various community and non
d economic issues and has also revised and edited educational materials for the Greater Richmond area.

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The S&P 500 consists of 500 companies that have issued a total of 503 stocks. Some companies, such as Alphabet, h
are listed on the official S&P Global website. An S&P 500 company must meet specific requirements to be included a

However, S&P does not currently provide the total list of holdings, at least not for free. Subscribers to S&P's researc
0 companies represent the top companies within their industries and are a gauge of U.S. economic activity.1

Key Takeaways
The S&P 500 includes some of the top companies that are leaders within their industries and represent a gauge of th
hich are determined by the publishers of the index before being added to the S&P.The S&P 500 index is market capit
o companies with the largest market cap.A stock must meet certain criteria, including a total market cap of $14.5 bill
500 if they deviate substantially from these standards.
S&P 500 Inclusion Criteria
The S&P 500 was created in 1957 and is one of the most widely quoted stock market indexes. S&P 500 stocks repres
cuses on the U.S. market's large-cap sector.2

An S&P 500 company must meet a broad set of criteria to be added to the index, including the following:

A total market capitalization of at least $14.5 billion
Must be a U.S. company

A float-adjusted liquidity ratio (FALR) greater than or equal to 0.75
A positive sum of the most recent four consecutive quarters of trailing earnings
Positive earnings for its most recent quarter
Must meet certain liquidity requirements32

Companies may be removed from the S&P 500 if they deviate substantially from these standards.4

$39.7 Trillion
The total combined market cap of the 503 constituents in the S&P 500 as of Aug. 31, 2023.5

S&P 500 Calculation

The S&P 500 is a free-float market capitalization-weighted index. Market capitalization represents the total dollar ma
p is calculated by multiplying the total number of outstanding shares of stock by the company's current stock price.
ch its stock is selling for $100 per share would have a market cap of $2 billion.26

As a result, the more valuable an individual company's stock becomes, the more it contributes to the S&P 500's over
return to be linked to only 50 to 75 stocks.

Therefore, the addition or subtraction of smaller companies from the index will not have a noticeable impact on the
even just one of the largest stocks can have a major impact.

S&P 500 Sector Breakdown

Below are the top sectors and their weightings within the S&P 500 index as of Aug. 31, 2023.7

S&P 500 Sector Weighting

Sector	Index Weighting
Information Technology	28.2%
Healthcare	13.2%

Financials
12.5%

Consumer Discretionary
10.6%

Communication Services
8.8%

Industrials
8.4%

Consumer Staples
6.6%

Energy
4.4%

Materials
2.5%

Real Estate
2.4%

Utilities
2.4%

Source: S&P Dow Jones Indices

Being aware of the S&P's sector weighting is important because sectors with a smaller weighting may not have a ma
performing or underperforming the market.

For example, if oil prices are rising, leading to increased profits for the energy sector, those stocks represent only 4.4
a higher S&P if, for example, the more heavily weighted information technology sector is underperforming.

S&P 500 components are weighted by free-float market capitalization, which means that larger companies can affect
Top 25 Components by Market Cap
Because the exact weightings of the top 25 components are not available from S&P directly, the weightings below ar
e-traded fund (ETF) that tracks the S&P 500 and holds $406.6 billion in assets under management (AUM) as of Sept. 2

As a result, the SPY's portfolio weightings provide a good proxy for investing in the underlying S&P 500 index, althou
the following are the 25 largest S&P 500 index constituents by weight:

Apple (AAPL): 7.05%
Microsoft (MSFT): 6.54%
Amazon (AMZN): 3.24%
NVIDIA (NVDA): 2.79%
Alphabet Class A (GOOGL): 2.13%
Tesla (TSLA): 1.95%
Alphabet Class C (GOOG): 1.83%
Berkshire Hathaway (BRK.B): 1.83%
Meta (META), formerly Facebook, Class A: 1.81%
UnitedHealth Group (UNH): 1.28%
Exxon Mobil (XOM): 1.27%
Eli Lilly (LLY): 1.21%
JPMorgan Chase (JPM): 1.18%
Johnson & Johnson (JNJ): 1.07%
Visa Class A (V): 1.05%
Procter & Gamble (PG): 0.99%
Mastercard Class A (MA): 0.93%
Broadcom (AVGO): 0.92%
Home Depot (HD): 0.85%
Chevron Corporation (CVX): 0.81%
Merck (MRK): 0.75%
AbbVie (ABBV): 0.75%
Costco (COST): 0.67%
PepsiCo (PEP): 0.67%
Adobe (ADBE): 0.65%10

How Many Companies Are in the S&P 500?
Although there are generally 500 companies within the index, that number has grown. There were 503 stocks that m
have multiple classes of equity shares, such as Alphabet.11

How Are Companies Selected for the S&P 500?
A company must meet certain requirements for inclusion in the S&P 500, which include:A market cap of at least $14.
LR) greater than or equal to 0.75Positive earnings over the most recent four consecutive quarters summed together.
quidity requirements32

How to Buy the S&P 500?
Since the S&P 500 is an index, it can not be purchased directly; however, exchange-traded funds that mirror or track
sors' SPDR S&P 500 Trust ETF (SPY).

The Bottom Line
The top 25 companies in the S&P 500 are some of the most well-known companies in the world, a large portion of th
. To invest in the companies in the index, investors can purchase the individual stocks of the companies or invest in a

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S&P Dow Jones Indices. "S&P 500: Data," Select "Quick Facts."
State Street Global Advisors. "SPDR S&P 500 ETF Trust."
State Street Global Advisors. "SPDR S&P 500 ETF Trust," Download "All Holdings Daily."
S&P Dow Jones Indices. "S&P 500: Data."

Related Terms
S&P/TSX Composite Index: Definition, Constituents, How To Buy
The S&P/TSX Composite Index is a capitalization-weighted index that tracks the performance of companies listed on
more
CNX Nifty: Definition, How It Works, and History
The CNX Nifty is an index composed of 50 of the largest and most liquid stocks on the National Stock Exchange of In
more
S&P 500 Index: What It's for and Why It's Important in Investing
The S&P 500 Index (Standard & Poor's 500 Index) is a market-capitalization-weighted index of the 500 leading publicl
more
S&P BSE Sensex Index: Definition and What It Means for the Bombay Stock Exchange
Sensex is an abbreviation of the Sensitive Index, India's stock index. Its components trade on the BSE, formerly know
more
Free-Float Methodology and How to Calculate Market Capitalization
A free-float methodology is a system by which the market capitalization of an index's companies is determined.
more
S&P 500 Dividend Aristocrat Index Defined, List of Top Companies
The S&P 500 Dividend Aristocrats index tracks the performance of blue-chip companies. A dividend aristocrat tends
more

11.1 – Corporate Actions
Corporate actions are financial initiatives undertaken by a company that results in a change to its stock price. There
nitiate. A good understanding of these corporate actions gives a clear picture of the company's financial health and
This chapter will examine the five most important corporate actions and their impact on stock prices. A corporate ac
ompany's shareholders.
11.2 – Dividends
Dividends are portions of profits made by the company, which are distributed to the company's shareholders. Divide
clared a dividend of Rs.42/- per share, which means you get Rs.42/- as dividend income for every share you own. Su
s dividend income. The company directly remits the dividends to your bank account (linked to your Demat account).
ue. In the above case, the face value of Infosys is Rs.5/-, and the dividend paid was Rs.42/- hence the dividend payou

It is not mandatory to pay dividends every year. If the company feels that instead of paying dividends to shareholder
ject for a better future, they can do so. Typically, companies in the growth phase (young companies growing fast) cho
o the business for more growth. However, when the company's growth opportunities slow down and it holds excess
sh with shareholders makes more sense than retaining the cash on the company's book, and distributing the divider
The dividends need not be paid from the profits alone. If the company has made a loss during the year but it holds a
eserves.
The company's board members at the Annual General Meeting (AGM) decide whether to pay a dividend. The dividen
are traded throughout the year, and it would be difficult to identify who is eligible to receive dividends and who isn't
end cycle.

Dividend Declaration Date: This is the date on which the AGM takes place, and the company's board approves the di
Record Date: The date the company decides to review the shareholder's register to list all eligible shareholders for th
declaration date and the record date is 30 days.
Ex-Date/Ex-Dividend date: With the T+1 settlement cycle, the ex-dividend date normally is on the same day as the re
dend date are entitled to receive the dividend. This is because, in India, the equity settlement is on a T+1 basis. So fo
ive a dividend, you need to ensure you buy the shares before the ex-dividend date.
Dividend Payout Date: The date on which the dividends are paid to shareholders listed in the company register.
Cum Dividend: The shares are said to be cum dividends till the ex-dividend date.
When the stock goes ex-dividend, usually, the stock drops to the extent of dividends paid. For example, if ITC (tradin
stock price will drop to the extent of the dividend paid, and as in this case, the price of ITC will drop down to Rs.320.
paid no longer sits on the company's balance sheet; hence the stock price is adjusted. From the balance sheet persp
ck price has to factor in the shrunk balance sheet. Hence the price drops. That said, you will not always notice a signi
Sometimes, the company pays out a special dividend. A special dividend is non-recurring and happens on a 'one-tim
ared to a regular dividend, and that's when the stock price significantly drops. The drop in stock price should not be
hareholder.
Lastly, dividends can be paid anytime during the financial year. If it's paid during the financial year, it is called the int
financial year, it is called the final dividend.
11.3 – Bonus Issue
A bonus issue is a stock dividend allotted by the company to reward the shareholders. In regular dividends, cash is p
ut instead of cash. The bonus shares are issued out of the reserves of the company. The shareholders receive these
ypically come in a fixed ratio of 1:1, 2:1, 3:1, etc. In a bonus issue, the stock price declines to the extent of the bonus
ection in stock price or a fall.
If the ratio is 2:1, the existing shareholders get two additional shares for every share they hold at no additional cost.
will be rewarded. The total holding after the bonus issue will become 300 shares. When the bonus shares are issued
investment's overall value will remain the same.
To illustrate this, let us assume a bonus issue on different ratios – 1:1, 3:1 and 5:1

Bonus Issue
No. of shares held before bonus.
Share price before Bonus issue
Value of Investment
No. of shares post Bonus.
Share price after Bonus issue
Value of Investment

1:1
100
75
7,500
200
37.5
7500

3:1
30
550

16,500
120
137.5
16,500

5:1
2000
15
30,000
12,000
2.5
30,000

So as you see, in a bonus issue, only the number of shares increases, and your investment value remains the same b
The bonus announcement date, ex-bonus date, and record date are similar to the dividend issue.
Companies issue bonus shares to encourage retail participation, especially when the company's price per share is ve
number of outstanding shares increases by issuing bonus shares, but the share price is slashed, as shown in the exa
Think about this – fewer retail participants can buy or sell that share if the share price is bloated (I mean just the per-
re price of MRF Limited is in the region of Rs.90,000 per share. A retail investor has to shell out 90K to buy and invest
th, say, Rs.25,000 to invest, can never buy MRF. Many retail investors spread the risk across 100s and 1000s of invest
bloats, companies issue a bonus share to slash the stock price without impacting any other financial metric, which is
Why isn't MRF splitting the shares, then? Well, at the end of the day, the decision is solely dependent on the company
ust wont indulge in these corporate actions

11.4 – Stock Split

The word stock split sounds weird, but this happens regularly in the markets. What this means is quite literally – the
Similar to a bonus issue, when the company declares a stock split, the number of shares held increases, but the inve
and a split is that in the bonus issue, the face value of the company remains unchanged, but in a stock split, the face
there is a 1:2 stock split, then the face value will change to Rs.5. If you owned one share before the split, you would r
We will illustrate this with an example:

Split Ratio
Old FV
No. of shares you own before split
Share Price before split
Investment Value before split
New FV
No. of shares you own after the split
Share Price after the split
Investment value after the split

1:2
10
100
900
90,000
5
200
450
90,000

1:5
10
100

900
90,000
2
500
180
90,000

Like a bonus issue, a stock split encourages more retail participation by reducing the value per share. The dates and
milar to dividend and bonus issues.
11.5 – Rights Issue
The idea behind a rights issue is to raise fresh capital. However, instead of going public, the company approaches its
d IPO and a select group of people (existing shareholders). The rights issue could indicate promising new developme
u need to evaluate the reasons for the right issue and determine if it makes sense. The shareholders can subscribe t
xample, 1:4 rights issue means for every four shares; the shareholder can subscribe to 1 additional share. The new s
what prevails in the markets. For example, if a stock is trading at Rs.500 per share, then the right issue could be at a
However, a word of caution – The investor should not be swayed by the company's discount, but they should look be
paying money to acquire shares. Hence the shareholder should subscribe only if he or she is completely convinced a
announces the right issue, the stock price can go below the right issue price. If the market price is below the subscrip
e open market.
11.6 – Buyback of shares
A buyback can be seen as a company's method to invest in itself by buying shares from other investors in the marke
however, the buyback of shares is an important corporate restructuring method. There could be many reasons why

Improve the profitability on a per-share basis
To consolidate their stake in the company.
To prevent other companies from taking over.
To show the confidence of the promoters about their company.
To support the share price from declining in the markets.

When a company announces a buyback, it signals the company's confidence in itself. Hence this is usually positive fo
aluate the reasons for the corporate action.

Key takeaways from this chapter

Corporate actions have an impact on stock prices.
Dividends are a means of rewarding shareholders. The dividend is announced as a percentage of the face value.
You must own the stock before the ex-dividend date to get the dividend.
A bonus issue is a form of stock dividend. This is the company's way of rewarding the shareholders with additional sl
A stock split is done based on the face value. The face value and the stock price change in proportion to the change i
A rights issue is how the company raises fresh capital from the existing shareholders. Subscribe to it only if you think
Buyback signals a positive outlook for the promoters. This also conveys to the shareholders that the promoters are c

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Growing climate concerns and social injustice have more investors wondering about how to invest in environmenta
investing is to make a difference with the dollars you invest by supporting companies that demonstrate policies con
nd furthering sound governance. If you want to grow your wealth while creating a more just world, then you need to
pening a brokerage account to researching ESG investments. This article will cover a range of ESG investments and s

How to Invest In ESG
How to incorporate ESG factors in investing is straightforward. With accessible ESG screeners as well as funds dedic
lecting a few screening parameters and searching through a database for the sustainable investments that fit your n

Steps Required to Invest in ESG
To begin your ESG investing journey, you'll need to choose an investment platform, typically an online brokerage ac
search section of the platform to screen for your ESG investments. Next, pick the assets that fit your criteria and pro

Here's how it works.

Step 1: Open an Online Brokerage Account

Choose a brokerage account: Review features, available assets, and costs related to the investment platform. Evalua
ia. Check out trusted broker reviews. Decide whether you prefer a taxable or retirement account.
Begin the application process: The online process to open a brokerage account requires you to present your name, a
's license, and financial details.1
Fund your account: After creating the account, set up a funding source. Link a bank savings or checking account to th
e bank's requirements. It might take several days for the money to transfer from your bank to your brokerage accou

Step 2: Understand Your ESG Criteria

ESG factors encompass a range of criteria spanning the environment, societal issues, and sound government. ESG fu
road environmental, social or governance framework. Other ESG assets may focus on components of ESG investing,
ersity, minority empowerment, greater board diversity, investing in green projects, and ethical labor management.

Most screeners assign a company an ESG score.2 The score includes how well the company fits within widely accept
e to five. Before screening to find the best ESG companies to invest in, determine the lowest ESG score you'll accept.
fund, or prefer screening for individual ESG companies.

Step 3: Research ESG Investments

Next decide among two ESG investing approaches. With the self-directed investing route, you screen for and select y
r ESG investing, you might consider a robo-advisor that offers ESG investments. Robo-advisors are low-fee investmen
with your goals and risk tolerance levels.

Self-directed ESG investing: From your investment broker's research tab, access the screener for the type of asset (fu
at you prefer and choose the minimum acceptable ESG score. Additional search criteria depend upon your investme
and a specific fee level. For stocks, you might select market cap, industry, or other criteria. From the screened list, yo
ual assets further to select the one(s) that meet your needs. Robo-advisor for ESG investing: For those who prefer th
s a good alternative. Most robo-advisors ask a few questions about your age, financial goals, and risk tolerance. From
ation or mix of stock, bond, and alternative funds to meet your needs. For ESG investing with a robo-advisor, you'll p
to choose a specific ESG factor portfolio, such as climate or social impact, in which to invest. Some platforms, like Su
se from various types of ESG investing.

Step 4: Choose an ESG Investment

After you've selected your ESG investments, you're ready to proceed. The final step in how to invest in ESG compani
app or desktop. While on the screen for the ESG investment there is usually a button labeled "Trade." Or you can sel

Once on the trade screen, you'll follow these simple steps:

Type in the investment's ticker symbol. Most trade tickets will pre-populate this information from the screener selec
Select “Buy.”
Choose either a dollar amount or number of shares.
Select the order type, either market or limit.
Confirm the order.

The Orders page of the platform will show the details of the trade and whether it has been filled or not. Once the or
to fund the new ESG stock or fund purchase.

Compare Top ESG Investing Platforms

Wealthfront
Robo-Advisor
0.25% for most accounts, no trading commission or fees for withdrawals, minimums, or transfers
$500

Betterment
Robo-Advisor
0.25% (annual) for investing plan accounts with at least $20,000 or at least $250 per month in recurring account dep
l) fee on accounts with at least $100,000 in assets provides account holders with unlimited access to certified financ
nvestment and cryptocurrency accounts, but not cash accounts. For accounts with at least $2 million, there is a fee d
$0, $10 minimum to start investing

M1 Finance
Robo-Advisor
$0
$100 ($500 minimum for retirement accounts)

Ellevest
Robo- Advisor
$5 or $9 monthly subscription fee, depending on level of membership chosen
$0 for Plus, or Executive, $1,000,000 for Private Wealth

Vanguard
Online Broker
$0/stock and ETF trade, $0 plus $1 per contract for options
$0

Charles Schwab
Online Broker
$0 for stock/ETF trades, $0.65 per contract for options
$0

Ally Invest
Online Broker
$0 stock trades, $0.50 per contract for options trades
$0

What You Need to Open an Online Brokerage Account

Opening an online brokerage account is as easy as following the online prompts.1 Click on the button that says "sta
ancial information listed below. After this, you simply link a funding source (usually a bank account) and you're ready

Personal Information

The brokerage industry follows the highest security and compliance levels when dealing with your money and inves
aw to ensure that you are who you claim to be and is protected by the company.

Here is the personal information that you'll typically need to open an online brokerage account:

NameSocial Security number (or Taxpayer Identification Number)AddressTelephone numberE-mail addressDate of
n document

Financial Information

Investment brokers are closely regulated and must ensure your suitability for the various investment products that
to provide financial information as part of the know your client standard, including:

Employment status and occupationWhether you are employed by a brokerage firmAnnual incomeNet worthInvestm

Understand the Basics

ESG investing is a strategy to ferret out companies that meet specific environmental, social, and good governance p

Here's an example of the factors that are considered in each of the ESG or sustainable investing categories:

Environmental: Carbon footprint, climate impact, and natural resource conservation Social: Employee wellbeing, co
ces, business ethics, and board of director diversity

The growth in ESG investing is driven by a broad desire for a more just society. ESG investors hope that by investing
t meet the ESG standards and thus further a healthier planet and more compassionate corporate society.

How Are ESG Scores Calculated?

An ESG score is a quantifiable determinant of a company's rank on a range of environmental, social, and governanc
e ESG scores. ESG scores are based on information from securities filings, corporate disclosures, government datab
y assign companies and funds an ESG score between one and five.

When searching for ESG investments, select your preferred ESG score. Scores will vary by industry and reporting ag
f several inputs into an investment decision.

ESG Investing Benefits

Wondering why to invest in ESG? The reasons vary and include the potential personal, financial, and societal benefit
les governments, businesses, and individuals to work together to progress on societal and global issues.

ESG investing benefits include:

Sustainable investing can have a positive impact on the world.Sustainable investing can deliver equal or, in some ca
vesting.45ESG investing enables investors to invest in accord with their personal values.

Types of ESG Investments

With the popularity of sustainable ESG investing, there are many ESG investments available. Self-directed investors
er robo-advisors or managed portfolios have many choices as well.

Types of ESG investments:

Stocks BondsMutual fundsETFs

Factors to Consider When Investing in ESG

ESG investing remains a strategy to build long-term wealth. Sustainable investors should consider ESG scores along
include fundamental analysis for stock picking, meaning ESG ratings are a metric along with debt-to-equity ratios an
pense ratios, performance metrics, and the stated investment strategy.

Begin your search for ESG investments by choosing a platform with robust investment selection and screening. This
es such as Morningstar can also provide useful ESG investment research information. Next, you will select the scree

Following are factors to consider when investing in ESG:6

Type or asset class of investment: Begin by choosing the type of investment you're seeking. Popular choices are stoc
S. or international stocks or funds. Other options include specific sectors such as healthcare or technology. Global in
unds. ESG bond funds are also available at many brokers.ESG score: Scores will typically range from one to five. The
er adjusting the rating depending upon how many investments are available.Fees: For fund investors, the annual ex
arch supports the correlation between lower cost funds and higher performance over the long-term.Investment me
mentum, revenue growth, low debt ratios, or other factors. For bond investors, you might consider credit quality or

FAQs

What Are ESG Companies?

ESG companies meet one or more of the widely accepted environmental, social, or governance criteria. Depending
ic score that is based upon the rating criteria. It is important to dig into the criteria to understand how companies ar
g organizations provide lists of ESG companies.You won't find tobacco companies on an ESG company list due to th
ly omitted. A quick internet search will yield multiple lists of ESG companies to use as a springboard for your ESG co

What Are the Best ESG Funds?

There are a few fund families dedicated solely to ESG investing such as Pax World Funds and Calvert Group. That sa
like iShares or Vanguard. A quick Morningstar ETF search of ESG funds with a 4 or 5 ranking (out of 5) yielded 640 of
at matter most to you. If you're seeking an ESG fund that focuses on gender diversity, you might like SPDR® MSCI U
or international ESG equity fund, there are scores from which to choose such as iShares ESG Aware MSCI USA ETF (
nfortunately, there is not any list of best ESG funds that is universally agreed upon.

Does ESG Investing Make a Difference?

The results are inconclusive. A recent Harvard Business Review article included research from Columbia University a
147 U.S. companies found in ESG portfolios with 2,428 U.S. companies found in non-ESG portfolios.7 The surprising
liance records for labor and environmental metrics. This study also determined that those companies added to ESG
liance. Adding to the confusion, there is no universally accepted definition or ESG scoring method.8 Performance of
remains to be seen whether ESG investing actually helps companies comply with standard global ESG initiatives or n

Is ESG Investing Ethical?
ESG investing relates to ethical behavior and ascribes to the common good theory, which encourages citizens to sacr
vior, such as caring for the earth, treating all individuals fairly, and righting societal injustices. It’s difficult to definitive
thical behavior and creates a better society. That said, as a society, it is ethical to encourage companies to transact th
hat light, ESG investing is focused on the higher societal goals and therefore ESG investing is generally considered et

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The internet has connected the world in more ways than any other technology. With people getting more concerned
tate seems inadequate. There are serious concerns over how big companies handle and monetize user data, creatin
tive that is becoming popular because it puts the internet's power back into the hands of end users. We’ve answered
ay any beginner investor can understand.

How to Invest in Web 3.0
Web 3.0 offers investors different investment vehicles that can cater to different risk appetites. Nevertheless, just lik
should only be done with adequate research and a good strategy.

The most common Web3 investment options are stocks, cryptos, and NFTs. However, there are also less popular inv
nto the IDO (Initial DEX Offering) or ICO (Initial Coin Offering) of a crypto company. In both methods, you invest in a c
efore launch.

One thing to note is that most of Web3 investing is based on narratives: investors spreading the word on what a cor
depend on narratives when making decisions.That’s because some Web3 influencers push a good narrative about a
ping the project. Instead, focus on investments with a reasonable historic performance, like these three options.

Invest in Stocks Involved With Web 3.0
Stocks are one of the easiest ways to get into Web3, especially as they give you some level of Web3 exposure. Sever
ltiple sources of income, and so might not be affected by a Web3 downturn like these Web3 stocks:

Coinbase (COIN): Coinbase is the top Web3 stock for anyone looking to invest in Web3. The American crypto exchan
the conversion of crypto to fiat, and offering an all-inclusive wallet that supports NFTs.Meta (META): Meta might hav
still an important player in the Web3 space. Currently, Meta is building two Metaverses: Horizon Worlds and Workpla
planning to launch augmented reality (AR) glasses to help people experience the Metaverse better and might even l
on. Currently, it has integrated a lot of AR features in selected devices.X (formerly Twitter): X is the preferred social p
ng an open supporter of Dogecoin, X's stock might be a good buy. Additionally, X supports NFT integration and allow

Best Online Brokers

Platform
Account Minimum
Fees

Merrill Edge

$0
$0.00 per stock trade. Options trades $0 per leg plus $0.65 per contract

E*TRADE
$0
No commission for stock/ETF trades. Options are $0.50-$0.65 per contract, depending on trading volume.

Invest in Non-Fungible Tokens (NFTs)

NFTs are unique digital assets on a blockchain. They show ownership and cannot be copied. You can buy an NFT fro
mint them and hold for a profit.

NFTs are important Web3 investments because they can be used to unlock special privileges or as an investment in

Invest in Cryptocurrencies

Cryptocurrencies are digital currencies operated by a decentralized entity on the blockchain. Like regular money, cry
ent option. Crypto allows direct exposure into the space and is a good fit for people who want to aggressively invest

Crypto is highly volatile. So, if you're a risk-averse trader, you might want to consider other lower-risk options like cry
with direct exposure but cushion you from the market's daily volatility.

Best Cryptocurrency Exchanges

Company
Transaction Fees
Currencies
Minimum Deposit or Purchase
Trade Limits

Kraken
0.00% to 0.26%
185+
$1
No

Coinbase
0.00% to 0.60%
200+
$2
Yes

Crypto.com
0.00% to 0.075%
250+
$1
Yes

Know the Risks of Investing in Web 3.0

Web 3.0 investments, like any other investment, poses some risk to investors. The biggest risks are volatility, securit
infrastructures.

Volatility: Prices of Web3 assets change widely over short periods, which could be a huge plus or minus for your por
contracts issues, security breaches, and hacks are common occurrences in Web3. If a project is attacked, it could lea
ojects that have undergone a full audit.Reliability: The best Web3 investments are not always reliable. Your best bet
er hype.

Why Invest in Web 3.0

The foundation of Web3 is built on emerging technologies such as blockchain tech, smart contracts, and AI. An inve
pter of these disruptive technologies.

Web3 has the potential to overturn how we do almost everything, from shopping to payments to the way we consu
raise startup capital and generate money from their funding rounds.

Most importantly, investment in Web3 is largely profitable and can provide impressive returns over shorter time fra

To get the most out of any Web3 investment, you must:

Use a secure wallet to store digital assets like cryptos and NFTs.Never share the PIN/password to your wallet.Avoid
aps.Never open unofficial links or claim "free giveaways."

Factors to Consider When Investing in Web 3.0

Investing in Web3 can be challenging, especially if you don't have a clear plan or failed to do your research. It's esse
stment:

Your investment goalsThe team behind a project or companyYour risk tolerance levelsWeb3 regulations in your co

After you have clearly designed and mapped out your investment goals and the investment timeline, you need to k
with publicly known founders. You can easily reach out in case the project goes south. Assess your risk tolerance le
issues with your investment.

FAQs

What Is Web 3.0?

Web 3.0 (or Web3) is a general name for the new, user-centric version of the internet that integrates new concepts li
I), virtual reality (VR), and augmented reality (AR) into everyday internet use. It is a decentralized version of the intern
usage and sharing while enhancing monetization and reducing exposure to data manipulation.The concept of Web3

echnologies into the existing infrastructure, allowing everyone to freely use the internet. For example, if you make a
standards, the social media giant could take the post down or ban your account. This would likely be impossible in W
still a work in progress, many individuals, companies, and even governments have started to position themselves ad
framework for integrating this technology into many of its city's processes. Since Gavin Wood coined the term in 201
In recent years, there have been lots of conversations around Web3 and the opportunities it offers investors. While W
any have yet to realize its importance and how they can invest before it officially launches.

Can You Invest Directly In Web 3.0?
No. You cannot invest directly in Web 3.0, but you can choose to be an active or passive investor through a variety of
rrency and NFTs, while passive investment options involve buying stocks in companies actively engaged in Web 3.0.

What’s the Difference Between Web 2.0 and Web 3.0?
Web 2.0 is the current internet, which has birthed innovations like social media, e-commerce stores, and search engi
to create content, unlike in Web 1.0, where internet users could only access limited information. Although beneficial,
giving tech giants access to tons of user data.Web 3.0 is an upgrade to Web 2.0 and offers a way for internet users to
d share information, and voluntarily conceal their digital identities. In Web 3.0, users will make faster and cheaper pa
taverse development currently underway, Web3 could change how we experience the world around us, opening us t

Is Investing in Web 3.0 Safe?
Web 3.0 investment options are more volatile than regular investment options. Although not completely unsafe, the
his is why it’s critical to have a good level of knowledge, do your research, and come up with a robust investment pla
f regulations. This new technology is still very much unregulated, and governments and regulating bodies could insti

Who Should Invest in Web 3.0?
Web 3.0 investing is not for all types of investors, especially those with a low-risk appetite or who are looking to get i
ss that requires some level of industry knowledge, patience, and timing. The nature of Web 3 investments makes the
w.High-Risk Tolerance Investing in Web 3.0 is highly risky. As a Web3 investor, you should have a huge risk appetite a
many Web 3 assets makes it a highly unpredictable asset class. For example, between February 20, 2023, and March
uching $30k. Without a huge risk appetite, you could prematurely sell your investments and make constant losses.H
need to put in a significant sum of money. Since it is recommended that you use not more than 10% of your entire p
portfolio that is not fully reliant on this investment class. A higher capital investment would yield more returns but co
everaged assets and futures trading if you have a big risk appetite but limited capital.

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5.1 – Overview
This chapter was updated on 15th November 2022. A few comments in the query section may seem out of place. Kin
The previous chapter gave us perspective on how a company evolves from the idea generation stage until it decides
the previous chapter was to give you a sense of how a business matures over time. Of course, many nuances were i
elped. The emphasis was on the different stages of business and funding options available at various stages of busin

Circumstances leading to an IPO are extremely important to understand because the IPO market, also called the Prim
estors. In this chapter, we will understand the IPO process and the many different aspects of a company’s IPO.
5.2 – Why do companies go public?
We closed the previous chapter with a few unanswered questions: Why did the company decide to file for an IPO, an
When a company decides to file for an IPO, one of the main reasons is to raise funds to fuel its CAPEX requirement. A
times, a company raises funds via IPO to reduce a high-cost debt, or sometimes a company can IPO to give an exit fo
o. Think about a company that went IPO recently, and google for the IPO reason, and you’ll know why the company w
The promoter has three advantages in taking his company public –

Raise funds to meet CAPEX requirement
Avoid the need to raise debt which means there are no finance charges to pay, which further translates to better profitability.
The promoter can spread the risk amongst a large group of investors instead of one large investor. 100s and thousands of retail investors are better than one large private equity investor.

There are other advantages as well in filing for an IPO –

Provide an exit for early investors – Once the company goes public, the shares of the company start trading publicly. Any existing company shareholders– promoters, angel investors, venture capitalists, or PE funds; can use this opportunity to sell their shares in the open market. By selling their shares, they get an exit on their initial investment in the company. Of course, there is a lock-in period before which early investors cant exit, but that is beside the point.

Reward employees –Employees, working for the company would have shares allotted to them as an incentive. This arrangement between the employee and the company is called the "Employee Stock Option" or ESOPS. The shares are allotted at a discount to the employees. Once the company goes public, the employees can see capital appreciation in the shares. A few examples where the employee benefited from ESOP would be Google, Infosys, Twitter, Facebook, Amazon, etc

Improve visibility – Going public increases visibility as the company is publicly held and traded. There is a greater cha
ing its growth.

5.3 – Merchant Bankers
Having decided to go public, the company must do a series of things to ensure a successful initial public offering. The
. Merchant bankers are called Book Running Lead Managers (BRLM)/Lead Managers (LM). The job of a merchant ban
cluding:

Conduct due diligence on the company filing for an IPO, ensure their legal compliance and issue a due diligence cert
Work closely with the company and prepare their listing documents, including Draft Red Herring Prospectus (DRHP).
Underwriting shares – In underwriting shares, merchant bankers agree to take up the unsubscribed portion of an IP
PO. The merchant banker takes up the remaining shares if the subscription is above a defined threshold but is not s
PO is deemed to have failed. All investor money is unblocked in the investors' accounts. In March 2020, Anthony Was
Help the company arrive at the price band for the IPO. A price band is the lower and upper limit of the share price w
For example, the current IPO of Keystone Realtors Limited has a price band of Rs.514 to Rs.541.
Help the company with the roadshows. The roadshow is like a promotional/marketing activity for the company's IPO
Appointment of other intermediaries, namely, registrars, bankers, advertising agencies, etc. The Lead manager also

Once the company partners with the merchant banker, they will work towards taking the company public.
5.4 – IPO sequence of events
Every step in the IPO sequence must happen under the SEBI guidelines. In general, the following is the sequence of s

Appoint a merchant banker. In case of a large public issue, the company can appoint more than one merchant bank
Apply to SEBI with a registration statement – The registration statement contains details on what the company does,
he company
Getting a nod from SEBI – Once SEBI receives the registration statement, SEBI takes a call on whether to issue a go-a

DRHP – If the company gets the initial SEBI nod, then the company needs to prepare the DRHP. A DRHP is a documer
, DRHP should contain the following details:

The estimated size of the IPO
The estimated number of shares being offered to the public
Why the company wants to go public, and how does the company plan to utilize the funds along with the timeline pr
Business description including the revenue model, expenditure details
Complete financial statements
Management Discussion and Analysis – how the company perceives future business operations to emerge
Risks involved in the business
Management details and their background

Market the IPO – This would involve TV and print advertisements to build awareness about the company and its IPO
Fix the price band – Decide the price band between which the company would like to go public. Of course, this can't l
not subscribe to the IPO
Book Building – Once the roadshow is done and the price band fixed, the company has to officially open the window
he price band is between Rs.100 and Rs.120, the public can choose a price they think is fair enough for the IPO issue
ctive quantities is called Book Building. Book building is perceived as an effective price discovery method.
Closure – After the book building window is closed (generally open for a few days), the price point at which the issue
at which maximum bids have been received.
Listing Day – This is the day when the company gets listed on the stock exchange. The listing price is the price decide
is listed at a premium, par, or discount of the cut-off price.

5.5 – What happens after the IPO?
During the bidding process, investors can bid for shares at a particular price within the specified price band. This wh
te of the issue where one bids for shares. The moment the stock gets listed and debuts on the stock exchange, the s
.
Once the stock transitions from primary to secondary markets, the stock gets traded daily on the stock exchange. Pe
Why do people trade? Why does the stock price fluctuate? We will answer all these questions and more in the subsec
5.6 – Few key IPO jargon
Before we wrap up the chapter on IPOs, let us review a few important IPO jargons.
Under subscription – Let's say the company wants to offer 100,000 shares to the public. During the book-building pr
the issue is said to be under-subscribed. This is not a great situation, as it indicates negative public sentiment.
Oversubscription – If there are 200,000 bids for 100,000 shares on offer, then the issue is said to be oversubscribed
Green Shoe Option – Part of the issue document that allows the issuer to authorize additional shares (typically 15 pe
is also called the overallotment option.
Fixed Price IPO –Sometimes, the companies fix the price of the IPO and do not opt for a price band. Such issues are
Price Band and Cut off price –A price band is a price range between which the stock gets listed. For example, if the p
t within the range. Let's say it gets listed at 125; 125 is the cut-off price.
5.6 – Recent IPOs in India
Here is a look at a few recent IPOs in India. With all the background information you now have, reading this table sho

Sl No
Name of Issue
IPO Size (INR Crs)
BRLM

Listing date

Price Band (INR)

01
Adani Wilmar Limited
3600
Kotak, JP Morgan, ICIC
8th Feb 2022

218 – 230

02
Delhivery Limited
5235
Kotak, BoFA, Citi
24th May 2022

462 – 487

03
Ethos India
472
Emkay, InCred Capital
30th May 2022

468-472

04
Aether Industries Limited
808
HDFC, Kotak
3rd June 2022

610 – 642

05
Tracxn Technologies Limited
310
IIFL Securities
20th Oct 2022

75 – 80

I hope the last two chapters gave you a sense of why a company files for an IPO and what happens during an IPO. In
and all the nuances around the secondary market.

Key takeaways from this chapter

Companies go public to raise funds, provide an exit for early investors, reward employees and gain visibility.

Merchant banker acts as a key partner with the company during the IPO process.
SEBI regulates the IPO market and has the final word on whether a company can go public or not
As an investor in the IPO, you should read through the DRHP to know everything about the company.
Most of the IPOs in India follow a book-building process.

Major stock exchanges, like the Nasdaq, are exclusive clubs—their reputations rest on the companies they trade. As
exchange. Only companies with a solid history and top-notch management behind them are considered.

The Nasdaq has four sets of listing requirements. Each company must meet at least one of the four requirement se

Key Takeaways
Major stock exchanges, like the Nasdaq, are exclusive clubs—their reputations rest on the companies they trade.The
t at least one of the four requirement sets, as well as the main rules for all companies.In addition to these requireme
r set of standards.A company has four ways to get listed on the Nasdaq, depending on the underlying fundamentals

Listing Requirements for All Companies

Each listing firm must adhere to U.S. Securities and Exchange Commission (SEC) Marketplace Rules for Nasdaq listin

The regular bid price of shares of the company's stock at the time of listing must be at least $4.00; however, a comp
2.00 if the company meets varying requirements. Typically, there must be at least three (or four depending on the cr

Companies must have a minimum of 1,250,000 publicly traded shares outstanding upon listing, excluding those hel
f the company.45

To stay listed on the Nasdaq, a company must continue to meet the minimum listing requirements or risk being deli
Companies must also have at least 450 round lot (i.e., 100 shares or more) shareholders, 2,200 total shareholders, c
over the past 12 months.5

Depending on the types of securities listed and the company's size, an application fee of $5,000 to $25,000 is requir
$50,000 to $270,000. There are also fees depending on the number of shares listed, which range from $100,000 to $

There are also several other fees, depending on the type of company, including an annual listing fee, small-cap fee f
es such as record-keeping and additional shares issued.8

In addition to the above requirements, financial standards need to be met, depending on the type of security being

Required Financial Standards

Standard No. 1: Earnings

The company must have aggregate pre-tax earnings in the prior three years of at least $11 million, in the previous tw
three years can have a net loss.1

Standard No. 2: Capitalization With Cash Flow

The company must have a minimum aggregate cash flow of at least $27.5 million for the past three fiscal years, with
rage market capitalization over the prior 12 months must be at least $550 million, and revenues in the previous fisca

Standard No. 3: Capitalization With Revenue
Companies can be removed from the cash flow requirement of the second standard if their average market capitali
over the prior fiscal year are at least $90 million.1

Standard No. 4: Assets With Equity
Companies can eliminate the cash flow and revenue requirements and decrease their market capitalization requirer
n and their stockholders' equity is at least $55 million.1

How Many Companies Are Currently Listed on the Nasdaq?
As of July 2023, there are over 3,300 companies listed on the Nasdaq exchange. The exchange has the highest tradin
per day.9

What Famous Companies Are Listed on the Nasdaq?
Many of today's famous companies, which are primarily technology companies, are listed on the Nasdaq. These com
, Netflix, and Alphabet (Google). Famous non-tech companies include Costco, PepsiCo, and Starbucks.

Can You Be Listed on the NYSE and Nasdaq?
Yes, companies can be listed on more than one exchange, known as a dual listing. In order to do so, a company mus
however, don't usually do this.

The Bottom Line
A company has four ways to get listed on the Nasdaq, depending on the company's underlying fundamentals. If a co
minimum, it has to make it up with larger minimum amounts in another area, like revenue. This helps to improve th

After a company gets listed on the market, it must maintain certain standards to continue trading. Failure to meet th
ts delisting. Falling below the minimum required share price or market capitalization is one of the major factors trigg
the exchange.

What Is a Fractional Share?
Less than one full share of equity is called a fractional share. Such shares may be the result of stock splits, dividend
ypically, fractional shares aren't available from the stock market, and while they have value to investors, they are als

Key Takeaways
A fractional share is a portion of an equity stock that is less than one full share.Fractional shares often result from st
shares.Mergers or acquisitions create fractional shares, as companies combine new common stock using a predeter
tment plans often leave the investor with fractional shares.Fractional shares don't trade on the open market; the onl
Understanding a Fractional Share
Fractional shares come about in a number of ways, including dividend reinvestment plans, stock splits, mergers, and

Dividend Reinvestment Plans
Dividend reinvestment plans (DRIP) often create fractional shares. A dividend reinvestment plan is a plan in which a
s to use dividend payouts to purchase more of the same shares. As this amount "drips" back into the purchase of mo
ain distributions and dollar-cost averaging programs can also result in purchasing fractional shares.

Stock Splits
Stock splits don't always result in an even number of shares. A 3-for-2 stock split would create three shares for every
er of shares would end up with a fractional share after the split. Three shares would become 4½, five would become

Mergers and Acquisitions

Mergers and acquisitions (M&As) may also create fractional shares since companies combine new common stock us
for shareholders.

Some brokerage firms will split whole shares intentionally so they can sell fractional shares to clients. This division o
e Amazon (AMZN) or Alphabet, Google's parent company (GOOGL). As of March 2020, AMZN was selling for more tha
.12 Fractional shares often can be the only way individual investors can buy stock insuch companies.

For example, a young investor with limited funds might have their heart set on buying stock in Amazon. Starting wit
stock, so they might find a brokerage firm willing to sell a fractional share. They could invest half of the money in on
t in lower-priced stocks that would allow them to buy full shares.

In the event of stocks splits, mergers, and acquisitions, shareholders sometimes are given the option of obtaining ca
ble.

Trading Fractional Shares

The only way to sell fractional shares is through a major brokerage firm, which can join them with other fractional sh
s not have a high demand in the marketplace, selling the fractional shares might take longer than hoped.

Not everyone wants to hold onto fractional shares, especially if they ended up with them for inadvertent reasons su
k priced at $12 per share. After a 3-for-2 stock split, they would end up with 337½ shares priced at $8 per share. If th
more likely to find a brokerage firm willing to take the fractional share. Or they could find a brokerage firm willing to
es to 338.

Real-World Example of a Fractional Share

In November of 2019, Interactive Brokers became the first of the major online brokers to offer fractional shares trad
actional shares trading of equities and ETFs.4

A mid-cap index provides a benchmark for investors interested in gauging the relative performance of mid-cap stocl
e-traded funds (ETFs) and mutual funds. A mid-cap stock is defined as any equity security whose market capitalizatio
lion.1 Some investment companies put the mid-cap range at about $3 billion to $10 billion.2 However, that range is r
ces, mid-cap companies are generally in the middle of their growth curve and are expected to post sustained increas
risky as small-caps, mid-caps tend to be riskier than large-caps.3

There are a number of mid-cap indexes used as benchmarks to gauge the performance of mid-cap investments. No
dex, which is the default benchmark for many large-cap stocks and funds. Indeed, the top three large-cap ETFs by as
ach of the top three mid-cap ETFs tracks a separate index. And within the top 10, there are four separate broad-base
themed indexes, such as value or growth, rather than broad-based).5 This is based on data from ETF Database as of

Those four mid-cap indexes are:

CRSP U.S. Mid Cap Index (CRSPMI1)
Russell Midcap Index (RMCC)
Dow Jones U.S. Mid-Cap Total Stock Market Index (DWM)
S&P MidCap 400 Index (SP400)

Unlike the large-cap universe, there is no clear index leader for mid-caps and the four indexes listed above vary quit
g than large-cap investing. Understanding which index to use as a benchmark for a particular investment is importar
derperforming. Below, we look at the four mid-cap indexes listed above in more detail in order to give investors a be
of mid-cap investments.

Key Takeaways

A mid-cap stock is a stock whose market cap is generally between $2 billion and $10 billion.There are four different r
Index, the Dow Jones U.S. Mid-Cap Total Stock Market Index, and the S&P MidCap 400 Index.These indexes differ wi
e among investors that the S&P 500 does with large-cap indexes.This means investors need to be aware of the best i
p holdings.All of this illustrates that though market capitalization is an important thing to keep in mind when analyzi
ap" and "mid-cap" are ultimately arbitrary.

Index Key Stat Comparison Table

Name
CRSP U.S. Mid Cap Index (CRSPMI1)
Russell Midcap Index (RMCC)
Dow Jones U.S. Mid-Cap Total Stock Market Index (DWM)
S&P MidCap 400 Index (SP400)

Number of Stocks
365
824
502
400

Largest Market Cap
$51.0 billion
$61.4 billion
$40.0 billion
$17.3 billion

Smallest Market Cap
$205 million
Data Not Available
$40.9 million
$1.6 billion

Median Market Cap
$18.2 billion
$10.7 billion

$8.0 billion
$5.5 billion

Mean Market Cap
$19.0 billion
$24.0 billion
$9.1 billion
$6.1 billion

Weight of the Largest Constituent*
0.7%
0.6% *statistic is based on the iShares Russell Mid-Cap ETF (IWR)
0.9%
0.7%

Weight of the Top 10*
6.7%
4.8% *statistic is based on the iShares Russell Mid-Cap ETF (IWR)
5.9%
6.4%

1-Year Trailing Total Return*
6.2%
4.2%
0.3% *statistic is based on the Schwab U.S. Mid-Cap ETF (SCHM)
0.9%

3-Year Trailing Total Return*
50.6%
47.3%
38.3% *statistic is based on the Schwab U.S. Mid-Cap ETF (SCHM)
42.6%

5-Year Trailing Total Return
85.6%
82.3%
72.7% *statistic is based on the Schwab U.S. Mid-Cap ETF (SCHM)
69.3%

Sources: data in rows from "Number of Stocks" to "Weight of the Top 10" is as of March 31, 2022, and is from: the C
ell Mid-Cap ETF, which tracks the Russell Midcap Index; the Dow Jones U.S. Mid-Cap Total Stock Market Index (downl
t PDF); all total return data is from YCharts as of April 5, 2022; note that the total return data for the Dow Jones U.S. M
. Mid-Cap ETF (SCHM), which tracks the index and has a fairly low expense ratio.

Index Sector Breakdown

Each of the four major mid-cap indexes uses slightly different breakdowns of the major market sectors. For exampl
tor instead of the more traditional "Consumer Discretionary" and "Consumer Staples" sectors. It also calls its "Energ
Estate" sector. DWM and CRSPMI1 both use the old "Telecommunications" sector classification, which was replaced

The rest of the differences in classification are minor, with a slightly different name such as "Materials" instead of th
s in the naming of sectors used by the different indexes, we have indicated those differences in the corresponding c
tor breakdown was not available for RMCC and so the sector classification used by the iShares Russell Mid-Cap ETF (

Index Sector Breakdown

CRSP U.S. Mid Cap Index
Russell Midcap Index (data based on iShares Russell Mid-Cap ETF (IWR))
Dow Jones U.S. Mid-Cap Total Stock Market Index
S&P MidCap 400 Index

Communication Services
2.0% (Telecommunications)
3.4%
0.1% (Telecommunications)
1.7%

Consumer Discretionary
13.8%
11.2%
11.3% (Consumer Services)
14.0%

Consumer Staples
4.7%
4.0%
8.7% (Consumer goods)
3.6%

Energy
6.4%
5.8%
5.0% (Oil & Gas)
3.6%

Financials
11.6%
12.5%
24.0%
14.2%

Healthcare
11.0%
11.3%
9.8%
9.2%

Industrials
14.2%
14.2%
20.9%
18.7%

Basic Materials
3.9%
6.1% (Materials)
5.1%
7.4% (Materials)

Utilities
6.4%
5.4%
3.3%
3.4%

REITs/Real Estate
9.7%
8.6%
N/A
10.1%

Information Technology
16.4% (Technology)
17.5%
11.7% (Technology)
14.1%

Sources: the CRSP U.S. Mid Cap Index; the iShares Russell Mid-Cap ETF; the Dow Jones U.S. Mid-Cap Total Stock Mar
ownload Factsheet PDF); all data as of March 31, 2022, except data for IWR (used for the Russell Midcap Index), whic
ndex may not add up to 100% due to rounding.

Mid-Cap Index ETF Comparison

Name (Ticker Symbol)
Vanguard Mid-Cap ETF (VO)
iShares Russell Mid-Cap ETF (IWR)

Schwab U.S. Mid-Cap ETF (SCHM)
iShares Core S&P Mid-Cap ETF (IJH)

Index Tracked
CRSP U.S. Mid Cap Index
Russell Midcap Index
Dow Jones U.S. Mid-Cap Total Stock Market Index
S&P MidCap 400 Index

1-Year Trailing Total Return
5.5%
3.3%
-0.3%
0.2%

Assets Under Management (AUM)
$54.2 billion
$30.2 billion
$9.8 billion
$64.5 billion

Expense Ratio
0.04%
0.19%
0.04%
0.05%

Inception Date
Jan. 26, 2004
July 17, 2001
Jan. 13, 2011
May 22, 2000

Issuer
Vanguard
BlackRock
Charles Schwab
BlackRock

Largest Holding
Palo Alto Networks Inc. (PANW)
Palo Alto Networks Inc. (PANW)
Devon Energy Corp. (DVN)
Targa Resources Corp. (TRGP)

Second-Largest Holding
Pioneer Natural Resources Co. (PXD)
Marvell Technology Inc. (MRVL)
Mosaic Co. (MOS)
Alcoa Corp. (AA)

Third-Largest Holding
Fortinet Inc. (FTNT)
Pioneer Natural Resources Co. (PXD)
ON Semiconductor Corp. (ON)
Steel Dynamics Inc. (STLD)

Sources: ETF Database: the Vanguard Mid-Cap ETF (VO), the iShares Russell Midcap ETF (IWR), the Schwab U.S. Mid-C
is as of April 7, 2022.

Mid-Cap Indexes Analyzed: Defining a Mid-Cap

Based on the four mid-cap indexes analyzed above, it's evident that "mid-cap" is a market-cap classification with fle
market-cap range of between $2 billion and $10 billion. Nor do they contain the same number of constituents, with
o significant differences in the sector breakdowns for each index. This should also help illustrate that, though marke
the dividing lines between the size categories companies are placed in are ultimately arbitrary.

The index that most closely follows the traditional market-cap range is S&P 400. Its largest and smallest market cap
ompared to the other three indexes. S&P 400's range is from a low of $1.6 billion to a high of $17.3 billion. S&P 400's
ddle of the traditional classification range. In terms of sector breakdowns, S&P 400 gives a relatively high weighting t
wever, that weighting is lower than the weighting for industrials used by DWM.8

The only other index for which the mean and median fall within the traditional range is DWM. Its mean and median
8.0 billion, respectively. However, the stock with the largest market cap within DWM is well above that upper bound
t has the stock with the smallest market cap at $40.9 million. Considering sector breakdowns, DWM is notable for its
24.0% and 20.9%, respectively.9

RMCC has the stock with the largest market cap, at $61.4 billion. That probably helps to explain why the mean mark
ry of a mid-cap stock's market-cap range.7

However, using IWR as a proxy (because data was not available for RMCC), the weight of its largest constituent, as w
west out of all the indexes. RMCC (again using IWR as its proxy) gives the largest sector weightings for information te
tion technology is the sector that receives the largest weighting within the index.10

That skewing toward large-caps is most evident in CRSPMI1. The weight of its top 10 constituents is 6.7%, which rep
, the $51.0 billion market cap of CRSPMI1's largest market-cap stock is lower than that of the RMCC, which is $61.4 bi
f CRSPMI1 are far above the traditional range for a mid-cap stock, at $18.2 billion and $19.0 billion, respectively. CRS
other three indexes. But the sector that receives the largest weighting by far in the index is information technology.

The Bottom Line

Investors have four main indexes from which to choose a benchmark for gauging the performance of their mid-cap
e each of them is tracked by some of the biggest mid-cap ETFs. They also have unique characteristics, so they are no
ot traditionally considered mid-caps, with a few of the indexes actually having mean and median market caps signifi

So though market cap is an important metric for investors to consider when looking at stocks, the boundaries of cat
so that should be kept in mind. This is particularly clear in the mid-cap space where all four indexes vary widely in te
oth in their number of holdings and sector allocations. Investors should weigh all of these factors when choosing the
nsideration their risk tolerance and their individual financial goals.

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File: /Users/avanidhagam/Desktop/aiwir/zerodha.com_varsity_chapter_the-trading-terminal_.txt

9.1 – Trading Terminal
Over the last few chapters, we have understood several things related to the stock markets. It is time for us to figure
are three options available for you to place a transaction in the stock market –

Call your stocks broker (usually on the central support number), and request to buy or sell a stock; this is called "Call
Use a web application
Use a mobile application

Regardless of which method you choose, the selected method gives you access to the stock market. Think of this acc
h as transact in shares, track your Profit & Loss, track market movements, manage your funds, view stock charts, acc
this gateway, also called a 'Trading terminal'. To explain this chapter, I'll use Zerodha's trading terminal called 'Kite.' I
l provided to you will have (should have) similar features and functionality.

You can access the trading terminal by entering the URL on your browser. For Zerodha Kite, it is kite.zerodha.com.
with your broker. A good trading terminal offers many features. We will start by understanding a few basic features.
e trading terminal, and in the process, we learn the basics practically. Here are the two tasks –

Buy one share of ITC, and
Track the price of Infosys

While we achieve the above two tasks, we will also learn about all the relevant concepts.
9.2 – The login process
The trading terminal is quite sensitive as it contains information about all your securities and funds. SEBI has been w
prevent situations where access to the client's trading terminal is compromised. To ensure adequate security, broke
entering your broker-provided user ID (it's referred to as the Kite ID in Zerodha), and a password.
Once you click login, the user id and password are authenticated, and then you are prompted to enter an external T
e time sensitive and keep changing once in a few seconds. TOTPs can be set up using 3rd party authentication softw

Once you validate the TOTP, you will instantly get access to your trading account. I'd encourage you to read this artic
d to safeguard your trading account.
9.3 – The Market watch
Once you successfully log in to the platform, you must populate the 'market watch' with the stocks you are intereste
ck is loaded on the market watch, you can easily transact and query information about it. A blank market watch look

The 600.2 under equity and 136.75 under commodities indicate my fund balance. So 600 Rupees for Equity (to buy a
from your bank to your trading account or withdraw funds from your trading account back to your bank account by
Alright, let us work on the first task, i.e., to buy one share of ITC. As a first step, we will load ITC Ltd onto the market w
ch bar, and the drop-down will show the stock in different exchanges(NSE/BSE).

You only need to look for 'ITC'; other instruments, like ITC-BE, ITC-BL, or ITC6, are all different instruments. We will di
share of ITC (or ITC stock), and the relevant instrument is ITC. So let us click on the 'Add symbol' to add the stock to t
The Marketwatch will display the last traded price, a percentage change of the stock.

The last traded price of the stock (LTP) – This gives us a sense of how much the stock is trading at the very moment.
Percentage change – This indicates the percentage change in the LTP with respect to the previous day's close.

Some basic information that will be needed at this point would be:

The previous day's close – As the name suggests, it's the previous day's close price.
OHLC – Open, High, Low, and Close give us a sense of the range within which the stock is trading during the day. Do
Volumes – Gives a sense of how many shares are being traded at a particular time.

You can find this information under Market Depth. If you hover over the stock name from the left, you will find Buy, S
th, you will find the above information, including the best bid and offer price ladder. We will cover the Bid and Offer p

As you can see, the last traded price of ITC is Rs.262.25, and it is trading -0.40% lower than the previous day's close, w
the highest price and the lowest price at which the stock traded for the day was Rs.265.90 and Rs.262.15 respectively
9.4 – Buying stock through the trading terminal
Our goal is to buy one share of ITC. We now have ITC in our trading terminal. The first step for this process would be

Hover over the stock you want to Buy and click on the Buy Icon (B)
Clicking on the Buy icon invokes the buy order form, as seen below

The order form is pre-populated with some information like the price and quantity. We need to modify this as per ou
e top. By default, the exchange specified would be NSE, but you can select BSE if you wish.
The next entry is the 'order type.' By clicking on the drop-down menu, you will see the following four options:

Limit
Market
SL
SL-Market

Let us understand what these options mean.
You can opt for a 'Limit' order when you are particular about the price you want to pay for a stock. In our case, the la
our buy price to Rs.261, twenty-five paisa lower than the LTP. In such a situation, I can use the limit feature and spec
ture is great as it gives us control over the price at which we want to buy, but on the flip side, if the stock price does n
get executed, and we won't get to buy. This is one of the drawbacks of a limit order. The limit order stays valid till the
You can also opt for a market order when you intend to buy at market-available prices instead of a limited price. So i
lable, your order would go through, and ITC will be bought in and around Rs.262.25. Suppose the price goes up to Rs
t ITC at Rs.265. When you place a market order, you will never be sure of the price at which you will transact, which c
order will always ensure your order goes through, unlike a limit order.
A stop-loss order protects you from an adverse movement in the market after initiating a position. Suppose you buy
tly. But instead, what if the price of ITC starts going down? We can protect our position by defining the worst possible
let us assume you don't want to take a loss beyond Rs.255
This means you have gone long on ITC at Rs.262.25, and the maximum loss you will take on this trade is Rs.6 (255). If
e and hits the exchange, and you will be out of the loss-making position. If the price is above 255, the stop-loss order
A stop-loss order is a passive order. To activate it, we need to enter a trigger price. A trigger price, usually above the s
crossing this price does the stop-loss order transition from a passive order to an active order.
Going with the above example:
We are long at Rs.261. If the trade goes bad, we want to get rid of the position at Rs.255. Therefore 255 is the stop-lo
er would transition from passive to active. The trigger price has to be higher (or equal) to the stop-loss price. We can
the stop loss order gets active.
Returning to the main buy order entry form, we move directly to the quantity once the order type is selected. Remem

uantity box. We ignore the trigger price and disclosed quantity for now. The next thing to select is the product type.
Select CNC for delivery trades. If you intend to buy and hold the shares for multiple days/months/years, you must er
ur way of communicating this to your broker.
Select MIS if you want to trade intraday. MIS is a margin product; we will understand more about this when we take u
Once these details are filled in your order form, the order is good to hit the markets. The order gets transmitted to th
r form. A unique order ticket number is generated against your order.
Once the order is sent to the exchange, it will not get executed unless the price hits Rs.261. As soon as the price drop
your order gets through and is eventually executed. As soon as your order is executed, you will own one share of IT
9.5 – The order book and Trade book
Think of the order book and trade book as online registers within the trading terminal. The order book keeps track o
k tracks all the trades. Think of it this way – when you order goods on Amazon, you first add items to the cart. The ca
order from the cart (order book). But when you press the buy button on Amazon, the order gets placed, and a recei
ailed receipt emailed to you called a 'Contract Note'; we will discuss that later; for now think about the trade book as
rminal.
So the order book has all the details regarding your order. You can navigate to the order book by clicking the Orders

The order book provides the details of the orders you have placed. You should access the order book to:

Double-check the order details – quantity, price, order type, product type
Modify the orders – For example, if you want to modify the buy order, say from 261 to 259.
Check Status – After placing the order, you can check the status. The status would state open if the order is complete
pleted, and it would state rejected if your order has been rejected. You can also see the details of the rejection in the

If you notice, there is an open order to buy one share of ITC at Rs.261.
If you hover over the pending orders, you can find the option to modify or cancel the order.

By clicking 'modify,' the order form will be invoked, and you can make the desired changes to the order.
Once the order is processed, and the trade has been executed, the trade details will be available in the trade book. Y
Here is a snapshot of the trade book:

The trade book confirms that the user ordered to buy one share of ITC at Rs 262.2. Also, notice a unique exchange o
So with this, our first task is complete!
We now officially own one share of ITC. This share will reside in our DEMAT account until you decide to sell it.
The next task is to track the price of Infosys. The first step would be to add Infosys to the market watch. We can do th

Once we select Infy, we press add to add it to the market watch.

Notice we have two stocks on the watchlist now – Infy and ITC. We can now track live price information on Infosys. Th
its previous day's close of Rs.1015.85. Infosys opened the day at Rs.1014.80, making a low of Rs.998.40 and a high of
Please note while the open price will be fixed at Rs. 1014.80, the high and low prices change as and when the price o
to Rs.1050, the high price will reflect Rs. 1050 as the new high.
Notice below that the LTP of Infosys is in green, and ITC is in red. The cell is highlighted in green if the current LTP is
Have a look at the snapshot below:

While writing this chapter, the price of Infosys moved from 1014.20 to 1020.80, and the color changed to red from bl
Besides the basic information about the LTP, OHLC, and volume, we can also dig deeper to understand real-time ma
w your attention to the blue and red numbers called the Bid and Offer prices.
9.6 – The Bid and Offer Price
If you want to buy a share, you need to buy it from a seller. The seller will offer the shares at a price that he or she th
ed the 'Offer Price.' The offer price is highlighted in red. Let us analyze this in a bit more detail.

Sl No
Offer Price
Offer Quantity

Number of Sellers

01
3294.80
2
2

02
3294.85
4
2

03
3295.00
8
2

04
3296.20
25
1

05
3296.25
5
1

By default, the market depth window displays the top 5 bids and offer prices. In the table above, we have the top 5 o
The first offer price is Rs.3294.80. At this particular moment, this is the best price to buy the stock and there are only
fferent sellers (both of them are selling one share each). The next best price is Rs.3294.85. At this price, four shares a
s Rs.3295, at which eight shares are available, and two sellers offer this. So on and so forth.
As you notice, the higher the asking price, the lower the priority. For example, the 5th position is an asking price of R
es prioritize sellers willing to offer their shares at the lowest possible price.
Notice that even if you want to buy ten shares at Rs.3294.8, you can only buy two shares because only two are being
e price (aka limit price), you can place a market order. When you place a market order to buy 10 shares, this is how it

Two shares are bought @ Rs.3294.8
Four shares are bought @ Rs.3294.85
Four shares are bought @ Rs.3295.00

The ten shares will be bought at three different prices. Also, in the process, the LTP of Infosys will jump to Rs.3295 fr
If you want to sell a share, you need to sell it to a buyer willing to buy it from you. The buyer will buy the shares at a p
xpects is called the 'bid price.' The bid price is highlighted in blue. Let us analyze this part in a bit more detail:

Sl No
Bid Price
Bid Quantity

Number of Buyers

01
3294.75
10
5

02
3294.20
6
1

03
3294.15
1
1

04
3293.85
6
1

05
3293.75
125
1

Again by default, the market depth window displays the top five bid prices. Notice the best price at which you can se
n shares as only five buyers are willing to buy from you.
If you were to sell 20 shares at market price, the following would be the execution pattern :

Ten shares sold @ Rs.3294.75
Six shares sold @ Rs.3294.20
One share sold @ Rs.3294.15
Three shares sold @ Rs.3293.85

So, in a nutshell, the bid and offer prices give you information about the top 5 prices at which the buyers and sellers
ace their trades, especially if you are an intraday trader.
By default, the bid-offer is shown only for the top 5 prices. You can, however, get an insight into the top 20 bids and
in-depth details in the last chpater of this module.
9.7 – Conclusion
The trading terminal is your gateway to markets. The trading terminal has many features that are useful to traders. V
learning modules. At this stage, you should know how to set up a market watch, transact (buy and sell) in stocks, vie
dow.
One last thing before we wind up this chapter – the trading terminal is continuously evolving to ensure the user expe
changed, but the concepts of the order book, trade book, SL, limit order, etc, will remain the same.

Key takeaways from this chapter

A trading terminal is your gateway to markets. You must know the operations of a trading terminal if you aspire to b
You can load the stock you are interested in on the market watch to track all the relevant information.
Some basic information on a market watch is – LTP, % change, OHLC, and volumes.
You must invoke a buy order form by pressing the 'B' key to buy a stock. Likewise, to sell a stock, you need to invoke

You choose a limit order type when you are keen on transacting at a particular price; else, you can opt for a market o
You choose CNC as the product type if you want to buy and hold the stock across multiple days. If you want to trade
An order book lets you track orders that are both open and completed. You can modify the open orders by clicking o
Once the order is completed, you can view the trade details in the trade book. In the case of a market order, you can
The market watch enables you to see bids and offer prices.
The bid & offer prices refer to the price at which you can buy and sell shares. The top 5 bid and offer prices are displ

What Is a Depositary Receipt (DR)?

A depositary receipt (DR) is a negotiable certificate issued by a bank. It represents shares in a foreign company trade
ty to hold shares in the equity of foreign countries. It gives them an alternative to trading on an international market

A depositary receipt was originally a physical certificate that allowed investors to hold shares in the equity of other c
an depositary receipt (ADR), which has been offering companies, investors, and traders global investment opportuni

Key Takeaways

A depositary receipt (DR) is a negotiable certificate representing shares in a foreign company traded on a local stock
ares of foreign companies without the need to trade directly on a foreign market.Depositary receipts allow investors
in different markets and economies. Depositary receipts are more convenient and less expensive than purchasing st

Understanding Depositary Receipts (DR)

A depositary receipt allows investors to hold shares in stocks of companies that are listed on exchanges in foreign c
y with the stock exchange in the foreign market. Investors instead transact with a major financial institution within th
convenient than purchasing stocks directly in foreign markets.2

American Depositary Receipts

Investors can gain access to foreign stocks via American depositary receipts (ADRs) in the United States. ADRs are is
U.S. exchange, including the American Stock Exchange (AMEX), NYSE, or Nasdaq. The receipt is listed in U.S. dollars w
. financial institution overseas rather than a global institution holds the actual underlying security.3

ADRs are a great way to buy shares in a foreign company while earning capital gains and possibly being paid divider
h capital gains and dividends are paid in U.S. dollars.

ADR holders don't have to transact in foreign currencies because ADRs trade in U.S. dollars and clear through U.S. s
nies provide them with detailed financial information, making it easier for investors to assess the company's financia
nternational exchanges.

An Example of an ADR

ICICI Bank Ltd. is listed in India and is typically unavailable to foreign investors. But ICICI Bank has an American depo
YSE, which most U.S. investors can access.4 This provides it with much wider availability among investors.

Gain more insight about depositary receipts from our in-depth tutorial on ADR Basics.

Global Depositary Receipts

Depositary receipts have spread to other parts of the globe in the form of global depositary receipts (GDRs), Europe
l stock exchange, but GDRs are commonly listed on European stock exchanges such as the London Stock Exchange. I
n also be denominated in euros.

A GDR works similarly to an ADR but in reverse. A U.S.-based company that wants its stock to be listed on the Londo
mpany enters into a depositary receipt agreement with the London depository bank. In turn, the London bank issues
ries.5

Advantages of Depositary Receipts

Depositary receipts can be attractive to investors because they allow them to diversify their portfolios and purchase
strategy in which a portfolio is constructed so it contains a wide variety of stocks in multiple industries. Diversifying u
ents a portfolio from being too heavily concentrated in one holding or sector.

Depositary receipts provide investors with the benefits and rights of the underlying shares, which can include voting
wouldn't have access to otherwise.

Depositary receipts are more convenient and less expensive than purchasing stocks in foreign markets. ADRs help r
ied on each transaction.

Depositary receipts help international companies raise capital globally and encourage international investment.

Disadvantages of Depositary Receipts

One of the disadvantages of depository receipts is that investors may find that many aren't listed on a stock exchan

Another potential downside to depositary receipts is their relatively low liquidity. There aren't many buyers and selle
ition. They may also come with significant administrative fees in some cases.

Depositary receipts such as ADRs don't eliminate currency risk for the underlying shares in another country. Divider
sion expenses and foreign taxes. The conversion is done in accordance with the deposit agreement. Fluctuations in t

Investors still face economic risks because the country in which the foreign company is located could experience a r
ository receipt would fluctuate as a result, along with any heightened risks in the foreign county.6

There are also risks with attending securities that aren't backed by a company. The depositary receipt may be withd
d and the proceeds distributed to investors can be long.

Frequently Asked Questions

How is a depositary receipt transaction accomplished?

A foreign-listed company typically hires a financial advisor to help it navigate regulations when it wants to create a de
omestic bank to act as the custodian and a broker in the target country. The domestic bank will list shares of the firm
n the country where the firm is located.3

How are depositary receipts taxed?

Dividends and gains earned on American depositary receipts are paid in U.S. dollars, net of expenses and foreign tax
me is still reportable and potentially taxable on your U.S. tax return, potentially resulting in double taxation unless st

What is a "sponsored" ADR?

A depositary bank works with a foreign company and its custodian bank with a sponsored American depositary rece
tock in the foreign company. Unsponsored ADRs aren't commonly available on exchanges.3

The Bottom Line

You can avoid trading directly with foreign stock exchanges by purchasing depositary receipts, but DRs come with b
ive than trading directly because the fees are often reduced. But your investment can be impacted by economic risks
arly liquid. Trades you make can be subject to some delays, so you'll want to be sure that you can weather these circ

What Is the S&P 500 Index?
The S&P 500 is a market capitalization-weighted index of the 500 leading publicly traded companies in the U.S. The i
s a division of S&P Global. While it assumed its present size (and name) in 1957, the S&P dates back to the 1920s, be
e annualized return since its inception in 1928 through Dec. 31, 2023, is 9.90%.2 The average annualized return since
3, is 10.26%.3

The average annual return (AAR) is the percentage showing the return of a mutual fund in a given period. In other w
tool for investors considering a mutual fund investment.

Key Takeaways
The S&P 500 is a market-capitalization-weighted index of the 500 leading publicly traded companies in the U.S.The in
et overall, dating back to the 1920s.The index has returned a historic annualized average return of around 10.26% si
number may sound attractive, timing is everything: Get in at a high or out at a relative low, and you will not enjoy su

The History of the S&P 500

During the first decade after its introduction in 1957, and reflecting the economic expansion in the U.S after World W
From 1969 to 1981, the index gradually declined to fall under 360 as a sign of high inflation.4
During the 2008 financial crisis and the Great Recession, the S&P 500 fell 56.8% from October 2007 to March 2009.5
The S&P bounced back from the crisis and continued its 10-year bull run from 2009 to 2019 to climb 330%.6
The COVID-19 pandemic in 2020 and the subsequent recession caused the S&P 500 to plummet over 15%.
The S&P 500 recovered during the second half of 2020, reaching several all-time highs in 2021, but dropped more th

S&P 500 Historical Returns

Year
Annual Returns With Dividends

1995
37.20%

1996
22.68%

1997
33.10%

1998
28.34%

1999
20.89%

2000
-9.03%

2001
-11.85%

2002
-21.97%

2003
28.36%

2004
10.74%

2005
4.83%

2006
15.61%

2007
5.48%

2008
-36.55

2009
25.94%

2010
14.82%

2011
2.10%

2012
15.89%

2013
32.15%

2014	13.52%
2015	1.38%
2016	11.77
2017	21.61
2018	-4.23
2019	31.21%
2020	18.02%
2021	28.47%
2022	-18.01%

Source: Aswath Damodaran, NYU Stern School of Business

How Inflation Affects S&P 500 Returns

Inflation is one of the major problems for an investor hoping to recreate that 10.13% average return regularly. Adju
around 6.37%.3 There is an additional problem posed by the question of whether that inflation-adjusted average is
from the Consumer Price Index (CPI), the index that some analysts believe vastly understates the true inflation rate.

How Market Timing Affects S&P 500 Returns

Another major factor in annual returns for an investor in the S&P 500 is when they choose to enter the market. For e
ndex, performed very well for an investor who bought between 2014 and 2018 despite some negativity in their retur

Investors who buy during market lows and hold their investment or sell at market highs will experience larger retur
ell during dips.

Attempting to time the market is not advised, particularly for beginning investors.

Stock purchase timing plays a role in returns, but there are long periods between lows and highs. It is also difficult t
the missed opportunity of selling during market lows but don't want the risk of active trading, dollar-cost averaging i

503

The number of stocks listed on the S&P 500. The total number tends to vary because there may be several compani
and Berkshire Hathaway.8

How to Invest In the S&P 500

You can't invest in the S&P 500 directly because it is a stock market index, not an individual stock or fund you can bu
the company that maintains the index.9 You can also purchase one of every stock listed on the S&P 500, but you'll n
purchase only one of each of the top 10 stocks on the index.

For most people, the simplest and most affordable option for investing in the S&P 500 is to buy shares of an exchan
ruments, a company builds a portfolio of stocks that mirror the S&P 500 index, securitizes and fractionalizes those s
nds are often provided at a much lower cost than if you were to buy one of every stock on the index to get similar pe

The first step to investing in the index is to open an account with a reputable brokerage firm such as Vanguard, Fide
platforms, where you can buy and sell most types of investments for minimal or no fees.

Then, look over the brokers' products and find an ETF or index fund that mirrors the S&P 500. Some examples are:

SPDR S&P 500 ETF (SPY)
iShares Core S&P 500 ETF (IVV)
Vanguard S&P 500 ETF (VOO)
Invesco S&P 500 Equal Weight ETF (RSP)
Schwab S&P 500 Index Fund (SWPPX)
Fidelity 500 Index Fund (FXAIX)

What Is the Average Rate of Return for the S&P 500 for the Last 20 Years?

The average annualized return of the S&P 500 between 2003 and 2023 is 10.20%.10

What Is the Average Rate of Return for the S&P 500 for the Last 10 Years?

The average rate of return for the S&P 500 since 2013 is 13.05%.11

Does the S&P 500 Return Include Dividends?

As calculated, S&P 500 returns do not include dividends. However, you can find results from some analysts that inclu
ss finance professor Aswath Damodaran is one example.12

The Bottom Line

The S&P 500 is the standard for measuring overall market returns. There have been many ups and downs in its cent
the long run. Since its inception, it has returned 9.81%.

You can invest in the S&P 500 using index funds and exchange-traded funds that mimic the index and not pay as mu
P 500 is a long game, not for the faint of heart—many investors have lost everything by panic selling during a dip. If y
of decent long-term returns, S&P 500 funds might be a suitable choice for your portfolio.

File: /Users/avanidhagam/Desktop/aiwir/www.investopedia.com_articles_investing_052216_4-benefits-holding-stocks

A long-term investment strategy entails holding investments for more than a full year. This strategy includes holding
l funds, and more. It requires discipline and patience to take a long-term approach. That's because investors must be
gher rewards down the road.

Investing in stocks and holding them is one of the best ways to grow wealth over the long term. For example, the S&
dating back to 1974, demonstrating that the stock market generates returns much more often than it doesn't.1

Key Takeaways

Long-term stock investments tend to outperform shorter-term trades by investors attempting to time the market.Em
ositive returns for investors over most 20-year time periods.Riding out temporary market downswings is often consi
sts and allows you to compound any earnings you receive from dividends.

Better Long-Term Returns

The term asset class refers to a specific category of investments. They share the same characteristics and qualities, s
monly called stocks. The asset class that's best for you depends on several factors, including your age, risk profile an
have. But which asset classes are best for long-term investors?

If we look at several decades of asset class returns, we find that stocks have generally outperformed almost all othe
80% per year between 1928 and 2023. This compares favorably to the 3.30% return of three-month Treasury bills (T-
turn of gold, to name a few.2

Emerging markets have some of the highest return potentials in the equity markets, but also carry the highest degre
urns but short-term fluctuations have impacted their performance. For instance, the 10-year annualized return of th

Small and large caps have also delivered above-average returns. For instance, the 10-year return for the Russell 200
, was 7.08% as of Jan. 26, 2024.4 The large-cap Russell 1000 index had an average return of 12.39% for the last 10 ye

Riskier equity classes have historically delivered higher returns than their more conservative counterparts.

You Ride Out Highs and Lows

Stocks are considered long-term investments. This is, in part, because it's not unusual for stocks to drop 10% to 20%

the opportunity to ride out some of these highs and lows over a period of many years or even decades to generate

Looking back at stock market returns since the 1920s, individuals have rarely lost money investing in the S&P 500 fo
Great Depression, Black Monday, the tech bubble, and the financial crisis, investors would have experienced gains h
ed for 20 years.

While past results are no guarantee of future returns, it does suggest that long-term investing in stocks generally yie

S&P Dow Jones Indices / Investopedia

Decisions May Be Less Emotional, More Lucrative

Let's face it, we're not as calm and rational as we claim to be. In fact, one of the inherent flaws in investor behavior i
be long-term investors until the stock market begins falling, which is when they tend to withdraw their money to avo

Many investors fail to remain invested in stocks when a rebound occurs. In fact, they tend to jump back in only whe
high, sell low behavior tends to cripple investor returns.

According to Dalbar's Quantitative Analysis of Investor Behavior study, the S&P 500 had an average annualized retu
the same time frame, the average equity fund investor experienced an average annual return of about 6.81%.8

There are a few reasons why this happens. Here are just a couple of them:

Investors have a fear of regret. People often fail to trust their own judgment and follow the hype instead, especially
'll regret holding onto stocks and lose a lot more money because the stocks drop in value so they end up selling thei
A sense of pessimism when things change. Optimism prevails during market rallies but the opposite is true when thi
ort-term surprise shocks, such as those related to the economy. But it's important to remember that these upsets a

Investors who pay too much attention to the stock market tend to handicap their chances of success by trying to tim
tegy would have yielded far better results.

Lower Capital Gains Tax Rate

Profits that result from the sale of any capital assets end up in a capital gain. This includes any personal assets, such
estate.

An investor who sells a security within one calendar year of buying it gets hit with taxes on any gains at a rate that's
hort-term capital gains. Depending on the individual's adjusted gross income (AGI), this tax rate could be as high as 3

Any securities that are sold after being held for more than a year result in long-term capital gains. The gains are taxe
kets may even qualify for a 0% long-term capital gains tax rate.10

More Cost-Effective

One of the main benefits of a long-term investment approach is money. Keeping your stocks in your portfolio longe
e longer you hold your investments, the fewer fees you have to pay. But how much does this all cost?

As we discussed in the last section, you save on taxes. Any gains from stock sales must be reported to the Internal R
y, which means more money out of your pocket. Remember, short-term capital gains can cost you more than if you l

Then there are trading or transaction fees. How much you pay depends on the type of account you have and the inv
harged a commission or markup, where the former is deducted when you buy and sell through a broker while mark
hese costs are charged to your account whenever you trade stocks. This means your portfolio balance will drop with

In 2024, many active investors make trades through online brokerages that provide fee-free transactions. In these c
des. However, it's still important for investors to weigh out the value of the time they spend on trades in comparison
ger-term, buy-and-hold type of strategy.

Firms often charge ongoing fees, such as account maintenance charges, that can also put a dent in your account bal
fees will add up even more when you factor in transaction fees.

Benefit From Compounding With Dividend Stocks

Dividends are corporate profits distributed by companies with a track record of success. These tend to be blue chips
l regardless of how the economy performs or when the stock market drops.

These companies pay regular dividends—usually every quarter—to eligible shareholders, which means that you get
there's a very good reason why you should reinvest the dividends into the companies that actually pay them.

If you own any bonds or mutual funds, you'll know about how compound interest affects your investments. Compou
r stock portfolio and any earlier interest you earned. This means that any interest (or dividends) that your stock port
amount in your account in the long run.

Best Types of Stocks to Hold for the Long-Term

There are several things to consider when you want to purchase stocks. Consider your age, risk tolerance, and inves
an help you figure out the kind of equity portfolio you can create in order to meet your goals. Here's a general guide
own situation:

Choose index funds. These are ETFs that track specific indexes, such as the S&P 500 or the Russell 1000, and trade ju
cost and you won't have to pick and choose specific companies in which to invest. Index funds give you similar retur
Consider dividend-paying stocks. These types of stocks can help add value to your portfolio, especially when dividen
Companies with high growth can boost your portfolio. Growth stocks tend to be associated with companies that are
than others. They are also better equipped to deliver strong earnings reports. Keep in mind, though, that this degre
be a little savvier than novice investors if you want to go this route.

As always, it's a good idea to consult with a financial professional, especially if you're new to the investment world.

If you're a millennial with your eyes on retirement, there are more resources here to help support your financial futu

What Are the Tax Benefits of Holding a Stock Long Term?

The IRS taxes capital gains based on short-term and long-term holdings. Short-term capital gains are taxed on assets
taxed on the sale of assets held for more than 12 months.Short-term capital gains are treated as ordinary income, w
acket. Long-term gains, on the other hand, are only subject to a tax of 0%, 15%, or 20%. The rate depends on your a

How Long Do You Have to Hold a Stock for It to Be Considered Long Term?
As with any asset, you must hold a stock for a minimum of 12 months in order for it to be considered a long-term inv

Can You Sell a Stock Right After Buying It?
How long you can wait until you sell the stock after buying it depends on the broker. Some firms require that you wa
to sell your stock. Others allow a certain number of same-day transactions within your account. People who make m
dered day or pattern traders and are generally required to keep a minimum balance in their accounts.

The Bottom Line
People who invest in stocks can benefit from many different trading strategies. Investors who have more experienc
ide the market waves and make money using short-term trading techniques. But that may not work for those who a
stocks for the long-term can help you ride the highs and lows of the market and benefit from lower tax rates, and it t

Restricted Shares vs. Stock Options: An Overview
Restricted shares and stock options are both forms of equity compensation, but each comes with some conditions.

Restricted shares can either be restricted stock units or restricted stock awards. Both involve vesting requirements.
along with the rights and privileges of a shareholder. Their owner may receive dividends and vote at the annual mee
sted shares if the employee leaves the company.

Stock options give an employee the right to buy a certain number of shares at an exercise price in the future. Like re
. The employee may get a windfall if and when the company's stock price exceeds the exercise price and they exercis

Key Takeaways
Restricted shares and stock options are both forms of equity compensation that are awarded to employees.Restricte
d stock awards.Restricted stock awards represent actual ownership of stock and come with conditions on the timing
mber of shares at a certain price in the future An employee benefits from stock options when they buy the stock at t
Restricted Shares
Restricted shares are unregistered, non-transferable shares issued to a company's employees. They give employees
n established companies that want to motivate people with an equity stake. Their sale is usually restricted by a vestir

When restricted shares are given to an employee, it is on condition that the employee will continue to work at the co
tone is met. This might be an earnings goal or another financial target. What's more, an executive who leaves the co
ing restrictions may have to forfeit their restricted stock.

Restricted shares are often granted in stages, each having its own vesting date or milestone attached. This gives em
ted shares are assigned a fair market value.

Restricted shares may also be restricted by a double-trigger provision. That means that an employee's shares becor
yee is fired in the restructuring that follows.

Insiders are often awarded restricted shares after a merger or other major corporate event. The restrictions are inte
company.

Restricted Stock Units and Restricted Stock Awards

There are two variations of restricted shares; restricted stock units (RSUs) and restricted stock awards. RSUs represe
of shares at a specific future date. They don't come with voting rights. They must be exercised to be converted to act
r cash. Once converted to actual shares, they confer shareholder rights (including voting rights) upon the employee.

Employees who receive restricted stock awards actually own the stock outright when it's awarded. Owners have all s

The Securities and Exchange Commission (SEC) regulates the trading of restricted stock under SEC Rule 144.1

Stock Options

Stock options represent a right to buy (or sell) shares at a specific price (the exercise price) at some future date. The
rofit by the difference between the exercise price and the actual market price.

They're are often granted by startup companies to motivate employees to help get the company off the ground.

Stock options are normally restricted by a market standoff provision, which restricts the sale of shares for a certain
ilize the market price of the stock.

Or, if stock options are provided as compensation by a company that's already public, they will often have a vesting
y a short time with shares of company stock that could become valuable.

A stock option involves a specific transaction date, an exercise (or strike) price, and the number of underlying shares
stock.

The value of a stock option depends on the difference between the exercise price and the market price of the unde

Key Differences

It's important to familiarize yourself with the differences between restricted shares and stock options because the fo
you may receive.

Summary of restricted shares and stock options features

Restricted Shares
Stock Options

Shares are granted
Shares must be purchased

Value is the fair market value of stock
Value is the difference between the exercise price and market value of underlying stock

The two variations of restricted shares are restricted stock units (RSU) and restricted stock awards
The two variations of stock options are non-qualified stock options (NSO) and incentive stock options (ISO)

Upon vesting, no action is required of employees; shares are typically deposited into a brokerage account for them
Employee must take action to exercise option and decide on next steps (whether to hold or sell)

Considered less risky because employee ultimately receives stock with fair market value
Considered more risky because value may be zero if market price is equal to or less than the exercise price

Gains are taxed as ordinary income in the year they vest (except with 83(b) election)
NSO gains are taxed as ordinary income when exercised, whether shares are kept or sold; ISOs may be taxed as ord
e minimum tax, depending on timing of sale

What Does It Mean When Shares Are Restricted?
It means that they cannot be sold until the conditions of restriction are met. For instance, restricted shares given as a
chedule that establishes a period (or periods) of time that must pass before shares can be sold. Additionally, specific
sell their shares.

When Should You Exercise Stock Options?
Generally speaking, if you have an option to buy, you'd exercise stock options within the time specified by the option
ike price. That way, you can profit by selling the shares at a higher price than what you bought them for.

What Is Better, Stock Options or Restricted Stock?
It depends on how you view both forms of compensation. Restricted shares can be considered less of an effort to de
sited in a brokerage account on your behalf by your employer. Plus, restricted shares represent actual shares given t
fort because you must exercise them and buy the underlying shares. There can be different tax implications, as well.

File: /Users/avanidhagam/Desktop/aiwir/zerodha.com_varsity_chapter_clearing-and-settlement-process_.txt

10.1 – Market structure
The topic of clearing and settlement is super important to understand as it gives you a sense of the movement of mo
market. For instance, when you buy a stock, say 100 shares of Marico, you need to clearly understand how long it tak
account. We can extend this to stock selling as well.
The lack of understanding of the clearing and settlement process could leave a void and leave you with many unansw
son, we will explore what happens behind the scenes from when you buy a stock to when it hits your DEMAT accoun
We will keep this discussion practical with a clear emphasis on what you need to know about clearing and settlemen
10.2 – What happens when you buy a stock?
Day 1 – The trade (T Day), Monday
Assume on a Monday, you buy 100 shares of Reliance Industries at Rs.1,000/- per share. The total buy value is Rs.1,0
de date; brokers refer to this as the 'T Day.' The assumption is that you intend to hold Reliance Industries in your De
ntraday trade.
When you place an order to buy, the broker quickly validates if you have the necessary funds. In this example, the or
ng account; it will be rejected otherwise. Assuming the trade is executed through Zerodha, the applicable charges ar

Sl No	Chargeable Item	Applicable Charges	Amount
01	Brokerage	Zero for Equity Delivery. For intraday, charges are 0.03% or Rs.20/- whichever is lower, per executed order	Zero
02	Security Transaction Charges(STT)	0.1% of the turnover	100/-
03	Exchange transaction Charges	0.00345% of the turnover	3.45/-
04	GST	18% of Brokerage + Transaction charges + SEBI charges	0.62/-
07	SEBI Charges	Rs.10 per crore of transaction	0.12/-
Total			104.19/-

Additionally, Rs.15/- towards stamp duty is applicable. Stamp duty is charged at 0.015% on the buy side. Hence the t
subject to change; you can visit Zerodha's Brokerage calculator to figure out the exact applicable rate when you wish
So an amount of Rs.1,00,000 plus 119.19 totaling Rs.1,00,119.19/- is required to carry out this particular transaction.
a trade, but the stock is yet to hit your DEMAT account.
Also, on the T day, the broker generates a 'contract note' and emails you the copy to your registered email id. A cont
. You can save the contract note for future reference. A contract note gives you a break up of all daily transactions ar
arges charged by the broker.
Day 2 – Trade Day + 1 (T+1 day, Tuesday)
Starting January 2023, India became the first country to implement a T+1 settlement for all the scrips listed on the st
would be delivered to your demat account on T+2 day. For example, if you bought shares on Monday, these will be c
, if you buy shares on Monday, they will be credited to your demat account on Tuesday, the next day itself.
So on Day 2, also called T+1, the settlement is due to the exchange. Assuming the purchaser and seller are trading vi
broker's pool account by the clearing corporation and credited to the selling broker's pool account. Also, on T+1 day,
cating that you own 100 shares of Reliance.
10.3 – What happens when you sell a stock?
The day you sell the stocks is again referred to as the 'T Day'. The stock gets blocked when you sell the stock from yo
armarked' for settlement. Please refer to the next section to learn more about earmarking.

Before the T+1 day, the earmarked shares are delivered to the depository. On settlement day, the blocked shares ar
tion for payin. Against the debit of such shares, you'd have received a credit for the sale after deducting all charges. Y
he funds on T-Day and the remaining 20% on T+1. In other words, the seller will be settled fully on a T+1 basis, just li
What transpires between T day and T+1 is a complex settlement process involving the stockbroker, clearing corporat
ceives multiple files to ensure the transaction goes smoothly. As far as you are concerned, you need to remember th
are a buyer, you will get the shares on T+1, and if you are a seller, the funds are credited on a T+1 basis.

10.4 – What is earmarking?

Earlier, for the settlement of a sell trade, the broker would be required to debit shares from a selling client, hold the
ecurities to the clearing corporation (CC) on T+2. Upon transfer, the client would receive a credit of funds against the
. It was usual practice for brokers to debit shares on T day or T+1 day and transfer it to CC on T+2 (since the settleme
From the time the shares were debited until they were settled, the client shares lie in the broker's pool account, poss
fied this as a potential risk and introduced "earmarking" for settlement. In this new earmarking system, shares are n
ked for settlement. Think of earmarking as a temporary hold on the securities towards an upcoming settlement for t
On settlement day, the shares are debited from the investor's account and credited to the clearing corporation. This
s in their pool account, thereby eliminating the risk that comes along. The new earmarking process has been made r

Key takeaways from this chapter

The day you make a transaction, the trade date is referred to as the 'T Day.'
The broker must issue you a contract note for all transactions by the end of T day.
When you buy a share, the same will be reflected in your DEMAT account by the end of T+1 day.
All equity/stock settlements in India happen on a T+1 basis.
When you sell shares, the shares are blocked immediately, and the sale proceeds are credited again on T+1 day.
Earmarking of shares was introduced to ensure the securities don't move out of the client's demat account to the br

File: /Users/avanidhagam/Desktop/aiwir/www.investopedia.com_how-to-buy-fractional-shares-on-fidelity-7499561.tx

One of the basic tenets of investing is to diversify your portfolio in order to hedge against market risk. This can be h
unt of money to invest. However, investing in fractional shares opens up opportunities to purchase portions of highe
p dive into how investing in fractional shares works at Fidelity and answer the basic questions needed to help you de

How to Buy Fractional Shares on Fidelity

Buying fractional shares at Fidelity is quite simple. Investors have access to more than 7,000 U.S. stocks and ETFs fo
accounts which investors can use to buy fractional shares and makes it easy to start investing with low fees and low

Step 1: Open a Fidelity account. Opening an online account at Fidelity is quick and easy. You will need to provide you
at you want to open.

Step 2: Log in to your Fidelity account. Once you have opened an account with Fidelity, you will need to log in and fu
e in real time, so the funds will need to be settled and available in your account in order to place a trade.

Step 3: Click the "Trade" tab. The "trade" tab is at the top left of your Fidelity dashboard. Once you click on "trade," a
what type of trade you'd like to make.

Step 4: Change setting from "Shares" to "Dollars." By selecting the "Dollars" setting, you will be able to buy fractional
unt, instead of buying a specific number of shares. Dollar amounts can be entered out to two decimal places, for exa
decimal places and rounded down to the nearest decimal.2

Step 5: Submit your order. Fractional share orders are entered as market orders or limit orders, and are only good f

ck “Preview order.” This will lead to a confirmation screen where you can edit, cancel, or place the order. Fractional s
u will know your share price.

Compare Some Top Online Brokers

Broker	Minimum Deposit	Stock Trades	Per Contract Options	Fractional Share Trading
Fidelity	$0.00	$0.00	$0.65	Yes
Interactive Brokers	$0.00	$0.00	$0.65	Yes
tastytrade	$0.00	$0.00	$1.00/Open Only	No

What You Need to Open a Fidelity Brokerage Account

To open your new account at Fidelity, you will need to provide your basic personal and financial information. You ca
ding on your financial investing needs and goals. The following Fidelity retail accounts are approved for buying fracti

Standard brokerage accounts Individual retirement accounts Youth account Health savings accounts (HSAs) Broker

Personal Information

When opening your account online, you will be asked to provide personal and contact information:

Full nameAddressSocial Security number Date of birthPhone numberEmail address

Financial Information

Besides providing your personal information, you will be asked to provide your financial information. This will incluc
ell as your investing goals. These are the “know your client” questions that Fidelity must ask to ensure you’re being m
situation and risk tolerance. As part of this process, you may even choose to link your current bank account or use m
y. That said, sending a check in the mail is also an option.

The Benefits of Trading on Fidelity

There are several benefits of opening an account and trading fractional shares at Fidelity:

Offers over 7000 U.S. stocks and ETFs for fractional shares trading Direct indexing, via Fidelity Managed FidFolios, us
r than an ETFCommitted to eliminating common account feesUser-friendly account features and strong portfolio ana
ded mobile experience Redesigned app dashboard

One of the key benefits to investing with Fidelity is that it offers over 7,000 U.S. stocks and ETFs for fractional share t
oose from for this type of investing, so Fidelity gives you a larger chunk of the market to work with.

Fidelity has long been recognized as a leader in the industry for its low cost fees and delivering value to customers. I
investors as markets have developed. Fidelity has introduced exposure to crypto and digital payments, in addition to
s all this through a user-friendly desktop platform and mobile experience for investors, and effectively uses dashboa
account and their progress towards financial goals.

Factors to Consider When Investing in Fractional Shares

Selection of stocks and ETFs available for fractional share investing: Fidelity has a wide selection of stock and ETF off
ares available for dollar cost averaging via fractional shares. One unique product that Fidelity offers is FidFolios, whic
of stocks and ETFs.

Fees and commissions: Getting started at Fidelity is made simple with $0 commissions for online US stock and ETF t
brokerage account.

Account minimums: Investors at Fidelity can buy fractional shares for as low as $1 and there is no minimum to open
FidFolios does require a $5,000 minimum, though.

Research amenities: Once you open an account with Fidelity, you will have access to research amenities right from y
h and news from the “News & Research” tab at the top of the dashboard, with a dropdown menu offering informatic

Educational content: Knowing how to invest, what to invest in, and how to reach your financial goals are important,
just that. Investors can utilize the “Planning & Advice” tab on their dashboard to become a more informed investor.
rom investing basics to long term care planning. Account users will also find it easy to access information regarding s
t, as well as other investment vehicles.

FAQs

What Are Fractional Shares?

Investing in fractional shares helps you to easily diversify your portfolio and invest in companies that you may otherv
Slice,” as Fidelity calls them—allow investors to buy a fraction of a whole share of a stock. With this strategy, you are
k’s price or certain number of shares. Buying fractional shares provides investors with a lower entry point of accessib
It also allows you to employ dollar cost averaging across a basket of larger stocks that you would otherwise have to
average into an ETF, for example, gives smaller investors the same advantages that large scale investors enjoy in ter

What Is Fidelity?

Fidelity is the largest U.S. brokerage, was founded in 1943, and is headquartered in Boston. Currently, the company l
er administration and $3.9 trillion in discretionary assets.5 Fidelity has been able to use its economies of scale to co
aining a low-fee structure for clients. Although it is undoubtedly a large, traditional brokerage, Fidelity has been abl
chnology and launching new products and services including digital investment management, crypto and digital pay

Do Fractional Shares Make You Money?

As with any investment, fractional shares have the potential to both make and lose money, depending on the marke
nal shares is a good way to dollar cost average your money into the market. If you are investing on a regular basis, y
ll not only allow you to take advantage of dips in the market when buying, but over time, will enable you to build a p
ey difference is that this portfolio will be diversified throughout the whole accumulation stage rather than only grow

Can You Buy Exchange-Traded Funds (ETFs) as Fractional Shares?

Yes, Fidelity offers ETFs as fractional shares. Fidelity offers investors over 7,000 choices of individual stocks and ETFS
, which allows you to create your own customized index of stocks and ETFs. This specialized product does require a $
g in fractional shares of individual stocks and ETFs for just $1.

Are Fractional Shares Harder to Sell?

Fidelity offers investors real-time trading during market hours. It is possible that fractional shares for certain securit
, which acts in a mixed capacity (as principal for the fractional share components and as agent for the whole share c
ty. Fractional shares are also not able to be transferred, so any fractional share would need to be sold prior to a tran
f larger, liquid stocks are just as easy to sell as their whole counterparts.

Fellow investors have long praised—and envied—Warren Buffett's seemingly uncanny ability to pick stocks. By stea
worth estimated at $118 billion.1 So what exactly does he look for in a stock? Here are some clues.

Key Takeaways

In picking stocks, Warren Buffett looks for companies that have provided a good return on equity over many years, p
Buffett also reviews a company's profit margins to ensure they are healthy and growing.Buffett prefers companies t
advantage.As a value investor, he seeks out stocks that are undervalued relative to the company's intrinsic worth.

Alison Czinkota / Investopedia

Warren Buffett's Value Investing Approach

Warren Buffett belongs to the value investing school, popularized by his mentor Benjamin Graham. Value investing
chnical indicators, such as moving averages, volume, or momentum. Determining intrinsic value is an exercise in un
h as earnings and income statements.2

In making investments for his holding company, Berkshire Hathaway, Buffett follows a longtime and well-publicized
ning power, a good return on equity (ROE), and capable management—and that are also sensibly priced, if not unde

To help guide him in these decisions, Buffett asks several key questions:

How Has the Company Performed?

Companies that have been providing a reliable return on equity (ROE) for many years are more desirable than thos
iew. And the greater the number of years of good ROE, the better. In order to gauge historical performance, an inve

e maintains.

When looking at a company's historic return on equity (ROE), it's also essential to compare it with the ROE of the com
How Much Debt Does the Company Have?
Having a large ratio of debt to equity should raise a red flag, especially if earnings growth has coincided with adding

Instead, Buffett prefers earnings growth to come from shareholders' equity (SE). A company with positive sharehold
s and not relying on debt to keep it growing or afloat.

How Are the Company's Profit Margins?
Buffett looks for companies that have a good profit margin, especially those whose profit margins are growing. As is
ears to discount short-term trends. For a company to stay on Buffett's radar, its management should be adept at gro
controlling operating costs.4

How Unique Are the Company's Products?
Buffett considers companies whose products and services can be easily substituted for riskier than companies with
product is crude oil may be vulnerable to competitive forces because clients can buy crude oil from any number of c

However, if the company has unique access to a more desirable grade of oil that many businesses need, that might
desirable grade of oil could be a competitive advantage that will help produce profits year after year.4

In a similar vein, Buffett has long been a major investor in Coca-Cola. While there are many colas and other soft drin

Reflecting on that investment in Berkshire Hathaway's 2022 annual report, Buffett wrote, "In August 1994—yes, 199
ares of Coca-Cola we now own. The total cost was $1.3 billion—then a very meaningful sum at Berkshire. The cash d
dividend had increased to $704 million. Growth occurred every year, just as certain as birthdays. All Charlie [Charlie M
ed to do was cash Coke's quarterly dividend checks. We expect that those checks are highly likely to grow."5

How Much of a Discount Are Shares Trading At?
This is the crux of value investing: finding companies that have good fundamentals but are trading below where the
tability.

Put another way, the goal for value investors like Buffett is to discover companies that are undervalued compared to
ulating intrinsic value, investors can look at a variety of factors—such as management strength and future earnings p

What Is Growth Investing vs. Value Investing?
Unlike value investors who seek out solid (but sometimes humdrum) companies that may be selling for less than the
ng growth prospects, almost regardless of their current price. Growth investors often put their money on young, see
ablished ones.

What Are Warren Buffett's Largest Stock Holdings?
Through his company, Berkshire Hathaway, Buffett's five largest holdings as of December 31, 2022 were (in order of
and American Express.7

What Is Warren Buffet's Most Important Investing Principle?
Warren Buffett has articulated many investing principles over the years, but one of the most important is investing in
investor. He also advocates other prudent financial practices, such as regular saving, not spending beyond your mea

The Bottom Line

Beyond his value-oriented style, Buffett is also known as a buy-and-hold investor. He is not interested in selling stoc
that he believes offer solid prospects for long-term growth. His record as an investor speaks for itself.

Have you ever wondered what happened to your socks when you put them in the dryer and never saw them again?

Many people feel the same way when they suddenly find that their brokerage account balance has taken a nosedive

Fortunately, money that is gained or lost on a stock doesn't just disappear. Read on to find out what happens to it.

Key Takeaways

When a stock tumbles and an investor loses money, the money doesn't get redistributed to someone else. Drops in
estor perception of the stock.That's because stock prices are determined by supply and demand driven by investor p
res, you have a chance to regain lost value.

Disappearing Money

Before we get to how money disappears, it is important to understand that regardless of whether the market is risin
rive the price of stocks. And it's the fluctuations in stock prices (and the points at which you buy and sell shares) that

Buy and Sell Trades

If you purchase a stock for $10 and sell it for only $5, you will lose $5 per share. You may believe that that money go
o to the person who buys the stock from you.

For example, let's say you were thinking of buying a stock at $15, and before you do so, the stock price falls to $10 p
the $5 depreciation in the stock price. Instead, you got the stock at the current market value of $10 per share.

In your mind, you may think that you saved $5, but you didn't actually earn a $5 profit. However, if the stock then ris
.

The same is true if you're holding stock and its price drops, leading you to sell it for a loss. The person buying it at th
ily profit from your loss. That's because their entry point is the lower price and they must wait for the stock to rise ab
ofit.

No one, including the company that issued the stock, pockets the money from your declining stock price. The money
e investor. The changes in price are simply an independent by-product of supply and demand and corresponding inv

Short Selling

There are investors who place trades with a broker to sell a stock at a perceived high price with the expectation that

If the stock price falls, the short seller profits by buying the stock at the lower price and closing out the trade. The ne
ith the broker.

Although short-sellers profit from a declining price, they're not taking money from you in particular when you lose c
ions and have just as much of a chance to lose or be wrong on their trade as investors who are long (own) the stock.

In other words, short-sellers profit on price declines, but it's a separate transaction from bullish investors who boug
ing.

So the question remains: Where did the money go?

Implicit and Explicit Value

The most straightforward answer to this question is that it actually disappeared into thin air, due to the decrease in
enough investors' favorable perceptions of it to move the price down by selling.

But this capacity of money to dissolve into the unknown demonstrates the complex and somewhat contradictory na
h our dreams and fantasies, and concrete, the thing with which we obtain our daily bread.

More precisely, this duplicity of money represents the two parts that make up a stock's market value: the implicit an

Implicit Value

On the one hand, value can be created or dissolved with the change in a stock's implicit value, which is determined b
ts.

For example, a pharmaceutical company with the rights to the patent for the cure for cancer may have a much high

Depending on investors' perceptions and expectations for the stock, implicit value is based on revenues and earning

If the implicit value undergoes a change—which, really, is generated by abstract things like faith and emotion—the s
leaves the owners of the stock with a loss in value because their asset is now worth less than its original price. Again,
hes due to investors' perceptions.

Explicit Value

Now that we've covered the above somewhat unreal characteristic of money, we cannot ignore how money also rep

Referred to as the accounting value (or book value), the explicit value is calculated by adding up all assets and subtra
hat would be left over if a company were to sell all of its assets at fair market value and then pay off all of the liabiliti

Without explicit value, the implicit value of the company would not exist. Investors' interpretation of the financial he
alue. Explicit value is the force behind the stock's implicit value.

Even if your brokerage account suffers a loss of value, you have a chance to regain and even exceed the loss as the s

Disappearing Trick Revealed

Let's say Cisco Systems Inc. (CSCO) had 5.81 billion shares outstanding. This means that if the value of the shares dr illion in (implicit) value.

Because Cisco has many billions of dollars in concrete assets and makes profits, we know that the change occurs no ir ironically becomes much more tangible.

In essence, what's happening is that investors, analysts, and market professionals are declaring that their projection willing to pay as much for the stock as they were before.

When investor perception of a stock diminishes, so does the demand for the stock, and, in turn, the price.

The Explicit Drives the Implicit

So faith and expectations can translate into cold hard cash, but only because of something very real driving percept and needed by people and businesses.

The better a company is at creating something for which there's demand, the higher the company's earnings will be

Should I Sell Stock If It Goes Down?

Unless there's something fundamentally wrong with the financials of the company whose stock you own (or you nee es and recovers. Avoid panic selling.

Do You Lose Money When Stocks Drop?

When the stock market declines, the market value of your stock investment can decline as well. However, because yo ove back into positive territory when the market changes direction and heads back up. So, you may lose value, but th

What Are Unrealized Gains and Losses?

An unrealized gain is the increase in value of an asset owned by an investor. An unrealized loss is a decrease in value the investor sells the asset. Unrealized gains and losses are subject to change when you continue to own the asset.

The Bottom Line

In a bull market, there is an overall positive perception of the market's ability to keep producing and creating. Becau nce that something is being, or will be, created, investors participating in a bull market can make money.

Of course, the exact opposite can happen in a bear market. In other words, the stock market can be seen as a huge

No one really knows why socks that go into the dryer never come out, but the next time that you're wondering whe up to investor perception.

12.1 – Events

Trading or investing based on just company-specific information may not be sufficient. Outside events, both econom in general. It is also important to understand the events that influence the markets.

In this chapter, we will try to understand some common events and how the stock market reacts to these events.

12.2 – Monetary Policy

The monetary policy is a tool through which the Reserve Bank of India (RBI) controls the money supply by controlling country’s central bank is responsible for setting interest rates. For example, the European Central Bank in Europe ar rates to control the money supply in the mainstream economy.

While setting the interest rates, the RBI has to strike a balance between growth and inflation. In a nutshell – if the int
larly for corporations). If corporate can't borrow easily, they cannot grow. If corporations don't grow, the economy sl
On the other hand, borrowing becomes easier when the interest rates are low. This translates to more money in the
eased spending which means the sellers tend to increase the prices of goods and services, leading to inflation.
I'd encourage you to watch this YouTube video where I've tried to explain what causes inflation and the means throu

To strike a balance, the RBI has to consider all economic factors and carefully set the key rates. Any imbalance in the
u need to track are as follows:
Repo Rate – Banks can borrow from the RBI. The rate at which RBI lends money to other banks is called the Repo Ra
 to slow economic growth. You can check the latest repo rate (And other rates, too) on RBI's website. Markets don't li
omic growth.
Reverse repo rate – Reverse Repo rate is the rate at which RBI borrows money from banks. Or in other words, Revers
 park funds with RBI. When banks deposit money to RBI, they are certain that RBI will not default, so the rate RBI offe
ly reduces when banks deposit money with RBI (at a lower rate) instead of the corporate entity. An increase in the re
money supply. Sometimes via the central bank's policy, the central bank mandates higher deposits by banks; again, t
omy.
Cash reserve ratio (CRR) – Every bank must maintain funds with RBI. The amount that they maintain is dependent on
am economy, which is not good for the economy.
The monetary policy committee members meet regularly to review the economic situation and decide upon these ke
 any active trader. The first to react to rate decisions would be interest-rate sensitive stocks across various sectors su
etals, etc.
12.3 – Inflation
Inflation is a sustained increase in the general prices of goods and services. Increasing inflation erodes the purchasin
 of onion has increased from Rs.15 to Rs.20, this price increase is attributed to inflation. Inflation is inevitable, but a h
economic uneasiness. A high level of inflation tends to send a bad signal to markets. Both the Government and RBI w
 generally measured using an index. If the inflation index increases by certain percentage points, it indicates rising in
ing off.
There are two inflation indices – The Wholesale Price Index (WPI) and Consumer Price Index (CPI).
Wholesale Price Index (WPI) – The WPI indicates the movement in prices at the wholesale level. It captures the price c
and convenient method to calculate inflation. The inflation measured here is at an institutional level and does not ne
Consumer Price Index (CPI)– The CPI, on the other hand, captures the effect of the change in prices at a retail level. A
of CPI is quite detailed as it involves classifying consumption into various categories and subcategories across urban
dex, the final CPI index is a composition of several internal indices. The CPI captures the effect of inflation on daily ho
even fuels like petrol and diesel.
The computation of CPI is quite rigorous and detailed. It is one of the most critical metrics for studying the economy.
d Programme Implementation (MOSPI), publishes the CPI numbers around the 2nd week of every month. The RBI's c
ually, a low-interest rate tends to increase inflation, and a high-interest rate tends to arrest inflation.
12.4 – Index of Industrial Production (IIP)
The Index of Industrial Production (IIP) is a short-term indicator of the country's industrial sector's progress. The dat
e Ministry of Statistics and Programme Implementation (MOSPI). As the name suggests, the IIP measures the Indian
of today, India uses the reference point of 2004-05. The reference point is also called the base year.
Roughly about 15 different industries submit their production data to the ministry, which collates the data and relea
vibrant industrial environment (as the production is going up) and hence a positive sign for the economy and marke
ence a negative sign for the economy and markets.
To sum up, an upswing in industrial production is good for the economy, and a downswing rings an alarm. As India i
 of Industrial Production is increasing.
A lower IIP number puts pressure on the RBI to lower the interest rates and aid industrial credit with cheaper credit.
12.5 – Purchasing Managers Index (PMI)
The Purchasing managers' index (PMI) is an economic indicator that tries to capture business activity across the coun
indicator where the respondents – usually the purchasing managers- indicate their business perception change conc
rvice and manufacturing sectors. The data from the survey are consolidated on a single index. Typical areas covered
and employment.
The PMI number usually oscillates around 50. A reading above 50 indicates expansion, and below 50 indicates a cont
e economy.
12.6 – Budget
A Budget is an event during which the Ministry of Finance discusses the country's finance in detail. The Finance Minis
the entire country. During the budget, major policy announcements and economic reforms are announced, which im
 a vital role in the economy.
To illustrate this further, in one of the recent budgets, the expectation was to increase the duties on a cigarette. As e
duties on a cigarette, so the prices increased. An increased cigarette price has a few implications:

Increased cigarette prices discourage smokers from buying cigarettes (needless to say, this is debatable), and hence
as ITC decreases. If the profitability decreases, investors may want to sell shares of ITC.
If market participants start selling ITC, the markets will come down because ITC is an index heavyweight.

In reaction to the budget announcement, ITC traded 3.5% lower for this precise reason.
A budget is an annual event, and it is announced during the last week of February. However, the budget announcem
ew government formation.

12.7 – Corporate Earnings Announcement

Corporate earning season is perhaps one of the important events to which the stocks react. The listed companies (tr
y quarter, also called the quarterly earnings numbers. During an earnings announcement, the corporate gives out de

Revenue growth
Expense trend
Finance charges
Profitability trends
Project updates
Key trends in the industry

Besides, some companies give an overview of what to expect from the upcoming quarters. This forecast is called 'co
Invariably every quarter, the first blue-chip company to make the quarterly announcement is Infosys Limited. They a
nfosys has to say regarding guidance as it impacts the markets.
The table below gives you an overview of the earning season in India:

Sl No	Months	Quarter	Result Announcement
01	April to June	Quarter 1 (Q1)	1st week of July
02	July to September	Quarter 2 (Q2)	1st week of Oct
03	October to December	Quarter 3 (Q3)	1st Week of Jan
04	January to March		

Quarter 4 (Q4)
1st Week of April

Do note that the 1st of April in India marks the beginning of the financial year. In the US, the financial year starts on 1
arch, and so forth.
Every quarter when the company declares its earnings, the market participants match the earnings with their expect
cipant's expectation is called the 'street expectation.'
The stock price will react positively if the company's earnings are better than the street expectations. The stock price
he street expectation.
If the street expectation and actual numbers match, the stock price tends to trade flat with a negative bias more ofte
ny positive surprises.
12.8 – Non Financial events
Apart from the events we discussed above, it would be best to watch out for other non-financial events to understan
ad a significant effect on economies around the world, disrupting the world economic order. The supply chain took a
ere were select pockets of the economy that did very well, mainly the online services industry.
Events like the Russia – Ukraine war or the tension between China and Taiwan have impacted world markets. Geo-po
instance, the war between Russia and Ukraine affects the supply of natural gas and crude oil, which significantly imp
As an active trader or a market participant, you need to watch out for these events and understand how these event
While the world economies are interconnected, isolated events (Country specific) impact the local economy. For exan
So, keep an eye on these non-financial events and how they can impact the stock markets or sometimes specific indu

Key takeaways from this chapter

Markets and individual stocks react to events. Market participants should equip themselves to understand and decip
Monetary policy is one of the most important economic events. During the monetary policy, review actions on a repo
Interest rates and inflation are related. Increasing interest rates curbs inflation and vice versa
Inflation data is released every month by MOSPI. As a consumer, CPI inflation data is what you need to track.
IIP measures industrial production activity. An increase in IIP cheers the markets, and a lower IIP disappoints the ma
PMI is a survey-based business sentiment indicator. The PMI number oscillates around 50 marks. Above 50 is good n
The Budget is an important market event where policy announcements and reform initiatives are taken. Markets and
Corporate earnings are reported every quarter. Stocks react mainly due to the variance in actual number versus the
Keep an eye on non-financial events and how they can impact the markets.

What Are Preference Shares?
Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends t
issued. If the company enters bankruptcy, preferred stockholders are entitled to be paid from company assets befor

Most preference shares have a fixed dividend, while common stocks generally do not. Preferred stock shareholders
rs usually do.

Key Takeaways
Preference shares (preferred stock) are company stock with dividends that are paid to shareholders before commor
- cumulative (guaranteed), non-cumulative, participating and convertible.Preference shares are ideal for risk-averse
any time).

Investopedia / Jessica Olah

Understanding Preference Shares

Preference shares fall under four categories: cumulative preferred stock, non-cumulative preferred stock, participat

Cumulative preferred stock includes a provision that requires the company to pay shareholders all dividends, includ olders are able to receive their dividend payments. These dividend payments are guaranteed but not always paid ou dends in arrears" and must legally go to the current owner of the stock at the time of payment. At times additional c preferred stock.

Quarterly Dividend = [(Dividend Rate) x (Par Value)] ÷ 4

Cumulative Dividends per share = Quarterly Dividend x Number of Missed Payments

Non-cumulative preferred stock does not issue any omitted or unpaid dividends. If the company chooses not to pay preferred stock have no right or power to claim such forgone dividends at any time in the future.

Participating preferred stock provides its shareholders with the right to be paid dividends in an amount equal to the ional dividend based on a predetermined condition. This additional dividend is typically designed to be paid out only reater than a predetermined per-share amount. If the company is liquidated, participating preferred shareholders m stock as well as a pro-rata share of remaining proceeds received by common shareholders.

Convertible preferred stock includes an option that allows shareholders to convert their preferred shares into a set shed date. Under normal circumstances, convertible preferred shares are exchanged in this way at the shareholder's at allows the shareholders or the issuer to force the issue. How valuable convertible common stocks are is based, ult

What are preference shares?

Preference shares, also known as preferred shares, are a type of security that offers characteristics similar to both c erence shares are typically given priority when it comes to any dividends that the company pays. In exchange, prefer upside participation as common shares.

What are the main types of preference shares?

There are four main types of preference shares: cumulative preferred, non-cumulative preferred, participating prefe entitled to receive dividends retroactively for any dividends that were not paid in prior periods, whereas non-cumula son, cumulative preferred shares will generally be more expensive than non-cumulative preferreds. Similarly, partici if certain performance targets are reached, such as company profits exceeding a specified level. Convertible preferr reference shares into common shares at a specified exercise price.

What happens if you own preference shares in a company that goes bankrupt?

If a company goes bankrupt, then the different securityholders in that company will have claim to the company's ass of the assets will depend on the specific rights given to them in their security agreements. Preference shares, for ins nd will therefore be paid before the common shareholders. However, preference shares will generally have lower pr ities.2

With a net worth of more than $96.5 billion, as of July 2022, Warren Buffett is one of the most successful investors o value, and patience, has yielded results that have consistently outperformed the market for decades. While regular the way Buffett does, we can follow one of his ongoing recommendations: Low-cost index funds are the smartest inv

As Buffett wrote in a 2016 letter to shareholders, “When trillions of dollars are managed by Wall Streeters charging h ofits, not the clients. Both large and small investors should stick with low-cost index funds.”

If you’re thinking about taking his advice, here’s what you need to know about investing in index funds.

Key Takeaways
Index funds are mutual funds or ETFs whose portfolio mirrors that of a designated index, aiming to match its perfor
other types of mutual funds.Other benefits of index funds include low fees, tax advantages (they generate less taxab
What Is an Index Fund?
An index fund is a type of mutual fund or exchange-traded fund (ETF) that holds all (or a representative sample) of t
e performance of that benchmark as closely as possible. The S&P 500 is perhaps the most well-known index, but the
t strategy you can think of. You can buy index funds through your brokerage account or directly from an index-fund

When you buy an index fund, you get a diversified selection of securities in one easy, low-cost investment. Some inc
fund, which helps lower your overall risk through broad diversification. By investing in several index funds tracking c
desired asset allocation. For example, you might put 60% of your money in stock index funds and 40% in bond index

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ad our advertiser disclosure for more info.

Compare the Best Online Brokers

Company
Category
Investopedia Rating
Account Minimum
Basic Fee

Fidelity Investments
Best Overall, Best for Low Costs, Best for ETFs
4.8
$0
$0 for stock/ETF trades, $0 plus $0.65/contract for options trade

TD Ameritrade
Best for Beginners and Best Mobile App
4.5
$0
$0 for stock/ETF trades, $0 plus $0.65/contract for options trade

Tastyworks
Best for Options
3.9
$0
$0 stock/ETF trades, $1.00 to open options trades and $0 to close

Interactive Brokers
Best for Advanced Traders and Best for International Trading
4.2
$0
$0 for IBKR Lite, Maximum $0.005 per share for Pro platform or 1% of trade value

Index Fund: Pros

Very low fees
Lower tax exposure
Passive management tends to outperform over time
Broad diversification

Index Fund: Cons

No downside protection
Doesn't take advantage of opportunities
Cannot trim under-performers
Lack of professional portfolio management

What Are the Benefits of Index Funds?
The most obvious advantage of index funds is that they have consistently beaten other types of funds in terms of to

One major reason is that they generally have much lower management fees than other funds because they are pas
earch team analyzing securities and making recommendations, the index fund's portfolio just duplicates that of its d

Index funds hold investments until the index itself changes (which doesn't happen very often), so they also have low
e in your returns, especially over the long haul.

"Huge institutional investors, viewed as a group, have long underperformed the unsophisticated index-fund investo
reholder letter. "A major reason has been fees: Many institutions pay substantial sums to consultants who, in turn, r

What's more, by trading in and out of securities less frequently than actively managed fund do, index funds generat
ders.

Index funds have still another tax advantage. Because they buy new lots of securities in the index whenever investo
f lots to choose from when selling a particular security. That means they can sell the lots with the lowest capital gain

If you're shopping for index funds, be sure to compare their expense ratios. While index funds are usually cheaper t
What Are the Drawbacks of Index Funds?
No investment is ideal, and that includes index funds. One drawback lies in their very nature: A portfolio that rises w

racks the S&P 500, for example, you'll enjoy the heights when the market is doing well, but you'll be completely vulne
ged fund, the fund manager might sense a market correction coming and adjust or even liquidate the portfolio's pos

It's easy to fuss about actively managed funds' fees. But sometimes the expertise of a good investment manager car
ever, few managers have been able to do that consistently, year after year.

Also, diversification is a double-edged sword. It smooths out volatility and lessens risk, sure; but, as is so often the c
ad-based basket of stocks in an index fund may be dragged down by some underperformers, compared to a more c

The Bottom Line

Index funds have several attractive pros but also some cons to consider. The funds are passive investments that tra
funds are nearly as automatic and hands-off as using a robo-advisorwhich is another option for those looking for lov
ompares to other investments is the best first step you can take.

Options trading entails significant risk and is not appropriate for all investors. Certain complex options and strategie
the Characteristics and Risks of Standardized Options. Supporting documentation for any claims, if applicable, will b

There is an Options Regulatory Fee that applies to both option buy and sell transactions. The fee is subject to chang

Stock price is an indicator of a company's market value, but the price of a share of stock will also depend on the nur
riced so high is usually due to the company having never or rarely having completed a stock split.

There are many ways to evaluate a stock in addition to its absolute share price. Here, we take a look at some of the

Key Takeaways

Companies are typically valued by their total market capitalization on a stock exchange, or number of shares outstar
n the most pricey shares available on an exchange, which can indicate exclusivity.Companies can also be ranked by r

Top Companies by Stock Price

The most expensive publicly traded share of all time is Warren Buffett's Berkshire Hathaway (BRK.A), which was trac
ll-time high on Jan. 18, 2022, at $487,255.1 Thanks to spectacular shareholder gains and the idiosyncrasies of its four
her than continued gains in Berkshire's share price.

Image by Sabrina Jiang © Investopedia 2020

The next company behind Berkshire, in terms of nominal share price, is NVR (NVR) at $5,154.98 per share as of Janu
trading at $3,731.02, and Amazon.com (AMZN) at $2,852.86, followed by Alphabet, Inc (GOOG) at $2,607.03 a share.2

Top Companies by Market Cap

By market capitalization, as of January 2022, Apple (AAPL) is the biggest company at $2.652 trillion, followed by Micr
lion, Amazon.com (AMZN) at $1.446 trillion, Tesla (TSLA) at $947.92 billion, and Meta (META), formerly Facebook, at $

Back in 2007, Chinese energy giant PetroChina (PTR) reached an estimated market value of around $1 trillion. Howe
capitalization stood at just $146.95 billion.3

Top Companies by Revenue

In terms of the biggest global companies by revenue, Walmart (WMT) comes in as number one—according to the Fo d Walmart was State Grid with $383,906 billion in revenues, followed by Amazon with $280,522 billion, and China Na

Sinopec Group ranks fifth with $407,009 billion in annual revenues, and the sixth and seventh spots are covered by n yearly revenues, respectively.4

Based on only U.S.-headquartered companies' 2020 performance, Walmart still has the top spot, while Amazon com re companies take up the fifth, seventh, and eighth spots: CVS, UnitedHealth Group, and McKesson, generating $256

Berkshire Hathaway ranks sixth with $254.62 billion in annual revenues, and the ninth and tenth spots are covered on in yearly revenues, respectively.5

Based on only U.S.-headquartered companies' 2019 performance, Walmart still has the top spot, while ExxonMobil ranks third with $265.59 billion and Berkshire Hathaway fourth with $247.84 billion. Healthcare companies take up t VS, generating $226.25 billion, $214.32 billion, and $194.58 billion, respectively.5

Top Private Companies

In terms of private companies, Forbes ranks Minnesota-based Cargill as the largest private U.S. company with $134. econd is Koch Industries with $115 billion in revenues and 122,000 employees. Ranking third is the grocery chain Pu 00 employees.6

The fourth and fifth largest private companies are Mars and H-E-B, which generate $40 billion and $32.8 billion, resp

The Bottom Line

On a pure market value measure, Apple has often been considered the most valuable, publicly traded company of a p mark in June 2021. It is certainly possible another company's market cap will exceed these measures, and maybe— s the highest priced single stock share.

When most people think of stocks, they typically think of publicly listed shares traded on the stock exchange. Howe stocks available, understand their unique characteristics, and be able to determine when they may represent a suita ming to take the confusion out of differing stock classes on offer to investors.

Key Takeaways

Understanding different stock categories can help investors make more informed investment decisions and reduce before dividends are issued to common shareholders but doesn't provide voting rights.Income stocks provide regul gh dividends that are higher than the market average.Blue-chip stocks are shares of well-established companies wit protection, social justice, and ethical management practices.

Common and Preferred Stock

Common stock—sometimes referred to as ordinary shares—represents partial ownership in a company. This stock . Common stockholders elect a company's board of directors and vote on corporate policies. Holders of this stock cl only after preferred stock shareholders and other debt holders have been paid. Company founders and employees

On the other hand, preferred stock, or preference shares, entitles the holder to regular dividend payments before d referred shareholders also get repaid first if the company dissolves or enters bankruptcy. Preferred stock doesn't ca ncome.1

Many companies offer both common and preferred stock. For example, Alphabet Inc.—Google's parent company— OOG), its preferred Class C stock.2

Growth Stocks vs. Value Stocks

As their name suggests, growth stocks refer to equities expected to grow at a faster rate compared to the broader n
of economic expansion and when interest rates are low. For instance, technology stocks have significantly outperfor
p funding. Investors can monitor growth stocks by following the themed exchange-traded fund (ETF), the SPDR Portf

Conversely, value stocks trade at a discount to what a company's performance might otherwise indicate, typically ha
tocks—such as financial, healthcare, and energy names—tend to outperform during periods of economic recovery, a
alue stocks by adding the SPDR Portfolio S&P 500 Value ETF (SPYV) to their watchlist.5

Read about Investopedia's 10 Rules of Investing by picking up a copy of our special issue print edition.

Income Stocks

Income stocks are equities that provide regular income by distributing a company's profits, or excess cash, through
ese stocks—think utilities—have lower volatility and less capital appreciation than growth stocks, making them suital
Investors can access income stocks through the Amplify High Income ETF (YYY).6

Blue-Chip Stocks

Blue-chip stocks are well-established companies that have a large market capitalization. They have a long successfu
in their industry or sector.3 Conservative investors may top-weight their portfolio with blue-chip stocks, particularly i
ks include computing giant Microsoft Corporation (MSFT), fast-food leader McDonald's Corporation (MCD), and energ

Cyclical and Non-Cyclical Stocks

Cyclical stocks are directly affected by the economy's performance and typically follow economic cycles of expansion
ility and outperform other stocks in times of economic strength when consumers have more discretionary income.1
d sports gear giant Nike, Inc. (NKE). Investors can add cyclical stocks to their portfolios by purchasing the Vanguard C

On the other hand, non-cyclical stocks operate in "recession-proof" industries that tend to perform reasonably well
orm cyclical stocks in an economic slowdown or downturn as demand for core products and services remains relativ
osure to large-cap defensive stocks like personal care giant The Procter & Gamble Company (PG), as well as beverage

Defensive Stocks

Defensive stocks generally provide consistent returns in most economic conditions and stock market environments.
h as consumer staples, healthcare, and utilities. Defensive stocks may help protect a portfolio from steep losses duri
alue, income, non-cyclical, or blue-chip stock. Telecommunications giant Verizon (VZ) and healthcare multinational Ca
d in the core holdings of the Invesco Defensive Equity ETF (DEF).10

Defensive stocks are less likely to face bankruptcy because of their ability to generate consistent returns during peri

IPO Stock

When a company goes public, it issues stock through an initial public offering (IPO). IPO stock typically gets allocated
exchange. It may also have a vesting schedule to prevent investors from selling all of their shares when the stock co
tocks" when referring to recently listed stocks. Investors can monitor for upcoming IPOs through the Nasdaq website

Penny Stocks

A penny stock is equity valued at less than $5 and is considered highly speculative.1213 Although some penny stock
tier over-the-counter (OTC) market for U.S. stocks operated by OTC Markets Group.14 Investors should consider usin
they often have a large spread between the bid and ask price.

Penny stocks shot to prominence in popular culture after the release of The Wolf of Wall Street, a movie about a for
ant to take a bet on penny stocks should look at the iShares Micro-Cap ETF (IWC).15

ESG Stocks

Environmental, social, and corporate governance (ESG) stocks emphasize environmental protection, social justice, a
be a company that agrees to reduce its carbon emissions at a greater rate than national and industry targets or one

ESG stocks have gained popularity with millennials in recent years—a socially conscious generation who are more li
ccess ESG stocks by adding the Vanguard ESG U.S. Stock ETF (ESGV) to their portfolio.17

What Is the Main Difference Between Common Stock and Preferred Stock?

Preferred stock gives holders priority over a company's income but does not provide voting rights like common stoc

What Type of Investor Do Income Stocks Suit?

Income stocks suit risk-averse investors who seek regular income through dividend payments.3

What's a Key Characteristic of Defensive Stocks?

Defensive stocks generally provide consistent returns in most economic conditions and stock market environments.

Where Can I Buy Speculative Penny Stocks?

Investors can buy speculative penny stocks through the OTCQB□—a middle-tier over-the-counter (OTC) market for U

The Bottom Line

Understanding the key differences between stock categories helps investors make better-informed investment deci
erent types of stocks directly, investors can gain cost-effective exposure to themed stock types through ETFs.

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13.1 – Dig deeper

Congratulations! If you've read all the chapters and scrolled through the numerous comments in each chapter, then
ut rather a genuine interest to learn and profit from the market.
I guess you are now warmed up to dig deeper!
The objective of the first module is to give you a quick hands-on introduction to the stock markets. In our endeavor t
pts you need to know, especially if you are new to markets. At this point, it is a good sign if you have many unanswe
r modules.
Before we proceed further, you need to understand why we have so many different learning modules and how thes
ver in Varsity.

Introduction to Stock Markets
Technical analysis
Fundamental Analysis
Futures Trading
Option Theory
Option Strategies
Markets & Taxation
Currency, Commodity, and Govt Securities

Risk Management & Trading Philosophy
Trading Systems
Personal Finance (Mutual Funds)
Integrated Financial Modelling

Apart from these, we will add other modules on the go.
13.2 – So many modules, how are they interrelated?
The idea of 'Varsity at Zerodha' is to create a repository of high-quality market-related educational content. The cont
atives, trading strategies, risk management, financial modeling, etc. Each main topic is categorized as a module. So t
.
You may wonder how each topic fits within the grand scheme. To help you get a perspective, let me ask you a questi
single most important factor? Success in markets is easily defined – if you make money consistently, you are succes
So if you were to answer this question for me, chances are you would think about risk management, discipline, mark
rkets. While one cannot deny the importance of these factors, developing a point of view (POV) is even more compel
A point of view is the art of developing a sense of direction on a stock or the index. If you think the stock is going up,
ck. Likewise, if you think a stock is going down, your POV is bearish; you would be a stock seller. Without a POV, you
ou add other elements like risk management, timing, macro & micro factors, etc., to improve the odds of your trade,
'd consider developing POV as the most important factor.
Having said that, how do you develop a point of view? How do you figure out if the stock is going up or down?
One needs to develop a systematic approach to analyze the markets to develop a point of view. A few methods are u
:

Fundamental Analysis (FA)
Technical Analysis (TA)
Quantitative Analysis (QA)
Outside views

To give you a preview, here is a typical illustration of a trader's thought process while developing a POV (whether to
FA-based POV – The company's quarterly numbers look impressive. The company has reported a 25% top-line and 1
all the fundamental factors aligned, the stock looks bullish; hence the stock is a buy.
TA-based POV – The MACD indicator has turned bullish along with a bullish engulfing candlestick pattern; the stock i
erm sentiment looks positive; therefore, the stocks are a buy.
QA-based POV – With the recent up move, the stock's price to earnings (PE) touched the 3rd standard deviation. The
ion. Hence, it is prudent to expect a reversion to mean the stock is a sell.
Outside view – The analyst on TV recommends a buy on the stock; therefore, the stock is a buy.
The POV you take should always be based on your own analysis rather than an outsider's view, as more often than n
So after developing a POV, what does one generally do? Does the straightaway go and trade the point of view? Here
If the POV is bullish, you can choose to do one of the following:

Buy the stock in the spot market.
Buy the stock in the derivatives markets.

Within derivatives, you can choose to buy the futures.
Or choose to trade via the options market.

Within the options market, there are call options and put options.
You can combine call and put options to create a synthetic bullish trade.

So what you choose to do after developing a POV is a different ball game. Choosing the right instrument to trade th
For example, if I'm extremely bullish on the stock from a 1-year perspective, I'm better off making a delivery trade. H
erm perspective (say one week), I'd rather choose a futures instrument to trade.
If I'm bullish with constraints attached (for example – I'm expecting the markets to bounce because of a great budge
nt to choose an option instrument.
So the message here is – the market participant should develop a point of view and complement the POV with the ri

t instrument to trade is a perfect recipe for market success.
Also, by now, hopefully, you have got a sense of how all the different modules in "Varsity" play an important role in a

So keeping this in the background, go ahead and explore the content on Varsity at Zerodha.
The next two modules will explore concepts that will help us develop POV based on Technical and Fundamental Ana
After reading through these two modules, you will get a sense of developing a point of view on markets. In the later
an choose to complement your perspective. As we progress, we will ramp up the flow to help you start calibrating yo
Let's roll!

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When buying or selling securities, investors place different types of orders, each with unique requirements. The ord
nce, some orders aim for the best price, while others specify a fixed price.

Nasdaq says its artificial intelligence (AI)-powered order type, called Dynamic Midpoint Extended Life Order (M-ELO)
to improve their rate of executed orders and reduce markouts, bad trades where the market immediately moves ag

Key Takeaways
Dynamic M-ELO uses AI to adjust the waiting period for M-ELO orders.Where M-ELO orders have a 10-millisecond wa
.5 milliseconds.Dynamic M-ELO aims to improve fill rates and reduce markouts.
What Is Dynamic M-ELO?
Dynamic M-ELO is an order type that investors can use when buying or selling securities, and is the first powered by
ion (SEC) approval in September 2023.1

Nasdaq is positioning the order type for traders with a longer-term investment horizon, not day traders or others lo
execute only against other M-ELO orders at the midpoint of the spread between the bid price and the ask price.3

Dynamic M-ELO makes a slight change to the standard M-ELO order type. AI analyzes more than 140 data points ev
usts the waiting period for investors who submit a Dynamic M-ELO order within a range of 0.25 to 2.5 milliseconds, w

Midpoint Execution
Imagine two traders submitting M-ELO orders. John wants to buy 100 shares of XYZ, and Jane wishes to sell 100 shar
21, their M-ELO order will execute at $20.50, the midpoint of the bid-ask spread.
How Does This AI-Powered Order Type Work?
The process starts when a buyer enters a M-ELO order to buy a security. After a waiting period of 10 milliseconds, th
. Once a seller arrives, places a M-ELO sell order, and the 10-millisecond waiting period passes, the buyer and seller

M-ELO orders can help protect investors from undesired trade executions during market movements. Before the bu
e bids, then the M-ELO order won't execute.

Buyers are also protected if numerous sell orders enter the market and the price of a share drops. The midpoint of
-ELO order to adjust to this level.

Hence, M-ELO buyers and sellers will not receive order executions as quickly as someone using an order with no wa
ts because the price of their offer automatically adjusts with the bid-ask spread of the underlying security.3

Advantages and Disadvantages of AI-Powered Order Types

AI-powered order types can help investors make more complicated trades or get better prices, but they are not with

Advantages of AI-Powered Order Types

Here are some of the benefits of AI-powered orders:

M-ELO orders only match with other M-ELO orders, allowing you to trade with like-minded investors.
The price of your order automatically moves with the bid-ask spread, helping you avoid trading for a price that does
M-ELO and other AI orders may be off-book, functioning like dark pool trading.
M-ELO is compatible with existing exchange connectivity.3

Disadvantages of AI-Powered Order Types

Here are some downsides of AI-powered order types to consider:

You rely on the AI to set the price for you, which could lead to buying or selling for a price far from what you expect.
Automated trading systems and AI could be subject to technical failures.
AI-powered order types like M-ELO can potentially obscure moves in the market. Decisions by algorithms may not be a result, it could be difficult to predict how these order types would behave under diverse market conditions.

Dynamic M-ELO's Impact on the Stock Market

Dynamic M-ELO is still a new order type, so it's difficult to observe its effects on the stock market. However, Nasdaq prove order execution.

According to Nasdaq, orders using M-ELO had a 50% hit rate, meaning half of all orders received at least one execut lliseconds. Similarly, the average fill rate was 49% for M-ELO orders compared with 35% for orders with a 500-millise

Nasdaq says that by leveraging AI, Dynamic M-ELO can improve trade execution even further, improving fill rates an es by more than 20% and reduces markouts by more than 11%, according to Nasdaq.1

The Future of AI-Powered Order Types

Dynamic M-ELO is the first AI-powered order type to be approved by the SEC, but it likely will not be the last. AI is alr mpanies, including Deloitte and BlackRock, integrating AI into their firms' work.67

If Dynamic M-ELO proves successful, more AI-powered order types are likely to follow. Further advances in technolo tems. They would, in theory, offer better liquidity, reduced trading costs, and improved execution quality. However, t ss, regulation, and systemic risks.

What Are the Risks Associated with AI-Powered Order Types?

AI-powered order types rely on a machine rather than a person to handle order execution. If the AI becomes unresp fillment. The AI could also experience errors, leading to buying or selling securities at a subpar price.

What Is an M-ELO Order Type?

M-ELO orders allow investors to place buy or sell orders with a short waiting period. These orders only execute agai

How Is Priority Determined for M-ELO Orders?

M-ELO orders are ranked in time priority among other M-ELO orders when they complete their waiting period and b

Are There Scenarios When Dynamic M-ELO Might Be Particularly Useful?
Dynamic M-ELO could be most helpful in volatile market conditions or when trading fewer liquid securities. Its AI-driv
fectively than traditional order types.

What Are the Risks of Using Dynamic M-ELO?
While Dynamic M-ELO aims to improve fill rates and reduce markouts, it's not a guarantee against risks in the marke
ehavior, and there may be a learning curve for traders new to this order type.

The Bottom Line
Dynamic M-ELO is an AI-powered order type that adjusts the waiting period for a M-ELO order based on market con
l, and preliminary data indicates that it could help improve trade execution. If that proves lasting, Dynamic M-ELO is
er stock market orders.

This chapter aims to help you familiarize yourself with a few commonly used market terminologies and their concep
Let's get started.
Bull Market (Bullish) – If you expect the stock prices to go up, you are bullish on the stock price. From a broader pers
icular period, it is referred to as a bull market. Example – The market was bullish from mid-2020 to early 2022.

Bear Market (Bearish) – If you expect the stock prices to go down, you are bearish on the stock price. From a broade
icular period, it is referred to as a bear market. Example – The market was bearish from early 2008 to late 2009.
Trend – The term 'trend' usually refers to the general market direction and its associated momentum in the market.
o be bearish. If the market is trading flat with no movement, then the trend is said to be sideways.
Face value of a stock – The face value (FV) or par value indicates the nominal value of a share. The face value is impo
rporate action in a separate chapter. Usually, when dividends, stock splits, or bonuses are announced, they are issue
Infosys is 5, and if they announce an annual dividend of Rs.63/-, the dividend paid is 1260%s (63 divided by 5).
52-week high/low – 52-week high is the highest price point at which a stock has traded during the last 52 weeks (whi
ks the lowest price point at which the stock has traded during the last 52 weeks. The 52-week high and low gives a se
Many traders believe that if a stock price reaches 52 weeks high, it indicates a bullish trend for the foreseeable futur
ve it indicates a bearish trend for the foreseeable future.
All-time high/low – This is similar to the 52 weeks high and low, with the only difference being that the all-time high p
en it was listed. Similarly, the all-time low price is the lowest price the stock had ever traded from when it was listed.
Upper and Lower Circuit – The exchange sets up a price band within which the stock can be traded on a given tradin
r circuit limit, and the lowest price is the lower circuit limit. The limit for a stock is set to 2%, 5%, 10%, or 20% based o
these restrictions to control excessive volatility when a stock reacts to certain news related to the company. The crit
es stocks (and index); more on that later.
Long Position – Long position or going long is a reference to the direction of your trade. For example, if you have bo
planning to go long on Biocon, respectively. If you have bought the Nifty Index with an expectation that the index wi
sidered bullish if you are long on a stock or an index.
Short Position – Going short or 'shorting' is a term used to describe a transaction carried out in a particular order. Th
concept of shorting, I'd like to narrate an old incident at work; this happened around mid-2014, if I remember right.
If you are a gadget enthusiast like me, you would probably recollect that Xiaomi (a Chinese manufacturer of smartph
their flagship smartphone model called Mi3 in India. The price of Mi3 was speculated to be around Rs.14,000/-. If one
as the phone was not available for a non-registered user, and the registration was open only for a short time. I had p
d not. Though he wanted to buy the phone, he could not because he had not registered on time.
Out of sheer desperation, Rajesh walked up to me and made an offer. He said he would buy the phone from me at R
one! I even demanded he pays me the money right away.
After I pocketed the money, I thought to myself, what have I done?? Look at the situation I've put myself into. I've sold
But then, it was not a bad deal after all. I agree I had sold a phone that I didn't own. However, I could always buy the
My only fear in this transaction was, what if the phone price is above Rs.16,500?? In that case, I'd make a loss and reg
if the phone were priced at Rs.18,000, my loss would be Rs.1,500 (18,000 – 16,500).
However, to my luck, as expected, the phone was priced at Rs.14,000/-, I promptly bought it on Flipkart, and upon de
ss, I made a clean profit of Rs.2,500/- (16500 – 14000)!
If you look at the transaction sequence, I first sold the phone (that I didn't own) to Rajesh, then bought it later on Flip
t it later!

This type of transaction is called a ‘Short Trade.’
The concept of shorting is very counter-intuitive to normal humans because we are not used to ‘shorting’ in our day-
Going back to stock markets, think about this straightforward transaction – on day 1, you buy Wipro shares at Rs.405
es at Rs.425. You made a profit of Rs.20/- on this transaction.
In this transaction, your first leg was to buy Wipro at Rs.405, the second leg was to sell Wipro at Rs.425, and you were
On day 4, the stock is trading at Rs.425, and you are now bearish. You are convinced that the stock will go back to Rs
on? You could, and it can be done by shorting the stock.
You sell the stock at Rs.425, and 2 days later, assuming the stock trades at Rs.405, you repurchase it.
If you realize the trade’s first leg was to sell at Rs.425, and the second leg was to buy the stock at Rs.405. This is alway
perceive as high to buy it back at a lower price later.
You have executed the same trade as buying at Rs.405 and selling at Rs.425 but in reverse order.
An obvious question you may have is – How can one sell Wipro shares without owning them? You can do so, just like
markets. The important point to remember is that when you short a stock, you must ensure that you buy back the st
a stock in the derivatives segment and carry forward the position for a few days. But at this point, ignore the derivati
so called cash segment) have to be closed before the market closes. In other words, a short position in the cash mar
To sum it all up…

When you short, you have a bearish view of the stock. You profit if the stock price goes down. After you short, if the s
When you short a stock, ensure you buy the stock back the same day before the market closes unless you use deriva
Shorting a stock is easy – you select the stock you wish to short and click on sell.

To summarize long and short positions…

Position	Long	Short
1st Leg	Buy	Sell
2nd Leg	Sell	Buy
Expectation	Bullish	Bearish
Make money when	Stock goes up	Stock goes down
You will lose money if	Stock price drops	Stock price goes up

Alright, let’s continue our discussion on commonly used stock market jargon.
Square off -– Square off is a term used to indicate that you intend to close an existing position. If you are long on a s
e when you close a long position, you have to sell the stock, and this sale is not considered a short position. Here you
Squaring off a position means repurchasing the stock when you are short on the stock. Remember, when you repurc
ing long!

When you are
Square off position is

Long
Sell the stock

Short
Buy the stock

Intraday position – This is a trading position you initiate with an expectation to square off the position within the sa
day positions.
OHLC -– OHLC in stock prices refers to open, high, low, and close. We will understand more about this in the technic
k opens for the day, high is the highest price at which the stock trade during the day, low is the lowest price at which
ice of the stock. For example, the OHLC of ACC on 17th June was 1486, 1511, 1467, and 1499.
Volume – Volumes and their impact on stock prices are important concepts that we will explore in greater detail in t
ctions (buy and sell put together) for a particular stock on a particular day. For example, on 17th June, the volume or
Market Segment – A market segment is a division within which a certain type of financial instrument is traded. Each
ameters. The exchange operates in three main segments.

Capital Market (CM) – Capital market segments offer tradable securities, such as stocks and exchange-traded funds (
essentially operating in the capital market segment. Shorting stocks, too, comes under the capital market segment. T
Futures and Options (FO) – Futures and Options, generally referred to as the equity derivative segment, are where le
ts in greater depth in the derivatives module (Futures modules and Options Module)
Currency Derivatives (CDS) – The CDS segment is where currency pairs like USD INR, EUR INR, JPY INR are traded. The
y derivative market.
Wholesale Debt Market (WDM) – The wholesale debt market deals with fixed-income securities. Debt instruments inc
sector undertaking, corporate bonds, corporate debentures, etc.

These are some of the commonly used jargon. If you can think of any other, please comment below, and I'd be happ

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An important debate among investors is whether the stock market is efficient—that is, whether it reflects all the info
e. The efficient market hypothesis (EMH) maintains that all stocks are perfectly priced according to their inherent inv
ants possess equally.

Financial theories are subjective. In other words, there are no proven laws in finance. Instead, ideas try to explain ho
ent market hypothesis has fallen short in terms of explaining the stock market's behavior. While it may be easy to se
ore its relevance in the modern investing environment.

Key Takeaways
The Efficient Market Hypothesis assumes all stocks trade at their fair value.The weak tenet implies stock prices reflec

ces are factored into all publicly available information, and the strong tenet implies all information is already factore
sible to outperform the market and that all investors interpret available information the same way.Although most de
information may be making the theory more relevant.

Efficient Market Hypothesis (EMH) Tenets and Variations

There are three tenets to the efficient market hypothesis: the weak, the semi-strong, and the strong.

The weak make the assumption that current stock prices reflect all available information. It goes further to say past
ck. Therefore, it assumes that technical analysis can't be used to achieve returns.

The semi-strong form of the theory contends stock prices are factored into all information that is publicly available.
he market and make significant gains.

In the strong form of the theory, all information—both public and private—are already factored into the stock prices
able, whether that's someone on the inside or out. Therefore, it implies the market is perfect, and making excessive

The EMH was developed from economist Eugene Fama's Ph.D. dissertation in the 1960s.

Problems of EMH

While it may sound great, this theory is not without criticism. Other schools of thought, such as Alphanomics, argue

First, the efficient market hypothesis assumes all investors perceive all available information in precisely the same m
pose some problems for the validity of the EMH. If one investor looks for undervalued market opportunities while a
se two investors will already have arrived at a different assessment of the stock's fair market value. Therefore, one a
stocks differently, it is impossible to determine what a stock should be worth in an efficient market.

Proponents of the EMH conclude investors may profit from investing in a low-cost, passive portfolio.

Secondly, no single investor is ever able to attain greater profitability than another with the same amount of investe
have the same information, they can only achieve identical returns. But consider the wide range of investment retur
, and so forth. If no investor had any clear advantage over another, would there be a range of yearly returns in the m
more? According to the EMH, if one investor is profitable, it means every investor is profitable. But this is far from tru

Thirdly (and closely related to the second point), under the efficient market hypothesis, no investor should ever be a
investors and funds are able to achieve using their best efforts. This would naturally imply, as many market experts
to place all of one's investment funds into an index fund. This would increase or decrease according to the overall le
vestors who have consistently beaten the market. Warren Buffett is one of those who's managed to outpace the ave

Qualifying the EMH

Eugene Fama never imagined that his efficient market would be 100% efficient all the time. That would be impossib
. The efficient hypothesis, however, doesn't give a strict definition of how much time prices need to revert to fair valu
tirely acceptable, but will always be ironed out as prices revert to the norm.

But it's important to ask whether EMH undermines itself by allowing random occurrences or environmental eventua
under market efficiency but, by definition, true efficiency accounts for those factors immediately. In other words, pri
new information that can be expected to affect a stock's investment characteristics. So, if the EMH allows for ineffici
s impossible.

Increasing Market Efficiency?

Although it's relatively easy to pour cold water on the efficient market hypothesis, its relevance may actually be grow nvestments, trades, and corporations, investments are becoming increasingly automated on the basis of strict math d speed, some computers can immediately process any and all available information, and even translate such analys

Despite the increasing use of computers, most decision-making is still done by human beings and is therefore subje ytical machines is anything but universal. While the success of stock market investing is based mostly on the skill of i search for the surefire method of achieving greater returns than the market averages.

The Bottom Line
It's safe to say the market is not going to achieve perfect efficiency anytime soon. For greater efficiency to occur, all

Universal access to high-speed and advanced systems of pricing analysis.A universally accepted analysis system of p decision-making.The willingness of all investors to accept that their returns or losses will be exactly identical to all ot

It is hard to imagine even one of these criteria of market efficiency ever being met.

This broker may have started a quiet revolution. Now, when you search for a ticker symbol on X (formerly Twitter), w eToro. Of course, you can just as well download the eToro app, research analysts and investors, and even copy trad the concept of social investing and it reduces the time between getting an idea and taking action.

This isn’t the only way eToro is reducing the barriers to entry for new traders and investors. The eToro platform has

How to Buy Stocks on eToro
Recent platform enhancements now allow users to go from zero to stock ownership in mere minutes with eToro. O connect with millions of users, and even duplicate their investing selections. Can investors truly benefit from the wis

Before you can find out for yourself, you’ll need to register for an account. Here’s a quick look at the first steps an in

Step 1: Open an eToro account. Opening the account happens quickly with the help of your smartphone and sign-in r identity with two-factor authentication, you can login to the platform. But even if you choose not to expedite the fir o the point where you are ready to trade.

Step 2: Log in to your eToro account. eToro manages to speed up access to the platform in part because it separate ompany to identify the new customer and give them access to the platform right away. They will still have to verify th ut a new user can log in to their account in seconds.

Step 3: Verify your account. Whether you first login via smartphone or a web browser interface, eToro will try to veri this step is complete, you can complete questionnaires about your trading knowledge, your purpose for trading, and

Step 4: Fund your account. Once your account is verified, you can add money for trading by first linking a bank acco laid service for securely linking bank accounts. You can transfer as little as $10 in the U.S. or U.K., while other countri through Plaid can help you be ready to trade in a matter of minutes.

Step 5: Research and select a stock to trade. The platform features several resources for researching stocks, includi edia feed for user commentary. Using these resources can help you build a preference for the stock you want to tra trade. Once you’ve identified a suitable stock to add to your portfolio, you are ready to place an order.

Step 6: Place an order. Once you select the “Trade” button, a dialog box appears that allows you to specify everythin by identifying a dollar amount, or by specifying the number of shares. It is at this point where you might specify that

You can also specify whether you want to use available leverage, the price for your stop loss, and the price for your on the dialog can help you better strategize the trade. Once you have completed the dialog and selected the “Open T n as possible. Market orders are usually filled in a matter of seconds. Limit orders may take a moment longer, deper

Alternatively you can initiate a CopyTrader trade where the platform allows you to allocate a certain amount of mon es. This form of trading may not be right for every investor, so be certain to thoroughly research it before you try it.

Minimum Deposit
Stock Trade Fee
Available Stock Screener
Customer Support Methods

eToro
$10
$0
Yes
Email, FAQ

Webull
$0
$0
Yes
Email, Live Chat, Phone, FAQ, Live Broker

Robinhood
$0
$0
No
Email, FAQ, Phone (no incoming calls, app-based return call system only)

What You Need to Open an eToro Brokerage Account
The procedure for opening an account with eToro is quite straightforward. However, you can help expedite the effo re you begin.

Personal Information
As part of signing up and verifying your account, you will be asked to provide the following.

NameAddress Place of birth Citizenship

It is also useful to have the number of your government issued ID or passport available.

Financial Information
As part of the process of opening an account, you will be asked to provide financial details including the following:

Trading knowledgePreferred frequency of tradingPurpose for tradingRisk toleranceBank account information

The Benefits of Trading on eToro
One key benefit is eToro's established, global platform. The company has successfully designed it for ease of use an
social trading necessarily requires input and participation from a larger number of people.

The input from other traders and investors helps improve the value of your information feed. Perhaps even more in
tise from other investors. Further, you can evaluate traders based on user feedback and past performance to ensure

Additionally, eToro's support for fractional shares is a key benefit. This feature allows any investor to access any sec
le capital of the investor. Fractional share purchases can be made for any amount above the $10 minimum deposit.

Lastly, eToro's cash management features can help you keep your money working to grow, or tucked away in safer a
rrencies, and more.

What Are Stocks?
Stock shares represent ownership in a company. When an investor buys a share of a company's stock, they are buyin
ion of the company's profits, in the form of dividends, as well as the right to vote in elections for the board of directo
ing order flow that happens on an exchange. Market participants use an exchange as an ongoing real-time auction a
nstant. Investors justify paying a given price for stocks through a variety of factors, including the company's current f
overall investor sentiment.

What Is eToro?
eToro is an innovative trading platform that provides a social trading experience. With eToro's social trading network
estors for crypto, stock, and ETF assets. The platform's intuitive design helps investors more easily discover trading i
ce their own trades on the platform. The broker operates in more than 140 countries which demonstrates its appeal

Can You Trade After Hours on eToro?
eToro offers extended-hours trading of stocks for shares that trade during a post-market session from 4 p.m. to 8 p.
ing up to the opening bell. Other assets such as commodities or cryptocurrencies can be traded around the clock wh

Can You Buy Tesla Stock on eToro?
Yes. To do so, an investor must first open an account and verify their identity. Once the account is open, investors ca
nical analysis of TSLA's stock. The platform provides detailed information on the company's financial performance, a
TSLA on eToro, investors can navigate to a menu of stocks. From there, they can select or search for "TSLA" and click
rmation. To buy shares of TSLA, investors can then select the "Trade" button and specify the characteristics of the or
ce proper risk management and conduct thorough research before making a trade on eToro.

"Magnificent Seven" was originally a reference to a 1960 Western film, "The Magnificent Seven," which was directed b
d of finance, the term has been repurposed to reference a group of seven high-performing and influential stocks in t
oup.

Bank of America analyst Michael Hartnett coined the phrase in 2023 when commenting on the seven companies co

, and their changes to consumer behavior and economic trends: Alphabet (GOOGL; GOOG), Amazon (AMZN), Apple (
(TSLA).2

Key Takeaways
The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alp
.Bank of America analyst Michael Hartnett used the film name in 2023 when commenting on these seven firms.The p
innovation, market dominance, financial performance, brand equity, research and development, and global econom
ey differences.
For investors considering Magnificent Seven stocks, it is essential to understand their unique position in the market.
icial intelligence, electric vehicles, cloud computing, and digital services and still have the potential for significant gro
ese factors have already been priced in. There are also the usual risks of market volatility, regulatory changes, techn
influence their performance.

Therefore, while these stocks present exciting prospects, they also require a nuanced understanding of the technol

The Magnificent 7 Stocks
The Magnificent Seven stocks are a group of the most influential companies in the U.S. stock market. This term has
larly in the tech sector.

The group comprises Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla and spans four sector
umer durables. They operate across these industries: internet software/services, telecommunications equipment, in
.4

"They are the highest quality names out there and, frankly, if we do go into a recession next year...I actually think th
rategist for BakerAvenue Wealth Management, told Reuters in November 2023.5

Historical Performance of the Magnificent 7 Stocks
The table below displays the performance of the Magnificent Seven stocks over the last three months, one year, an

Magnificent Seven Stock Performance (3 months, 1 year, 5 years)

Name	3-Month (%)	1-Year (%)	5-Year (%)
Alphabet Inc. (GOOG)	4.82	41.82	152.29
Amazon Inc. (AMZN)	6.75	49.59	

80.19

Apple Inc. (AAPL)
8.86
25.86
340.40

Meta Platforms Inc. (META)
14.23
199.12
137.05

Microsoft Corp. (MSFT)
15.93
57.12
240.09

NVIDIA Corp. (NVDA)
12.35
215.14
1094.64

Tesla Inc. (TSLA)
3.79
26.11
807.56

Data as of Nov. 17, 2023 (source: TradingView)

Historical Performance of the Magnificent Seven Stocks.
TradingView

Over the past five years, NVIDIA has led the pack with an impressive return of 1094.64%, closely followed by Tesla, w
Magnificent Seven group, Apple, Microsoft, Alphabet, and Meta each delivered returns exceeding 100%. Amazon.con
ster a holding period return below 100% during the same time frame.4

Factors Driving the Magnificent 7 Stocks

The group of stocks known as the Magnificent Seven are at the forefront of technological changes across the econor
ive consumer demand and business growth. Here are other traits common among the Magnificent Seven stocks:

Adaptability: Each has adapted to changing market conditions, including shifts in consumer behavior and technologi
Financially healthy: All have had strong financial health, robust earnings, revenue growth, and healthy balance sheet
Global reach: Their operations and influence span the globe, allowing them to tap into diverse markets and benefit f
Strong market position: The Magnificent Seven have strong market positions in their sectors, often holding the domi
Worldwide brand recognition: The Magnificent Seven companies have strong brand recognition and a loyal custome
introduce new products successfully.

Because of their size and reach, these companies all face regulatory risks. Regulation changes, especially in data pri
ly influence these companies. More broadly, widespread economic changes affect them because of their broad reac
idence, and investor sentiment.7

The Magnificent 7 Stocks Compared to FAANG

In finance and investing, FAANG is an acronym for the shares of five major American tech giants: Meta Platforms (pr
LX), and Alphabet (previously Google, hence the "G"). Jim Cramer, host of CNBC's "Mad Money," and technical analyst
e in 2017.89

FAANG and the Magnificent Seven are both groups of dominant technology firms, yet they have notable differences
d innovation-driven companies than the more narrowly focused FAANG. It includes behemoths like Microsoft and Te
opment, hardware, electric vehicles, and artificial intelligence.2 By contrast, FAANG stocks are predominant within in

Characterized by their robust growth, market-leading roles, and influence across various technology domains, the M
Conversely, FAANG is renowned for its rapid expansion, particularly in the internet and digital media segments. In re
's rally.

Thus, while both groups have overlapping members and are powerful forces in the tech world, the Magnificent Seve

Risks and Challenges of the Magnificent 7 Stocks

Like any investment, putting your money into the Magnificent Seven stocks means taking on risks and challenges. D
gy forward, these companies face factors that could determine their performance. Here are some of them:

Currency fluctuations: As global entities, these companies face risks associated with currency exchange rate fluctuat
Cybersecurity threats: As technology companies, the Magnificent Seven are prime targets for cyberattacks. A signific
their reputations.10
Economic downturns: Global economic conditions, such as recessions or market downturns, can undermine consum
th prospects.
Geopolitical tensions and trade policies: International operations expose these companies to geopolitical risks, inclu
which can affect their global supply chains and market access.5
Key person risk: Some of these companies are closely associated with their founders or executives, whose departure
n.
Market saturation and competition: As these companies continue to grow, they will face challenges in finding new m
om established players and emerging startups can also threaten their market share.7 In short, by leading their mark
a mark in their industries.
Regulatory and legal risks: Tech giants have long been under scrutiny for antitrust concerns, data privacy, and tax pr
gnificant financial and operational impacts.10 Many of them have been investigated for monopolistic practices, and
kets, they will face more scrutiny.11
Technological disruption: Rapid technological change means these companies must continuously innovate to stay ah
oss of market relevance.

What Is the Total Market Capitalization of the Magnificent 7 Stocks?

The total market capitalization of the Magnificent Seven stocks was $11.73 trillion as of Nov. 17, 2023.12AAPL: $2.98
billionMSFT: $2.749 trillionNVDA: $1.218 trillionTSLA: $744.821 billion

What Is the Average Dividend Yield of the Magnificent 7 Stocks?

The average dividend yield for the companies that pay dividends was 0.45% as of Nov. 17, 2023.12AAPL: 0.51%AMZN
META: Meta does not pay a dividendMSFT: 0.81%NVDA: 0.03%TSLA: Tesla does not pay a dividend

How Would the Magnificent 7 Be Influenced by Inflation?

The impact of inflation on the Magnificent Seven is complex. Some key ways that inflation would affect these compa
al expenses. Inflation can reduce consumers' purchasing power, decreasing spending on nonessential goods and se
sing benchmark interest rates. Higher interest rates increase borrowing costs for companies, harming their investm
ary within the Magnificent Seven group and depends on the company's specific business model, cost structure, and

The Bottom Line

The Magnificent Seven stocks represent a cohort of high-performing companies that have garnered significant atte
cal advances, and growth potential. These stocks, which include Microsoft, Tesla, and NVIDIA, along with some FAAN
ch as software, hardware, electric vehicles, and artificial intelligence. They have been pivotal in driving technological
e to investors seeking growth and market leadership.

However, investors need to know the risks and challenges associated with these stocks. The dynamic nature of the
al economic factors like inflation and geopolitical tensions can affect their performance. Additionally, high market va
se can lead to significant stock price corrections.

Thus, while the Magnificent Seven offer potential for substantial growth, they also require careful analysis and a ba
ernal factors that could influence their future trajectory.

6.1 – Public Limited company

Having understood the IPO process and the circumstances that lead a company to offer its shares to the public and
rther.

Once a company becomes publicly traded, the company is obligated to disclose all information related to the compa
on the stock exchanges daily. There are a few reasons why market participants trade stocks. We will explore some o

6.2 – What is the stock market?

As we discussed earlier, the stock market is an electronic marketplace. Buyers and sellers electronically express thei

For example, consider the current situation of Infosys. When writing this, Infosys faces a management succession iss
ng. The leadership vacuum is weighing down the company's reputation heavily. As a result, the stock price dropped

Assume there are two traders – A and B.

A's view on Infosys – The stock price will likely go down further because the company will find it challenging to find a
seller of the Infosys stock.

However, B views the same situation differently and has a different point of view. According to her, the stock price o
company will find a great leader. The stock price will eventually move up.

If B trades from her point of view, she should be a buyer of the Infosys stock.

So at, Rs.3000, A will be a seller, and B will be a buyer in Infosys.

Now both A and B will place orders to sell and buy the stocks respectively through their respective stock brokers. Th
ge has to ensure that these two orders are matched and that the trade is executed. This is the primary job of the sto
ket participants.

A stock market is where market participants can access any publicly listed company and trade from their point of vi
fter all, different opinions are what make a market.

6.3 – What moves the stock?

Let us continue with the Infosys example to understand how stocks move. Imagine you are a market participant tra

It is 10:00 AM Infosys is trading at Rs.3000 per share. The management makes a press statement that they have fou
are confident that the newly appointed CEO will do good things for the company.

Two questions –

How will the stock price of Infosys react to this news?

If you were to place a trade on Infosys, what would it be? Would it be a buy or a sell?

The answer to the first question is quite simple; the news is positive, so the stock price will increase. Infosys had a le

announcements are made, market participants tend to buy the stock at any given price, which cascades into a stock
Let me illustrate this further :

Sl No	Time	Last Traded Price	What price the seller wants	What does the buyer do?	New Last Trade Price
01	10:00	3000	3002	Buys	3002
02	10:01	3002	3006	Buys	3006
03	10:03	3006	3011	Buys	3011
04	10:05	3011	3016	Buys	3016

Notice that the buyer is willing to pay whatever prices the seller wants; this is when the market is said to be bullish. I
So as you can see, the stock price jumped 16 Rupees in a matter of 5 minutes. Though this is a fictional situation, it is
increases when the news is good or expected to be good.
In this particular case, the stock moves up because of two reasons. One, the leadership issue has been fixed, and tw
ompany to greater heights.
The answer to the second question is now quite simple; you buy Infosys stocks because there is good news surroun
Now, moving forward on the same day, at 12:30 PM, 'The National Association of Software & Services company' (NAS
o have come down by 15%, which could have an impact on the industry in the future. For those unaware, NASSCOM
By 12:30 PM, let us assume Infosys is trading at 3030. Few questions for you…

How does this new information impact Infosys?
What would it be if you were to initiate a new trade with this information?

What would happen to the other IT stocks in the market?

The answers to the above questions are quite simple. Before we answer these questions, let us analyze NASSCOM's
NASSCOM says that the IT budget is likely to shrink by 15%. This means IT companies' revenues and profits will likely
Let us now try and answer the above questions…

Infosys is a leading IT major in the country and will react to this news. The reaction could be mixed because there wa
, a 15% decline in revenue is a serious matter, and hence Infosys stocks are likely to trade lower.
At 3030, if one were to initiate a new trade based on the new information, it would be a sell on Infosys.
The information released by NASSCOM applies to the entire IT stocks and not just Infosys. Hence all IT companies ar

So as you notice, market participants react to news and events, and their reaction translates to price movements! Th
At this stage, you may wonder what would happen to a company's share price if there is no news. Will the stock price
ng on the company in focus.
For example, let us assume there is no news concerning two different companies…

Reliance Industries Limited
Shree Lakshmi Sugar Mills

As we all know, Reliance is one the largest companies in the country, and regardless of whether there is news or not,
res, and therefore the price moves constantly.
The second company is relatively unknown and, therefore, may not attract market participants' attention as there is
es, the stock price may not move, or even if it does, it may be very marginal.
To summarize, the price moves because of expectations of news and events. The news or events can be directly rela
e, the appointment of Narendra Modi as the Indian Prime Minister was perceived as positive news, and therefore the
In some cases, there would be no news, but still, the price could move due to the demand and supply situation.
6.4 – How does the stock get traded?
You have decided to buy 200 shares of Infosys at 3030 and hold on to it for one year. How does it work? What is the
Systems work seamlessly to ensure your transactions go smoothly.
With your decision to buy Infosys, you need to log in to your trading account (provided by your stock broker) and pla
ng details are validated –

Details of your trading account through which you intend to buy Infosys shares.
The price at which you intend to buy Infosys
The number of shares you intend to buy

Before your broker transmits this order to the exchange, the broker has to ensure you have sufficient money to buy
e the order hits the market, the stock exchange (through their order matching algorithm) tries to find a seller who is
Now the seller could be one person willing to sell the entire 200 shares at 3030, or it could be ten people selling 20 s
ely. The permutation and combination do not matter. From your perspective, all you need is 200 shares of Infosys at
ge ensures the shares are available to you as long as sellers are in the market.
Once the trade is executed, the shares will be electronically credited to your DEMAT account. Likewise, the shares wi
6.5 – What happens after you own stock?
After you buy the shares, the shares will reside in your DEMAT account. You are now a part owner of the company to
own 200 shares of Infosys, you own 0.000035% of Infosys at the time of writing this chapter.
By owning the shares, you are entitled to corporate benefits like dividends, stock splits, bonuses, rights issues, voting

es at a later stage.
6.6 – A note on the holding period
The holding period is the period you intend to hold the stock. You may be surprised that the holding period could be
ndary investor Warren Buffet was asked what his favorite holding period was, he replied 'forever.'
In the earlier example quoted in this chapter, we illustrated how Infosys stocks moved from 3000 to 3016 in 5 minut
ng period! If you are satisfied with it, you can close the trade and move on to find another opportunity. To remind yo
hot, such moves are quite common.
6.7 – How to calculate returns?
Now, everything in markets boils down to one thing. Generating a reasonable rate of return! All past stock market si
e usually expressed in terms of annual yield. There are different kinds of returns that you need to be aware of. The f
ulate these returns.
Absolute Return – This is the return that your trade or investment generates in absolute terms. It helps you answer t
much percentage return did I generate?
The formula to calculate is – [Ending Period Value / Starting Period Value – 1]*100
i.e. [3550/3030 -1] *100
= 0.1716 * 100
= 17.16%
A 17.6% is not a bad return at all!
Compounded Annual Growth Rate (CAGR) – An absolute return can be misleading if you want to compare two invest
eld the stock for two years, and sold it at 3550. At what rate did my investment grow over the last two years?
CAGR factors in the time component, which we had ignored when we computed the absolute return.
The formula to calculate CAGR is...

Applying this to answer the question...
{[3550/3030]^(1/2) – 1} = 8.2%
This means the investment grew at a rate of 8.2% for two years. As of today, the bank fixed deposit market offers 5.5
o a fixed deposit.
So, always use CAGR to check returns over multiple years. Use absolute return when your time frame is for a year or
What if you bought Infosys at 3030 and sold it at 3550 within six months? In that case, you have generated 17.16% in
So the point is if you have to compare returns, it's best done when the return is expressed on an annualized basis.
6.8 – Where do you fit in?
Each market participant has a unique style of participating in the market. The style evolves as you progress as a part
lso defined by the risk you are willing to take in the market. Regardless of what you do, you can be categorized as a t
A trader is a person who spots an opportunity and initiates the trade with an expectation of profitably exiting the tra
hort-term view of markets. Trader is alert and on their toes during market hours, constantly evaluating opportunitie
ng or going short. We will discuss what going long or short means at a later stage.
There are different types of traders :

Day Trader – A day trader initiates and closes the position during the day. He does not carry forward trading positio
ng an overnight risk. For example – Buy 100 shares of TCS at 2212 at 9:15 AM and sell it at 2220 at 3:20 PM, making a
to 6 stocks per day, sometimes even more.
Scalper – A type of day trader. A scalper usually trades very large shares and holds the stock for less time to make a s
ares of TCS as 2212 at 9:15 and sells it 2212.1 at 9.16, ending up making 1000/- profit in this trade. On any given day,
have noticed, a scalp trader is highly risk-averse.
Swing Trader – A swing trader holds on to the trade for a slightly longer; the duration can run anywhere between a f
12th June and sell it at 2214 on 19th June.

Some of the successful traders are – George Soros, Ed Seykota, Paul Tudor, Micheal Steinhardt, Van K Tharp, Stanley
An investor is a person who buys a stock expecting a significant appreciation in the stock. The investor is willing to w
of investors usually runs into a few years. There are two popular types of investors.

Growth Investors – The objective here is to identify companies expected to grow significantly because of emerging in
would be buying Hindustan Unilever, Infosys, and Gillette India back in 1990s. These companies witnessed huge gro
e wealth for their shareholders.

Value Investors – The objective here is to identify good companies irrespective of whether they are in the growth or r
market sentiment, thereby making a great value buy. An example of this in recent times is stock tanking in the Covid
st all the good stocks were beaten down significantly around March/April 2020, only to post a V-shaped recovery in t

A few successful investors are – Charlie Munger, Peter Lynch, Benjamin Graham, Thomas Rowe, Warren Buffett, John
So what kind of market participant would you like to be?

Key takeaways from this chapter

A stock market is where a trader or an investor can transact (buy, sell) in shares.
A stock market is a place where the buyer and seller meet electronically
Different opinions make a market
The stock exchange electronically facilitates the transaction of buyers and sellers.
News and events move the stock prices daily.
Demand-supply mismatch also makes the stock prices move
When you own a stock, you get corporate privileges like bonuses, dividends, rights, etc
The holding period is defined as the period during which you hold your shares
Use absolute returns when the holding period is one year or less. Use CAGR to identify the growth rate over multiple

Traders and investors differ on risk-taking ability and the holding period.

Like building a house, learning how to rebalance your portfolio begins with creating a sound foundation. First, defin
assessment, map out a mix of financial assets such as stock and bond ETFs with the help of a financial advisor or rob

You'll typically own a greater percentage of stock assets when you're younger, while more conservative investors wil
We've compiled the basics every investor should know and have structured this guide for rebalancing your portfolio

Key Takeaways
Rebalancing your portfolio can minimize its volatility and risk and improve its diversification.You may run the risk of
choose from several rebalancing strategies based on triggers from time spans to percentage changes.One option is t
r using a robo-advisor if you feel like you're a little over your head.
How to Rebalance Your Portfolio
The goal in rebalancing your portfolio is not perfection, since as soon as your investments return to their predeterm
o deviate. Rebalance your portfolio at least annually and consider these factors:

How much has my portfolio deviated from my original asset allocation?Am I still comfortable with my current asset a
e asset mix?Have my goals or risk tolerance changed?

Ways to Rebalance Your Portfolio
There are several rebalancing strategies:

Select a percent range for rebalancing, such as when each asset class deviates 5% from its asset weight. The window
t all depends on the tolerance of the investor and the time they're willing to dedicate to keeping the portfolio compli
is sufficient, although some investors prefer to rebalance quarterly or twice per year. There's no wrong or right strat
to greater stock allocations and higher overall returns, along with greater volatility.Add new money to the underweig
tion.Use withdrawals to decrease the weight of the overweight asset. If stocks have increased 1%, and you are remov

cks and withdraw the proceeds.

Steps Needed to Rebalance Your Portfolio

First, track the asset allocation of your portfolio. You can maintain your records on a spreadsheet or use a free or pa
roceed when your assets are listed and percent devoted to each asset class is recorded.

Step 1: Analyze

Compare the current percent weights of each asset class with your predetermined asset allocation. Quicken or othe
urrent asset values with the desired percent.

Step 2: Compare

Notice the difference between your actual and preferred asset allocation. If your 80% stock, 20% bond portfolio has
, either by adding new money or selling stocks and buying bonds.

Step 3: Sell

To sell 5% of your stock assets, you'll make a simple calculation. Assume your portfolio is worth $100,000 and your d
d assets. After the value drifts to $85,000 stocks and $15,000 bonds, you'll sell $5,000 worth of stock investments.

Step 4: Buy

With the $5,000 proceeds from the stock sale, you'll buy $5,000 of bonds. This will return your portfolio to its preferr

Step 5: Add Funds

Let's say that you want to add $10,000 to the portfolio. The value of your portfolio will be $110,000 with a desired as
(Multiply $110,000 by 80% for the stock allocation amount and multiply $110,000 by 20% to arrive at your dollar goa

Step 6: Invest the Cash

To rebalance a portfolio after adding additional cash, calculate the difference between the current value and the pre
e have $85,000 in stocks so we buy $3,000 of stocks, to reach the desired $88,000 stock allocation. Similarly, we buy $
bonds.

Follow these steps every time you rebalance your portfolio and don't worry if the asset allocation drifts between you
more conservative or more comfortable with greater volatility or risk, you can always adjust your desired asset alloc

How to Use a Robo-Advisor to Rebalance Your Portfolio

A robo-advisor might be the best solution for those who prefer to outsource portfolio selection and rebalancing. Ro
are designed to offer investors access to well-diversified investment portfolios, rebalancing, and other features, such
most popular robo-advisors administer a quick survey to determine your investment goals, timeline, and risk. Ultima
esting, the top robo-advisors will rebalance your holdings on an as-needed basis, to keep your portfolio in line with t

Pros and Cons of Portfolio Rebalancing

Investment management, which includes rebalancing, requires a commitment. You'll need to analyze your investme
'll review the asset allocation you've selected and decide whether you're comfortable with the ups and downs of the

You might choose to increase the stock allocation if you're comfortable with greater risk, or increase the cash and bo
occasional double-digit declines in your investment values.

Pros

- Minimizes a portfolio's volatility and risk
- Improves a portfolio's diversification
- With a planned rebalancing schedule, you’re less likely to become spooked at a market drop and sell at the bottom

Cons

- Opens the door to reducing portfolio exposure to outperforming sectors or adding to underperforming areas of the
- Has the potential for conflict with certain tax loss harvesting strategies
- Assumes that you’ve chosen your own investments, which requires study and basic financial knowledge

Additional Tips to Rebalance Your Portfolio

Rebalancing is one component of the investment selection and management package. Here are additional tips to ai

- Avoid checking your investment values too frequently (daily or weekly). This can lead to a sense that you need to act, eturns.
- Create a personal investment policy statement, which includes your investment mix, asset allocation, and rebalancin
- In taxable accounts, look to minimize taxes. This involves selling losing positions to offset capital gains, or tax loss ha
- Maintain a long-term focus. It’s easy to get distracted by frequent movements in your investments, but acting on tho

Remember that investing is a way to turn today's earnings into future financial security. Investing and rebalancing a s five or more years. For shorter-term goals, consider a certificate of deposit or high-yield money market account.

Why Should I Rebalance My Portfolio?

Investors need a mix of higher-return stocks for growth and capital appreciation. But too many individual stocks or stock funds might make your portfolio too volatile. Stocks are more volatile than bonds and might increase 20% in one year and decline that amount or more in another. Bonds deliver lower returns and typically trade in a narrower range with smaller projected gains and losses than stock investments.If you don’t rebalance and restore your assets to the 80% vs. 20% stock/bond mix and stocks become too large a portion of your portfolio, then you might experience a greater loss than you’re comfortable with on occasion. Rebalancing helps your investments stay on track to meet your financial goals.

How Much Does It Cost to Rebalance a Portfolio?

Most investment brokers don’t charge commissions or trading fees for stocks and ETFs. So buying and selling stocks and funds is typically fee-free. If you own individual bonds, you’re apt to pay a commission to buy or sell. Mutual funds might also levy a fee to trade.As long as you’re buying and selling stocks or ETFs, the only fee you might incur is a tax on a capital gain, realized in a taxable brokerage account.

Can I Rebalance My Portfolio Without Selling?

Yes, you can rebalance your portfolio without selling. If you’re adding new money into the portfolio, buy the asset class that is underrepresented. If you buy enough shares, you can return the funds or individual holdings back to their preferred asset allocation. If you need to withdraw funds from your account, sell the overrepresented asset. You can also reinvest cash dividend payments into an under-allocated asset class.

Does Portfolio Rebalancing Reduce Returns?

Rebalancing reduces returns in most cases. Stocks have returned approximately 10% over the last century, so they'll become a greater percentage of the total portfolio over time without rebalancing. 1 Stocks are also riskier and more volatile, so the growing stock allocation of the unbalanced portfolio will lead to higher returns, along with greater volatility. Rebalancing is usually a tradeoff between greater return and lower volatility.

How Often Should I Rebalance My Portfolio?

Rebalancing too frequently can sacrifice returns. Rebalancing less often can bolster returns and increase portfolio volatility. Vanguard recommends checking your portfolio every six months, and rebalancing if the values drift 5% or more from target.2 There isn't a perfect rebalancing solution. The key is to set up a rebalancing schedule that works for you, create a reminder, and stick with it.

The Bottom Line

Rebalancing will keep your preferred asset allocation in check and help to smooth out the volatility of your portfolio. When stock prices soar, rebalancing will force you to take some profits. When prices are lower, and an asset class declines in value, you'll buy at lower levels. Ultimately, the best way to rebalance is the strategy that works for you. Less frequent rebalancing saves you time and might allow your winning assets to grow for a bit longer.

Cyclical vs. Non-Cyclical Stocks: An Overview

The terms cyclical and non-cyclical refer to how closely correlated a company's share price is to the fluctuations of the economy. Cyclical stocks and their companies have a direct relationship to the economy, while non-cyclical stocks repeatedly outperform the market when economic growth slows.

Investors cannot control the cycles of the economy, but they can tailor their investing practices to its ebb and flow. Adjusting to economic transitions requires an understanding of how industries relate to the economy. There are fundamental differences between companies that are affected by broad economic changes and those that are virtually immune to them.

Key Takeaways

Cyclical stocks are volatile and tend to follow trends in the economy.Non-cyclical stocks outperform the market during an economic slowdown.Companies of cyclical stocks sell goods and services that many buy when the economy is doing well but cut during downturns, such as luxury goods.Non-cyclical companies sell staple goods like food and clothing and household consumables like soap and toothpaste.Cyclicals tend to go up and down with the economy, while non-cyclical stocks are steady earners in good times and bad.

Cyclical Stocks

Cyclical companies follow the trends in the overall economy, which makes their stock prices very volatile. When the economy grows, prices for cyclical stocks go up. When the economy turns down, their stock prices will drop. They follow all the cycles of the economy from expansion, peak, and recession all the way to recovery.

Cyclical stocks represent companies that make or sell discretionary items and services that are in demand when the economy is doing well. They include restaurants, hotel chains, airlines, furniture, high-end clothing retailers, and automobile manufacturers. These are also the goods and services that people cut first when times are tough.

When people delay or stop buying anything dispensable, the revenues of the companies that produce and sell them fall. This, in turn, puts pressure on their stock prices, which start to drop. In the event of a long downturn, some of these companies may even go out of business.

Investors may find opportunities in cyclical stocks hard to predict because of the correlation they have to the economy. Since it's hard to predict the ups and downs of the economic cycle, it's tricky to guess how well a cyclical stock will do.

Cyclical industries make or sell products that we can live without or delay buying when times are tough. Examples include luxury goods, non-business travel, and new construction.

Non-Cyclical Stocks

Non-cyclical stocks repeatedly outperform the market when economic growth slows. They may also be known as consumer staples since they are always in demand as basic needs.

Non-cyclical securities are generally profitable regardless of economic trends because they produce or distribute goods and services we always need, including things like food, power, water, and gas. The stocks of companies that produce these goods and services are also called defensive stocks because they can defend investors against the effects of an economic downturn. They are great places in which to invest when the economic outlook is sour.

For example, non-durable household goods like toothpaste, soap, shampoo, and dish detergent may not seem like essentials, but they really can't be sacrificed. Most people don't feel they can wait until next year to lather up with soap in the shower.

A utility company is another example of a non-cyclical. People need power and heat for themselves and their families. By providing a service that is consistently used, utility companies grow conservatively and do not fluctuate dramatically.

This is a key fact about non-cyclical stocks. They provide safety, but they are not going to skyrocket in price when the economy grows.

Investing in non-cyclical stocks is a good way to avoid losses when highly-cyclical companies are suffering.

Example

Below is a historical example that uses a chart showing the performance of a highly-cyclical company, the Ford Motor Co. (blue line), and a classic non-cyclical company, Florida Public Utilities Co. (yellow line). This chart clearly demonstrates how each company's share price reacts to downturns in the economy.

Notice that the downturn in the economy from 2000 to 2002 drastically reduced Ford's share price, whereas the growth of Florida Public Utilities' share price barely blinked at the slowdown. This is because cars are considered discretionary goods that are cyclical to the economy. When there is a recession, people choose not to spend on a new car in order to save money for basic needs. Moreover, more people may be unemployed at the time. If a car is needed, perhaps those people will search for a used car instead.

On the other hand, regardless of one's employment or the state of the economy. people still need to have water and electricity on in their homes. That means people will still pay their utility bills (for the most part), even when they begin to struggle financially, making it non-cyclical.

What Are Some Examples of Cyclical Stocks?

Cyclical stocks tend to be for expensive durable goods, luxury, or leisure. Therefore, stocks in the automotive industry, consumer durables, airlines, luxury goods makers, and hospitality stocks would be prime examples.

What Are Consumer Cyclical Stocks?

Sometimes analysts break down cyclical stocks into consumer and non-consumer. A non-consumer cyclical would be a company that sells to businesses, governments, or large organizations and which is also sensitive to the state of the economy. A consumer cyclical would be a cyclical stock that markets to individuals or households.

What Types of Stocks Are Non-Cyclicals?

Non-cyclical stocks are companies from which people will continue to consume their products even during an economic downturn. These often include consumer staple goods, food, gasoline, utilities, and pharmaceuticals/healthcare.

The Bottom Line

Cyclical companies follow the trends in the overall economy, and therefore their stock prices are volatile. Non-cyclic
d regardless of the state of the economy. Therefore, non-cyclical stocks can be profitable regardless of economic tre
ws.

Investing in non-cyclical stocks is considered to be safer than investing in cyclical stocks. During economic turndowns, non-cyclical companies won't produce the losses that highly-cyclical companies do. But for the same reason, when the economy grows, non-cyclical stocks won't surge in price either.

What Is a Back Stop?

In corporate finance and investment banking, a back stop (or backstop) is to provide last-resort support or to make a bid in a securities offering for the unsubscribed portion of shares.

When a company is trying to raise capital through an issuance—and wants to guarantee the amount received through the issue—it may get a back stop from an underwriter or a major shareholder, such as an investment bank, to buy any of its unsubscribed shares.

Key Takeaways

A back stop is the act of providing last-resort support or security in a securities offering for the unsubscribed portion of shares.When a company is trying to raise capital through an issuance, it may get a back stop from an underwriter or a major shareholder, such as an investment bank, to buy any of its unsubscribed shares.Back stops function as a type of "insurance" and support for the overall offering, ensuring that the offering does not fail if all shares are not subscribed.

How a Back Stop Works

A back stop functions as a form of insurance. While not an actual insurance plan, a company can guarantee that a certain amount of its offering will be purchased by particular organizations, usually investment banking firms, if the open market does not produce enough investors and a portion of the offering goes unsold.

If the organization providing the back stop is an investment banking firm, sub-underwriters representing the investment firm will enter into an agreement with the company. This agreement is referred to as a firm-commitment underwriting deal or contract, and it provides overall support for the offering by committing to purchase a specific number of unsold shares.

By entering into a firm-commitment underwriting agreement, the associated organization has claimed full responsibility for the quantity of shares specified if they initially go unsold, and promises to provide the associated capital in exchange for the available shares.

This gives assurance to the issuer that the minimum capital can be raised regardless of the open market activity. Additionally, all risk associated with the specified shares is effectively transferred to the underwritten organization.

If all of the offering is purchased through regular investment vehicles, the contract obligating the organization to purchase any unsold shares is rendered void, as the conditions surrounding the promise to purchase no longer exist.

The contracts between an issuer and the underwriting organization can take various forms. For example, the underwriting organization can provide the issuer with a revolving credit loan to boost credit ratings for the issuer. They may also issue letters of credit as guarantees to the entity raising capital through offerings.

Special Considerations

If the underwriting organization takes possession of any shares, as specified in the agreement, the shares belong to the organization to manage as it sees fit. The shares are treated the same way as any other investment purchased through normal market activity. The issuing company can impose no restrictions on how the shares are traded.

The underwriting organization may subsequently hold or sell the associated securities per the regulations that govern the activity overall.

Example of a Back Stop

In a rights offering, you may see a statement to this effect: "ABC Company will provide a 100 percent back stop of up to $100 million for any unsubscribed portion of the XYZ Company rights offering." If XYZ is trying to raise $200 million, but only raises $100 million through investors, then ABC Company purchases the remainder.

What Is a Back Stop in a Bond Issue?

Similar to the back stop in an equity placement, a back stop for a bond issue is a type of guarantee whereby the underwriting bank or syndicate will fix a price at which to purchase any unsold or unsubscribed bonds.

Who Are Backstop Purchasers?
If the underwriting bank or investment banking syndicate cannot or do not want to back stop a new issue, third-party backstop purchasers may be called upon to step in and buy any unsubscribed portion of a securities issue. These purchasers may provide a bid substantially below the issue price and/or may demand fees as compensation. They would then often try to sell off the holdings over time at a profit.

What Are Volcker Rule Backstop Provisions?

The Volcker Rule is a set of financial regulations that separates the commercial and investment banking activities of a firm. Its purpose is to prevent conflicts of interest and unfair practices to the detriment of a bank's customers. One provision of the Rule is to prevent the backstopping of a securities issue by an underwriting bank if it will create a conflict of interest. Moreover, a back stop would be prohibited if it would "result, directly or indirectly, in a material exposure by the banking entity to a high-risk asset or a high-risk trading strategy; or pose a threat to the safety and soundness of the banking entity or to the financial stability of the United States."1

IPO, OFS, and FPO – How are they different?
IPO
Initial Public Offering is when a company is introduced into the publicly traded stock markets for the first time. In the IPO, the company's promoters choose to offer a certain percentage of shares to the public. The reason for going public and the process of an IPO is explained in detail in Chapters 4 and 5.
The primary reason for going public is to raise capital to fund expansion projects or cash out early investors. After the IPO is listed on the exchange and is traded in the secondary market, promoters of the company might still want additional capital. There are three options available: Rights Issue, Offer for Sale and Follow-on Public Offer.
Rights Issue
The promoters can choose to raise additional capital from its existing shareholders by offering them new shares at a discounted price (generally lower than Market Price). The company offers new shares in the proportion of shares already held by the shareholders. For example, a 1:4 Rights Issue would mean that every 4 shares held 1 additional share is offered. Although this option looks good, it limits the company to raise the capital from a small number of investors who are already holding shares of the company and might not want to invest more. A rights issue leads to the creation of new shares that are offered to the shareholders, which dilutes the value of the previously held shares.
An example of a Rights issue is South Indian Bank which announced a 1:3(One share for every 3 held) issue for Rs 14 which is 30% lower than the Market Price the stock was trading (Rs 20 as on Record date 17 Feb 2017). The bank offered 45.07 lakh shares to the existing shareholders.
The rights issue is covered in detail in Chapter 11, covering key Corporate Actions.
OFS
The promoters can choose to offer the secondary issue of shares to the whole market, unlike a rights issue restricted to existing shareholders. The Exchange provides a separate window through the stockbrokers for the Offer for Sale. The exchange allows a company to route funds through OFS only if the Promoters want to sell out their holdings and/or maintain minimum public shareholding requirements (Govt. PSU have a public shareholding requirement of 25%).
There is a floor price set by the company, at or above which both Retail and Non-Retail investors can make bids. The shares are allotted, if bids are at a cut-off price or above will be settled by the exchange into the investor Demat account in T+1 days.
An example of an Offer for Sale is NTPC limited, which offered a maximum of 46.35 million shares at a floor price of Rs 168 and was fully subscribed in the 2 day period. The OFS was held on 29th August 2017 for Non-Retail Investors and 30th August 2017.
FPO
An FPO also has the same intent of raising additional capital after it has been listed but follows a different mechanism for applying and allotting shares. Shares can be diluted, and fresh shares can be created and offered in an FPO. Just like an IPO, an FPO requires that Merchant Bankers be

appointed to create a Draft Red Herring Prospectus which has to be approved by SEBI after which bidding is allowed in a 3-5 day period. Investors can place their bids through ASBA and shares are allotted based on the Cut-off Price decided after the book-building process. Since the introduction of OFS in 2012, FPOs are seldom used due to the lengthy approval process.

The company decides on a Price Band, and the FPO is publicly advertised. Prospective investors can bid for the issue using the ASBA portal through Internet Banking or apply offline through a Bank Branch. After the bidding process is complete, the cut-off price is declared based on the demand and the additional shares allotted are listed on the exchange for trading in the secondary markets.

An example of an FPO is of Engineers India Ltd which underwent an issue in February 2014 with Rs 145-Rs 150. The issue was oversubscribed by 3 times. The shares on the day of the starting date of the issue were trading at Rs 151.1. The lower price band was at a 4.2% discount from the market price.

Difference between OFS and FPO

An OFS is used to offload Promoters' shares while an FPO is used to fund new projects.

Dilution of shares is allowed in an FPO leading to change in Shareholding structure while OFS does not affect the number of authorized shares.

Only the companies with a Market Capitalisation of Rs 1000 crores and above can use the OFS route to raise funds while all the listed companies can use the FPO option.

Ever since SEBI has introduced OFS, FPO issues have come down, and companies prefer to choose the OFS route to raise funds

The 20 Market Depth (level 3 data) Window

I've driven a car for many years and I've even changed my car a few times now. Each time I changed my car, the engine remained more or less the same, but the features within the vehicle and its aesthetics continuously changed. Air conditioner, power steering, and power windows were all luxury features in the car at one point, but today, I guess no one buys a car without these essential features. The game-changer for me though was parking assist. The little camera at the back of the car gave me complete visibility of the parking space available. I was no longer required to pop and twist my head out and struggle to park the car, nor did I have to bug my co-passenger to get down and help me navigate my way into a parking spot. The parking assist feature did everything and helped me execute a perfect parallel park. The parking assist feature was my edge for hassle-free car parking.

I feel the same edge while trading the markets with the level 3 data

Level 3 or the 20 market depth feature is unique and has multiple uses. You'll probably appreciate the level 3 market window if you have traded at an institutional desk. A regular retail trader would not understand this feature anytime soon, simply because this feature was unavailable all these years until we introduced it for the very first time to the Indian retail traders.

The purpose of this chapter is to help you understand how useful this feature is and get you started on building trading strategies around this feature.

If you are entirely new to this, I'd suggest you read this blog to understand what the level 3 data is all about.

Assuming you know what it is, this chapter will help you understand the multiple uses of this feature.

Contract availability

For the option traders, the 20-depth order book gives great visibility into the availability of contracts to trade and help identify better price points to execute these trade. Without this visibility, it becomes really hard to trade illiquid contracts. While I'm specifically talking about options here, you can extend this to Futures contracts as well, especially the illiquid ones.

Let us put this in context, have a look at the regular market depth (i.e. the top 5 bid-ask) of the 13000 CE expiring in Jan 2020.

We can see narrow bids on the left and a notch better offer on the right. You'd probably hesitate to trade this contract if you are someone looking at trading a few lots of Nifty.

But check what's hiding under the hood here by opening the level 3 data –

As you can see, there are many contracts available, but they are not visible in the regular market

depth. In fact, the bid and offer quantities are heavily concentrated below the 8th row respectively. Given the availability of the contracts in this strike, the perspective to trade or not completely changes and will now depend upon your trading strategy.
Execution control
Level 3 data gives you full visibility of the approximate execution price for your trade. This is particularly useful when you decide to scalp the market. When you scalp the market —

You trade large quantities, i.e. buy and sell large amounts in quick succession to profit from small tick moves in the stock
Since these are quick trades, you place market orders only

Let us say you want to buy and sell 5000 shares of Hindustan Zinc; the regular market depth window gives you the following information —

As you can see, there is no visibility on how these 5000 shares will get filled. Now, take a look at the 20 depth window —

The 20 depth window paints an entirely different picture. It not only tells me that I'll get the 5000 shares, but it also gives me information about the approximate buy price. If I were to place a market order for 5000 shares, I'd be buying this order book from 210.5 to 211.25. I also see at 211; there are 2425 shares available, so I can expect the average price is at or around 211.
Now, my decision to scalp the stock should depend on the pop I'd expect over and above 211. Maybe 211.5 or so. Of course, you'll get the exact breakeven (post charges) if you were to use a brokerage calculator.
Position sizing
Level 3 market window plays a critical role in 'guesstimating' the number of shares to trade, given the liquidity of the stock. For the sake of this discussion, we will assume that the availability of capital is not an issue.
Now, have a look at the regular market depth —

You expect Siemens to move from 1675 to about 1690 over the next hour. So, given the fact that you are not constrained by capital, how many shares will you buy for this intraday trade?
The regular market depth window suggests that you can buy close to 175 shares. However, the 20 depth opens up a different perspective altogether —

In fact, the liquidity in this stock lies below the best five bid and ask, and the impact cost is reasonable. The regular market depth window fails to capture this information. Assuming you intend to buy about 1500 shares, the buy price will lie somewhere within 1675.5 to 1678, which is spread of 0.149%.
In this case, assuming you are sure about the target price (1690), you can go all in and buy through whatever is available at that moment.
Order placement
You can extend the position sizing concept and use the 20 depth market watch to place a stop loss or a limit order. Assume you have an intraday buy position in VST Tillers at 1313.8.

The question is, where you would place the stop loss for this trade? Can the 20 market depth help us with this?
Of course. Have a look at the 20 depth window for VST Tillers. As you can see, there is a concentration of bids in 1290. The good part is that the number of order count is also the highest (35) in 1290.

This implies that several traders have placed an order at 1290, indicating some sort of price action at that level. This perhaps builds a case for placing the stop-loss.
A prudent trader would probably place a stoploss not at 1290, but maybe at a price just below it.

So I was a buyer in this stock, then purely based on 20 depth I'd probably place my SL at 1290 or below, maybe at 1287 and by the same logic, set my target at 1340 or at 1338.8.
Validate the support and resistance level

I find this extremely interesting. In the example above, we identified 1290 as the stoploss price, simply because there was a concentration of bids. In other words, we expect 1290 as a support price. If this is indeed true, then it should show up on the charts as well, right? Have a look at the chart below –

Clearly, there is some price action around 1296. Remember, support and resistance is not one price point, but rather a range. Therefore 1290 – 1300 marks as an intraday support for this stock.
This is a perfect example of seeing the price action concept play out in the market.
Another way to look at this is first to identify the S&R level and then check the 20 depth to figure if there is a concentration of bids/offers in that zone.

Hopefully, by now you've started to appreciate the immeasurable value 20 depth order book brings to you while trading.
Remember, irrespective of which technique you use to develop a point of view (technical or quantitative analysis), things boil down to price, and the action trades take at that price.
The 20 depth market window is essentially your ticket to validate the truth of this price action.
Make sure you use your card wisely!
Do post your comments and tell us how differently you will use the 20 depth window for identifying trading opportunities.
Good luck!

If you've ever wanted to invest in a particular company's stock, but didn't have enough money to buy even one share, or you want to effectively diversify your funds, investing in fractional shares might be an affordable way to get started. Fractional shares allow investors to buy a portion, or fraction, of a stock based on a dollar amount that the investor can afford–not based on a particular number of shares. Implementing this type of strategy is propitious for investors who may be starting out with a limited amount of money, but still want to build a diversified portfolio.
We'll take an in-depth look at how investing in fractional shares works and answer the basic questions that investors need to know to get started.

How to Buy Fractional Shares

In order to buy fractional shares, you will need to open an investment account through either an online broker or a
want to have full control over which fractional shares you are investing in, or if you want to have a more hands-off a
lar amount to invest and your investment goals, and based on that, the robo-advisor will choose your fractional shar
investment goal range.

Step 1: Research the fractional shares you want to buy. Fractional share offerings will differ between brokerages, so
tional shares can also help determine which brokerage you may want to use.

Step 2: Open an online broker or robo advisor account. Not all online brokers or robo-advisors offer fractional share
h offers that service. It is also important to remember that every brokerage has slightly different nuances to the way

Which stocks can be bought in fractional sharesHow trades are executed and settledFees

Step 3: Fund the account. You will need to fund the account once you open it. Many online brokers can be funded vi
the funds to settle, so you may not be able to invest right away.

Step 4: Complete and monitor your investment. Most online accounts make it very easy to monitor your portfolio using the main dashboard. Typically, you are able to see all of your account holdings at a glance, but you may also be able to utilize more advanced options, such as setting up stock alerts or automatic rebalancing, depending on what is offered by your particular online brokerage.

Compare Top Platforms for Investing in Fractional Shares

Platform	Fractional Share Purchases	Fractional dividend reinvestment	Available Securities
Fidelity	Yes	Yes	More than 7,000 stocks and ETFs
Interactive Brokers	Yes	No	More than 11,000 stocks, ETFs and ADRs
Charles Schwab	Yes	Yes	All S&P 500 Stocks only, No ETFs
Robinhood	Yes	Yes	ETFs and stocks above the volume and size thresholds

Is There a Downside to Fractional Shares?

While there are several benefits to investing in fractional shares, the following drawbacks are also worth considering:

Limited stock selection: Just because a stock is publicly traded does not mean that you will be able to buy fractional shares of it. Each brokerage has their own curated list of stocks that investors can buy fractional shares of.

Potential problems transferring fractional shares to a different broker: If you want to transfer your account to another brokerage, you may not be able to transfer the fractional shares. You may need to liquidate any fractional shares in order to transfer.

Proxy voting may not be an option: Again, each firm also handles proxy voting differently regarding fractional shares. Make sure you know your company’s policy on this ahead of time.

Additional fees: Some brokerages charge additional fees for fractional share investing. This can potentially decrease profits, especially for low-dollar investment amounts. Find out if there are fees associated with fractional shares and if they are flat fees or a percentage.

Trade execution may not take place in real time: If the brokerage that you are investing with does not settle your trade in real time, that could affect your cost basis. Some firms will settle all the fractional shares in one or more bulk orders rather than settling each order individually. Obviously, prices can fluctuate throughout a trading day, so understanding how this will be settled is important.

Can complicate tax returns: Because you are buying fractional shares, and may buy several fractional shares throughout the year, depending on your investment strategy, you may end up holding several different tax lots that may be difficult to match up at tax time. If a stock you own has a dividend that you automatically reinvest, you will have additional tax lots to deal with.

Factors to Consider When Investing in Fractional Shares

Selection of stocks and ETFs available for fractional share investing: Because each online brokerage has its own select list of stocks or ETFs that they offer for fractional share investing, it is important to know this ahead of time. Some firms will offer ETFs, others will not. One company may offer fractional shares of an individual company, while others may not. Be sure to check out each brokerage's list of fractional share stocks and ETF offerings before opening an account.

Fees and commissions: Some brokerages will be commission-free when it comes to investing in fractional shares, while others may charge additional fees. It is important to find out the brokerage's policy on this prior to opening an account.

Account minimums: Many companies have no account minimum to open or maintain the account. Often, investors can buy fractional shares for as low as $1. Balance and investment minimums will differ from broker to broker.

Research amenities: Once you open an account with an online broker or robo-advisor, you will have access to research amenities. Brokers will provide analysts' assessments of companies, which can help you determine which stocks you'd like to invest in.

Educational content: Knowing how to invest, what to invest in, and how to reach your financial goals are important. Educational content provided by your brokerage can help you to better understand which investments will help you reach your goals, and even how to better utilize your account amenities to track and monitor your investment.

FAQs

What Are Fractional Shares?

Fractional shares are very simply a portion, or fraction, of a whole share. When investing in fractional shares, you will buy a portion of a stock share. With this strategy, you are investing based on a dollar amount, not an individual stock's price or certain number of shares. Buying fractional shares provides investors with a lower entry point of accessibility, thereby allowing investors to gain market entry sooner. While the concept of trading in fractional shares has been around since 1999, the strategy really wasn't widely available—or financially feasible—until 2019. A few low-fee companies offered fractional shares at that time, but this didn't last very long.1
Around 2019, online brokers cut fees drastically to offer low fees or no monthly fees, thus creating

a path for investing in fractional shares to become advantageous. Prior to 2019 your portfolio may have had fractional shares, but it was most likely due to a few, limited circumstances: owning mutual funds, stock splits, dividend reinvestment programs, or company mergers or acquisitions.

How Does Fractional Share Investing Work?

Your experience with investing in fractional shares will differ depending on which brokerage you decide to invest through. Each brokerage has its own guidelines, so finding out exactly what is offered will be important before deciding to invest. For example:The list of stocks will differ from broker to broker, as well as whether it offers EFTs for fractional share investing.Some brokers charge additional fees for fractional shares.Some brokers may offer fractional share trading in real time, others may settle all fractional share trades in one or more large orders–which could affect share price, depending on how much the stock price fluctuated throughout the day between order time and trade execution time.If you are only buying a fraction of a share, you will also only get a fraction of the dividend, if the stock receives one. For example, if you want to invest in a stock that is trading at $100 per share, you don’t need to have $100 to buy a full share, you can instead invest $25 and own one-fourth of a share. If this same stock happens to get a dividend that is $0.40 per share, you would likewise get one-fourth of the dividend, or $0.10. One online brokerage to offer fractional shares is Charles Schwab. Schwab refers to a fractional share as a “slice.” When buying a Schwab stock slice, investors have the choice to buy slices of 30 stocks in companies on the S&P 500 in one transaction.2 These shares can then be held and sold independently. One way to think of it is like investing in a mutual fund, but you have the flexibility to trade the individual stocks, or stock fractions.

Are Fractional Shares a Good Idea?

Buying fractional shares can be beneficial in several ways: affordability, diversification, and dollar cost averaging.Affordability: You don’t have to wait until you have hundreds or thousands of dollars in order to buy enough shares of a stock. You can start investing with many online brokerages in fractional shares with only $1. Diversification: Investing lower dollar amounts and being able to diversify used to only be available in mutual funds. However, now that many brokerages offer fractional shares, investors can choose which companies they want to invest in, and can trade the fractional shares at any time—unlike a mutual fund, which is bought and sold as a “basket” of stocks. Having the option to only invest in a fractional share allows investors to choose several stocks rather than putting all of their money into just one company in order to purchase a certain amount of whole shares.Dollar cost averaging: Because investing in fractional shares is an option, investors can choose to pick a specific dollar amount to invest each month, for instance. By investing on a regular basis, investors can take advantage of price fluctuations in the market while also hedging against risk.

Can You Buy Fractional Shares Through Fidelity?

Yes, you can buy fractional shares through Fidelity. With a minimum account balance of $0, and fractional share investing starting at only $1, Fidelity makes it easy to open an account and start investing in fractional shares. In fact, Investopedia ranks Fidelity as the Best Online Broker for ETFs, so if investing in fractional shares of ETFs is important to you, this company may be a great option. In all, Fidelity offers over 7,000 US stocks and ETFs in which investors can buy fractional shares.3

Do Fractional Shares Make You Money?

Investing in such small dollar amounts may not seem like a way to make money. If you treat this like contributing to an IRA or 401k on a monthly basis, though, your multiple, small investments will add up over time and create a very nice savings account. While one individual purchase is only buying a portion of a stock, or portions of several stocks, investing over months or years will allow those fractional shares to keep building, potentially into several full shares of several stocks.

Can You Buy Exchange-Traded Funds (ETFs) as Fractional Shares?

Yes, some companies will offer ETFs as fractional shares. Because each brokerage has different fractional share offerings, it is important to find out if the firm you want to invest with offers ETFs as fractional shares and what other stocks are on its fractional share list.

Are Fractional Shares Harder to Sell?

The answer to this will depend upon how your brokerage handles the selling of fractional shares. Some brokerage firms do not guarantee liquidity of fractional shares. This will differ from broker to broker, so it is something to consider when choosing which firm you want to invest with. Liquidity refers to the ability to easily sell a stock or security and convert to cash. Even though you can buy fractional shares, you may not be able to sell fractional portions as easily as whole shares.4

Issued Share Capital vs. Subscribed Share Capital: An Overview

Share capital refers to the amount of funding a company raises through the sale of stock to public investors. This means the company grants shareholders a small ownership stake in the company in exchange for monetary investment. Share capital constitutes the main source of equity financing and can be generated through the sale of common or preferred shares.

Common stock is what most people think of when they talk about the stock market. Common, or ordinary, shareholders have voting rights and participate in major company decisions.1 Although companies at times pay dividends on common shares, they are not required to pay them.

Key Takeaways

Share capital is the total of all funds raised by a company through the sale of equity to investors. Issued share capital is the value of shares actually held by investors.Subscribed share capital is the value of shares investors have promised to buy when they are released.Subscribed shared capital is usually part of an IPO.

Preferred shares, also called preference shares, do not entail the same kinds of ownership rights as common shares. However, they generally include a guaranteed dividend each year that must be paid before any dividends can be distributed to common shareholders. In short, though preferred shareholders have fewer rights, they do have a higher claim on company assets.2

Although share capital refers to a dollar amount, it is dictated by the number and selling price of a company's shares. For example, if a company issues 1,000 shares for $25 per share, it generates $25,000 in share capital.

Share capital is only generated by the initial sale of shares by the company to investors. If the investor goes on to trade those shares to a third party, any profit made on the sale does not contribute to the issuing company's share capital.

Issued Share Capital

Issued shares are the shares sold to and held by company investors. These investors can include large institutions or individual retail investors. Sometimes, large institutional purchases of shares may only be partially paid for and will be accounted as called-up share capital. The amount already received in payment is the paid-up share capital. When fully paid, the amount is recorded as paid-in share capital.

Issued share capital is simply the monetary value of the shares of stock a company actually offers for sale to investors. The number of issued shares generally corresponds to the amount of subscribed share capital, though neither amount can exceed the authorized amount.

When a company prepares to "go public" by issuing stock for the first time, investors can submit an application expressing their desire to participate.3

Subscribed Share Capital

Subscribed shares are shares that investors have promised to buy. These shares are usually subscribed as part of an initial public offering (IPO).

Underwriters often promise to deliver a certain number of subscribed shares prior to the IPO. The subscribers are usually large institutional investors and banks. Subscribed share capital refers to the monetary value of all the shares for which investors have expressed an interest.

Special Considerations

Share capital can fall into one of several other categories, depending on where the company is in the equity-raising process. They include the following:

Authorized Share Capital

The maximum amount of share capital a company is allowed to raise is called its authorized capital. Though this does not limit the number of shares a company may issue, it does put a ceiling on the total amount of money that can be raised by the sale of those shares.

Called-Up vs. Paid-Up Share Capital

Depending on the business and applicable regulations, companies may issue stock to investors with the understanding the investors will pay at a later date. Any funds due for shares issued but not fully paid for are called-up share capital. Any funds remitted for shares are considered as paid-up capital.

Other types of capital, such as debt financing or mezzanine financing, are not considered share capital. Debt capital includes financing sources such as lines of credit, business loans, and credit card balances. While mezzanine financing, like share capital, is included under the equity section of the balance sheet, it is not considered share capital.

What Is CANSLIM?

CANSLIM is a system for selecting growth stocks by using a combination of fundamental and technical analysis techniques. It was created by Investor's Business Daily founder William J. O'Neil.

The acronym is sometimes written as CAN SLIM.

Key Takeaways

CANSLIM, created by Investor's Business Daily William J. O'Neil, is a system for selecting growth stocks using a combination of fundamental and technical analysis techniques.CANSLIM is a bullish strategy for fast markets, with the goal being to get into high-growth stocks before the institutional funds are fully invested.CANSLIM stocks cannot be bought and held as much of the value is being priced in for future growth, meaning any slowing in the growth trajectory, or the market as a whole may result in the stock being punished.

Understanding CANSLIM

CANSLIM, or CAN SLIM, identifies a process that investors can use to identify stocks that are poised to grow faster than average. Each letter in the acronym stands for a key factor to look for when purchasing shares.

Stocks that are CANSLIM candidates show the following attributes:1

C: Current quarterly earnings per share (EPS) have increased sharply from the same quarter in the prior year. Generally, investors using CANSLIM want EPS growth of over 20%, but the higher the better.
A: Annual earnings increases over the last five years. Again, annual EPS growth should ideally be in excess of 20% over the last three to five years.
N: New products, management, or positive new events that push the company's stock to new highs. This type of headline news can cause short-term excitement, propelling a surge of optimism within the market and subsequent price appreciation.
S: Scarce supply coupled with a strong appetite for a stock creates excess demand and an environment in which share prices can soar. Companies acquiring (re-purchasing) their own stock reduces market supply and can indicate an expectation of increased demand along with insider confidence in the firm.
L: Laggard stocks are preferred within the same industry. Use the relative strength index (RSI) as a guide. The RSI is a momentum indicator that measures the magnitude of price changes to determine whether the price of a stock or asset is overbought or oversold. The RSI ranges from zero to 100. An RSI reading below 30 suggests that the stock is oversold and could be undervalued—creating a buying opportunity (bullish). An RSI reading of above 70 signifies that a stock could be overbought or overvalued and could be a chance to sell (bearish).

I: Pick stocks that have institutional sponsorship by a few institutions with recent above-average performance. For example, this could be a recently public company, still supported by a small handful of well-known private equity firms. Be cautious of stocks that are over-owned by institutions as you want to get in before the big money is fully invested.
M - Determine market direction by reviewing market averages daily. A market average measures the overall price level of a given market, as defined by a specified group of stocks, such as the Dow Jones Industrial Average. CANSLIM stocks tend to be over-performers in bull markets.

The L in CANSLIM
The L in the original CANSLIM model created by O'Neil stands for both "Leader" or "Laggard". Some have argued that leading stocks should be considered instead of laggards, since they would be stocks that possess superior fundamentals and are part of a leading industry group or sector.2
Advantages and Disadvantages of CANSLIM
CANSLIM is a bullish strategy for fast markets, so it is not for everyone. The idea is to get into high-growth stocks before the institutional funds are fully invested.

The elements of CANSLIM can be read like a wish list for fund managers seeking growth, so it is a matter of time until the buying demand increases. The catch is that stocks that fit the CANSLIM strategy can be among the fastest to drop if the market direction shifts and those big-spending institutional investors begin switching to safe-havens.

CANSLIM can be a good fit for an experienced investor with high risk tolerance. These stocks cannot be bought and simply held as much of the value is being priced in for future growth. Any slowing in the growth trajectory, or the market as a whole, may result in the stock being punished.

Correction—Dec. 2, 2022: This article has been edited to reflect that the L in CANSLIM stands for both "Leaders" and "Laggards" in the original CANSLIM model created by William J. O'Neil, and not only for "Laggards".

What Is a Theoretical Ex-Rights Price – TERP?

A theoretical ex-rights price (TERP) is the market price that a stock will theoretically have following a new rights issue. Companies may use a new rights issuance to offer more shares to shareholders, usually at a discounted price. Stock prices are affected by new rights issuance because it increases the number of shares outstanding.

Key Takeaways

TERP is the theoretical market price of a stock after the completion of a rights offering.New rights issues result in an increase in the number of shares available and therefore have an impact on the price of the underlying stock.Typically, rights offerings give shareholders the chance to buy more shares at a discounted price, causing a dilution effect.Generally, the TERP will be lower than the pre-offering market price immediately following the rights issuing period.

Theoretical Ex-Rights Price Explained

A theoretical ex-rights price is a consideration for stock issued through a rights offering. Typically, rights offerings are only available for current shareholders and only offered for a short time (approximately 30 days). Rights offerings usually give shareholders the option to buy a proportioned number of shares at a discounted, pre-specified price. The portion each shareholder is allowed to purchase is based on the shareholder's current stake in the organization. The goal is to raise additional capital with preference given to current shareholders.

Stock rights offerings can be a popular event for investors and traders as they may create potential arbitrage opportunities through the rights offering period. Overall the rights offering period can somewhat mitigate efficient market trading as it creates uncertainty over the stock's price.

Generally, stock rights offerings are tools managers can use in raising capital through the stock. Management may choose to use stock rights offerings to generate additional interest in a company's stock. Since rights offerings are commonly offered at a discounted price, stock rights usually have a diluting effect on a stock's price. As such, the TERP is usually lower than the pre-offering market price.

Calculation of a Theoretical Ex-Rights Price

The theoretical ex-rights price is usually calculated immediately following the last day of a stock's rights offering. This calculation makes the stock's price somewhat arbitrary and potentially more enticing for arbitrage trades throughout the rights offering period.

The simplest way to create a TERP estimate is to add the current market value of all shares existing before the rights issue to the total funds raised from the rights issue sales. This number is then divided by the total number of shares in existence after the rights issue is complete. This calculation results in the value of an individual share after the offering.

Throughout the offering period, all types of investors can speculate on the number of shares expected to be taken by shareholders, but usually, only current shareholders can participate. The basis for speculation in this scenario involves the number of share rights available, the expected demand, and the rights offering price. Companies may have various types of disclosure for this information which can make the estimate even more difficult.

The theoretical ex-rights price (TERP) is often lower than the stock's price before the offering because rights offerings are usually discounted, diluting the stock price.

Investor Analysis

Investors can compare the TERP to the current value of a share and their expectations for future market appreciation. Since rights are offered at a discounted price, the more rights exercised, the more the stock's price becomes diluted. However, throughout the rights offering period, supply and demand still affect the market price so while dilution is occurring, investor demand can still increase the prevailing market price. Investors who are bullish on the stock long term may be more motivated by the offering while bearish or short-term investors may not see as much upside.

Real-World Example

Management of ABC Company has chosen to issue a rights offering. The provisions of the offering allow each shareholder to buy shares in the offering based on the percentage of their outstanding shares. The new shares are offered to investors at a discounted price to the market price. Shareholders can use the TERP to determine the estimated value of the shares after the rights issue. This amount will differ from the current market price.

It is possible for multiple theoretical estimated values to be calculated for the stock before the end of the offering p
ook at the TERP
value if 25% of the shares are purchased in the rights offering versus 50%, 75%, or 100%. Overall the more shares bought, the greater the potential for dilution when the shares are sold at a discounted offering price.

What Is a Shareholder Register?

A shareholder register is a list of active owners of a company's shares, updated on an ongoing basis. The shareholder register requires that every current shareholder is recorded. The register includes each person's name, address, and the number of shares owned. In addition, the register can detail the holder's occupation and the price they paid for the shares.

The shareholder register is fundamental to the examination of the ownership of a company. Shareholder register is a term used in Europe and other parts of the world, while the term used in the U.S. is shareholder list.

Key Takeaways

A shareholder register is a list of active owners of a company's shares, updated on an ongoing basis. Included in the register are the shareholder's name and physical address, while some registers detail the last decade of shareholder transactions.The shareholder list is used for several purposes, including taxation, mailing proxy materials, and dividend payments.

How a Shareholder Register Works

A shareholder register must note all shares issued by a company. In addition, it should detail any possible restrictions on transferring shares, along with relevant citations, if available. For each share class, the register must also list shareholders by name, in alphabetical order, and each party's last known physical address.

Some shareholder registers go as far as to detail all issues of shares to each individual shareholder in the last 10 years, along with the date of any and all transfers of shares. This can also include the name of the party to whom shares have been transferred.

The shareholder register should include the purchase prices of these shares, too. If shares are not fully paid for, the register must note the unpaid amount.

Special Considerations

Additional critical components of company record keeping include a current and projected capital structure. This document, often in an Excel file, details the financing of a company's present operations and future goals for growth.

Sources of funds can come from issuing equity (new shares of which would be noted in real-time in the shareholder register), and debt. Equity can be in the form of common or preferred stock, while debt can be short-term or long-term in nature.

Requirements for a Shareholder Register

A shareholder register is a clear record of beneficial owners of shares—shareholders who are entitled to and may exercise voting rights attached to the shares, along with other particular rights and powers, and receive dividends.

Access is free for current shareholders and may require a small fee for non-shareholders. This will allow communication to, and between, shareholders of information such as the price per share in a takeover bid.

Per the rules outlined by the Securities and Exchange Commission (SEC), a company must provide shareholders with the contact info of other shareholders in two instances. The first is proxy solicitations and the second is in a tender offer. A proxy solicitation contains information to be sent to voting shareholders prior to a shareholder meeting. The solicitation might include information about the company and the items on the agenda that need a shareholder vote. A tender offer is a public offer or bid to purchase some or all of the shares in a corporation.

The company can either mail the list to the requesting party or send the materials directly to shareholders. Meanwhile, companies may provide access to the shareholder register per state laws or a company's by-laws and charter.

What Is a Bearer Share?

A bearer share is equity security wholly owned by the person or entity that holds the physical stock certificate, thus the name "bearer" share. The issuing firm neither registers the owner of the stock nor tracks transfers of ownership; the company disperses dividends to bearer shares when a physical coupon is presented to the firm. Because the share is not registered to any authority, transferring the ownership of the stock involves only delivering the physical document.

Key Takeaways

Bearer shares are unregistered equity securities owned by the possessor of the physical share documents. The issui
le bearer shares were often used internationally in Europe, South America, and other regions, many large corporatio
ares.The use of bearer shares has dwindled worldwide because they incur increased costs and are convenient instru

How a Bearer Share Works

Bearer shares lack the regulation and control of common shares because ownership is never recorded. Bearer shar onging to the holders of physical certificates rather than registered owners.

Bearer shares are often international securities, common in Europe and South America — although the use of beare
nonymity-related illegal activity. While some jurisdictions, such as Panama, allow the use of bearer shares, they impo
iscourage their use. The Marshall Islands is the only country in the world where the shares can be used without prob

Many large foreign corporations over the past decade or so have also chosen to transition to full usage of registered
le, started to convert all its bearer shares to registered shares in 2009,1 and in 2015, the United Kingdom abolished t
l Business, Enterprise and Employment Act 2015.2

Switzerland, a jurisdiction known for its emphasis on secrecy in banking transactions, has abolished bearer shares. I
d a new Federal Act declaring the end of bearer shares, with the exception of publicly-listed companies and intermed
ted into registered shares.3

In the United States, bearer shares are mostly an issue of state governance, and they are not traditionally endorsed
t state in the U.S. to ban the sale of bearer shares in 2002.4

Bearer shares appeal to some investors because of privacy, but the tradeoff is the increased costs associated with m

Benefits of Using Bearer Shares

The only tangible benefit to be gained from using bearer shares is privacy. The highest degree of anonymity possibl
older of bearer shares. Although the banks that handle the purchases know the contact information of the people pu
l obligation to disclose the identity of the purchaser. Banks may also receive dividend payments on behalf of the sha
eral meetings. Moreover, purchases can be made by a representative, such as a law firm, of the actual owner.

Bearer shares have some valid uses, despite their inherent detriments. Asset protection is the most common reason
ple, individuals who do not want to risk their assets being seized as part of a legal proceeding such as a divorce or a

Disadvantages and Risks of Bearer Shares

The ownership of bearer shares often coincides with an increased cost incurred from hiring professional representa
vide. Unless the bearer shareholder is a financial and/or legal expert in these matters, avoiding the many legal and ta
enge.

Also, in a post-9/11 world in which the threat of terrorism looms heavily, part of the strategy to counter the threat is
in a worldwide effort to deter terrorism funding, money laundering, and other illicit nefarious corporate activity, man
tight restrictions on the use of bearer shares or, has altogether abolished their use.

Bearer Shares Example

For example, the Panama Papers scandal extensively used bearer shares to conceal the true ownership of shares. T
a network of more than 200,000 tax havens involving high net worth individuals, public officials, and entities from 20
nancial institutions to open accounts or have any associations with corporations or shareholders that deal with bear
willing to deal with bearer shares has narrowed significantly.

What Is a Tracking Stock?

A tracking stock is a special equity offering issued by a parent company that tracks the financial performance of a pa
e open market separately from the parent company's stock.

Tracking stocks allow larger companies to isolate the financial performance of a higher growth segment. In turn, tra
ecific aspect of a larger company's business (e.g., the mobile division within a large telecom provider).

Key Takeaways
A tracking stock is a specialized equity security issued by a parent company to "track" a certain segment or division o
open market independent of the parent stock.The tracking stock's performance will largely be tied to the success of
tracking shares in order to raise capital and to give investors the opportunity to gain exposure to one specific divisio
typically don't include shareholder voting rights.

Understanding Tracking Stocks

When a parent company issues a tracking stock, all revenue and expenses of the applicable division are separated f
rmance of the tracking stock is tied to the financials of the division or segment it follows, not the parent company.

If the division does well financially, the tracking stock will likely appreciate even if the parent company is performing
e tracking stock will likely fall even if the parent company is doing well.

Large companies might issue tracking stocks in order to separate a segment that doesn't quite fit with the core busi
mall software development division.

Companies also issue tracking stocks to isolate a high-growth division from the larger slower-growth parent. Howev
division's operations.

Tracking stocks are registered similarly to common stocks per the regulations enforced by the U.S. Securities and Ex
lly the same as they are for any new common shares. Companies include a separate section for the tracking stock ar
rts.

Tracking stocks were more frequently used in the late 1990s technology boom than they are now, although some co

Tracking Stocks Benefits and Risks for Investors

Tracking stocks allow investors the opportunity to invest in a particular portion of a much larger business. The appre
imited due to them having multiple divisions across various business lines. Tracking stocks can give investors access

Tracking stocks also allow investors to participate in the business segments that best fit their own risk tolerance. Tha
n buying a tracking stock when the parent company is struggling or not well established.

The parent company and its shareholders do not give up control of the tracking segment's operations. Investors of t
the event of corporate bankruptcy at the parent company, creditors would have a claim on the tracking segment's as

Tracking Stocks Benefits and Risks for Companies

Companies raise money through the issuance of tracking stocks. The proceeds can then be used to pay down debt,
n.

Companies can gauge investor interest in specific segments of the business through the associated activity of each t
se to use tracking stocks to separate its wireless segment and its landline services. Investor interest in each division c
king stocks.

Tracking stocks also eliminate the need for management to create a separate business or legal entity for the trackec ment would require its own board of directors and management team.

On the flip side, companies that issue tracking stocks might be parsing out the best parts of their company. If the pa
t associated with the tracking stock won't be able to help offset that poor performance.

Pros

Tracking stocks give investors access to the more promising divisions of a company.
The performance of tracking stocks comes only from the tracked segment—not from the parent company as a whol
New issuance of tracking stocks provides companies with capital to pay down debt and fund growth.

Cons

Investors can lose money on tracking stocks if the division performs poorly even if the parent company does well.
Tracking stocks typically come with limited or no voting rights.
If the parent company goes into bankruptcy, creditors may have a claim on the tracking segment's assets (even if it i

Example of a Tracking Stock
In 1999, the Walt Disney Company issued a tracking stock for its internet holdings division, Go.com. Go.com's websi
aily Blast. The tracking stock traded under the ticker symbol "GO."1

In January 2001, just as the tech bubble was popping, Disney was forced to close Go.com, lay off hundreds of emplo

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2.1 – What is the stock market?
In the previous chapter, we established that investing in equities is vital to generate inflation-beating returns. Having
we dwell further into this topic, it is essential to understand the market ecosystem and the many different entities i
Just like the way we go to the neighborhood kirana store or a supermarket to shop for our daily needs, similarly, we
s. The stock market is where all the participants who wish to transact in shares go. Transact means to buy or sell sha
stock market is to help you facilitate your transactions. So if you want to buy shares of a company, the stock market

Unlike a supermarket, the stock market does not exist in a brick-and-mortar form. It exists in electronic form. You ac
ransactions (buy or sell). It is also important to note that you can access the stock market via a registered intermedia
t a later point.
India has two stock exchanges – the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). There we
u talk about the stock markets in India, you are essentially referring to either NSE or BSE. Older stock exchanges like
Calcutta Stock Exchange (CSE) have either merged with BSE/NSE or shut shop.
2.2 – Market Participants and the need to regulate them
The stock market attracts individuals and corporations from diverse backgrounds. Anyone who transacts in the stoc
be classified into various categories –

Domestic Retail Participants – These are people like you and me transacting in markets
NRI's and OCI – These are people of Indian origin but based outside India
Domestic Institutions – These are corporate entities in India
Domestic Asset Management Companies (AMC) – Mutual fund companies like SBI Mutual Fund, HDFC AMC, Edelweis
Foreign Institutional Investors – Non-Indian corporate entities. These could be foreign asset management companie

Now, irrespective of who participates in the market, the agenda for all is to make profitable transactions. More blunt
When money is involved, human emotions such as greed and fear run high. One can easily fall prey to these emotio
such unethical practices. Given this, the stock markets need someone who can set the game rules (commonly referr
these regulations and compliance, thereby making the markets a level playing field for everyone.
2.3 – The Regulator
In India, the stock market regulator is called The Securities and Exchange Board of India, often referred to as SEBI. S
t the interest of retail investors, and regulate market participants' and financial intermediaries' activities. In general,

The stock exchange conducts its business fairly
Stockbrokers conduct their business fairly
Participants don't get involved in unfair practices
Corporates don't use the markets to benefit themselves (Satyam Computers) unduly
Small investors' interests are protected
Large investors with mega cash piles should not manipulate the markets
Overall development of markets

Given the above objectives, it becomes imperative for SEBI to regulate all the entities which are involved in the mark
he stock markets. Malpractice by any of the following entities can disrupt what is otherwise a harmonious market in
SEBI has prescribed a set of rules and regulations for each entity. The entity should operate within the legal framew
ecific entity are made available by SEBI on its website. They are published under the 'Legal Framework' section of the

Entity
Example of companies
What do they do?
In simpler words

Credit Rating Agency (CRA)
CRISIL, ICRA, CARE
They rate the creditworthiness of corporate and governments
If a corporate (or Govt) entity wants to avail loan (debt financing), CRAs check for creditworthiness and assign a ratin
oan or not.

Debenture Trustees
Almost all banks in India
Act as a trustee to corporate debenture
When companies want to raise a loan, they can issue debentures against which they promise to pay interest. The pu
that the
debenture obligation is honored

Depositories
NSDL and CDSL
Safekeeping, reporting, and settlement of clients' securities

They act like a digital vault for your shares. The depositories hold your shares and facilitate the exchange of your sec
tary account, usually referred to as the DEMAT account.

Depository Participant (DP)
Most of the banks and few stockbrokers
Act as an agent to the depositories
You cannot directly interact with NSDL or CDSL. You must liaise with a DP to open and maintain your DEMAT accoun

Foreign Institutional Investors (FII)
Foreign corporate, funds and individuals
Make investments in India
These are foreign entities with interest in investing in India. They usually transact large amounts of money, and henc
t sentiment.

Merchant Bankers
Karvy, Axis Bank, Edelweiss Capital
Help companies raise money in the primary markets
If a company plans to raise money by floating an IPO, then merchant bankers are the ones who help companies with

Asset Management Companies
(AMC)
HDFC AMC, Reliance Capital, SBI Capital
Offer Mutual Fund Schemes
An AMC collects money from the public, puts that money in a single account, and then invests that money in markets

Portfolio Managers/
Portfolio Management System
(PMS)
Capitalmind Wealth PMS, Motilal PMS, Parag Parikh PMS
Offer PMS schemes
They work similarly to a mutual fund except in a PMS; you have to invest a minimum of Rs.50,00,000; however, there

Stock Brokers
Zerodha, Sharekhan, ICICI Direct
Act as an intermediary between an investor and the stock exchange
Stock brokers act as a gateway to the stock markets, giving electronic access to stock markets to facilitate transaction

We will elaborate on some of these market intermediaries in the next chapter.

Key takeaways from this chapter

The stock market is the place to transact in equities.
Stock markets exist electronically and can be accessed through a stockbroker.
There are many different market participants operating in the stock markets.
Every entity operating in the market has to be regulated and can operate only within the framework prescribed by th
SEBI is the regulator of the securities market in India. They set the legal framework and regulate all entities intereste
Most importantly, you need to remember that SEBI is aware of what you are doing, and they can flag you down if you

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What Is the Adjusted Closing Price?

The adjusted closing price amends a stock's closing price to reflect that stock's value after accounting for any corpor
ns or doing a detailed analysis of past performance.

Key Takeaways

The adjusted closing price amends a stock's closing price to reflect that stock's value after accounting for any corpor
the cash value of the last transacted price before the market closes.The adjusted closing price factors in corporate ac
he adjusted closing price can obscure the impact of key nominal prices and stock splits on prices in the short term.

Understanding the Adjusted Closing Price

Stock values are stated in terms of the closing price and the adjusted closing price. The closing price is the raw price
before the market closes. The adjusted closing price factors in anything that might affect the stock price after the ma

A stock's price is typically affected by the supply and demand of market participants. However, some corporate actio
t a stock's price. Adjustments allow investors to obtain an accurate record of the stock's performance. Investors shou
k's adjusted closing price. It is especially useful when examining historical returns because it gives analysts an accura

Types of Adjustments

Adjusting Prices for Stock Splits

A stock split is a corporate action intended to make the firm's shares more affordable for average investors. A stock
but it does affect the company's stock price.

For example, a company's board of directors may decide to split the company's stock 3-for-1. Therefore, the compar
share price is divided by three. Suppose a stock closed at $300 the day before its stock split. In this case, the closing p
maintain a consistent standard of comparison. Similarly, all other previous closing prices for that company would be

Adjusting for Dividends

Common distributions that affect a stock's price include cash dividends and stock dividends. The difference betweer
tled to a predetermined price per share and additional shares, respectively.

For example, assume a company declared a $1 cash dividend and was trading at $51 per share before then. All othe
$1 per share is no longer part of the company's assets. However, the dividends are still part of the investor's returns
ain the adjusted closing prices and a better picture of returns.

Adjusting for Rights Offerings

A stock's adjusted closing price also reflects rights offerings that may occur. A rights offering is an issue of rights give
ers to subscribe to the rights issue in proportion to their shares. That will lower the value of existing shares because
es.

For example, assume a company declares a rights offering, in which existing shareholders are entitled to one additio
g at $50, and existing shareholders can purchase additional shares at a subscription price of $45. After the rights offe
djusting factor and the closing price.

Benefits of the Adjusted Closing Price

The main advantage of adjusted closing prices is that they make it easier to evaluate stock performance. Firstly, the

y would have made by investing in a given asset. Most obviously, a 2-for-1 stock split does not cause investors to lose
dly, graphs of their performance would be hard to interpret without adjusted closing prices.

Secondly, the adjusted closing price allows investors to compare the performance of two or more assets. Aside from
nds tends to understate the profitability of value stocks and dividend growth stocks. Using the adjusted closing price
t classes over the long term. For example, the prices of high-yield bonds tend to fall in the long run. That does not m
ields offset the losses and more, which can be seen by looking at the adjusted closing prices of high-yield bond funds

The adjusted closing price provides the most accurate record of returns for long-term investors looking to design as

Criticism of the Adjusted Closing Price

The nominal closing price of a stock or other asset can convey useful information. This information is destroyed by c
practice, many speculators place buy and sell orders at certain prices, such as $100. As a result, a sort of tug of war c
f the bulls win, a breakout may occur and send the asset price soaring. Similarly, a win for the bears can lead to a bre
cures these events.

By looking at the actual closing price at the time, investors can get a better idea of what was going on and understan
ds, they will find many examples of tremendous public interest in nominal levels. Perhaps the most famous is the ro
During that period, the Dow Jones Industrial Average (DJIA) repeatedly hit 1,000, only to fall back shortly after that. Th
opped below 1,000 again. This phenomenon is covered up somewhat by adding dividends to obtain the adjusted clo

In general, adjusted closing prices are less useful for more speculative stocks. Jesse Livermore provided an excellent
$300, on Anaconda Copper in the early 20th century. In the early 21st century, similar patterns occurred with Netflix
stock splits, far from being irrelevant, marked the beginnings of real declines in the stock price. While arguably irrati
example of a self-fulfilling prophecy.

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Artificial Intelligence (AI), or the use of machines to replicate and replace human intelligence processes across a vari
e amount of attention through its increasing relevance to our everyday lives and economy. As AI's capabilities contin
capitalize on this very important growth industry.

Similar to past emerging technologies, such as the railroads in the late 1800s or the personal computer in the 1980s
e companies will have wild success, other early adopters will fail.

The computer revolution is a great analogy for AI investing because while computers set the stage for automation o
to the next level through the automation of tasks that previously required human thought and intelligence. This arti
's anticipated growth as the technology starts to move from conceptual ideas to actual use in our economy.

How to Invest In AI

There are many ways to invest in an industry or market sector, and AI appears to be fast becoming an important dis
ese disruptor trends and investing in new companies, but there is tremendous competition building and it is not alw

Sometimes, the innovator takes and holds a market-leading position, but other times an imitator is able to use an in
over time.

Some people will want to invest directly in companies that develop AI, while others may choose to invest in those co
Using the introduction and growth of the personal computer industry as an example, investors could have had succe
de routers and switches. Others invested in software companies that produced the programs used by computers, w
st from the automation that computers offered.

Some of these investments were direct bets in computers and the actual technology, while others were more conse
benefit further from the growth of computer usage; but the point is that there are often winners and losers when n

Finally, with many believing that AI may have a strong economic impact and displace many workers in many industr
focused on worker retraining, that may benefit from these large shifts in the workforce. We will now discuss some in
ment in AI.

Invest in AI Stocks and ETFs

Leading Companies in AI

Tesla (TSLA): Tesla is one of the most visible AI companies, and is easy to understand. The company uses AI to automate driving, which necessitates constant processing of data to identify other cars, road conditions, traffic signals, and pedestrians. As anyone who has driven knows, this requires constant scanning and processing to account for instantaneously changing conditions.

NVIDIA (NVDA): NVIDIA is a leader in AI and has a very strong position in the marketplace through its generative artificial intelligence, which describes algorithms used to create new content in multiple output forms that include audio, computer code, images, text, simulations, and videos. NVIDIA has created the computer chips, hardware, software, and development tools to create start-to-finish AI systems. NVIDIA utilizes thousands of graphic processing units (GPUs) to drive a large AI system, and the company currently has a GPU market share of 88%.

Microsoft (MSFT): Microsoft has invested $13 billion in AI initiatives, including an early $1 billion investment in OpenAI (whose ChatGPT is now one of the most recognizable names in AI). Microsoft has embedded AI into many of its systems, including its Bing search engine, Microsoft 360, its sales and marketing tools, X-Box, and GitHub coding tools. It has also outlined a framework for building AI apps and copilots and expanding its AI plug-in ecosystem.

Taiwan Semiconductor Manufacturing (TSM): Taiwan Semiconductor Manufacturing is the world's largest chip maker, and it is another leading competitor in chip manufacturing for artificial intelligence. As AI grows, the need for robust computing chips will grow with it. TSM is a mature company that continues to make chips for non-AI computer applications, so it may represent less risk than other pure plays on AI.

Meta Platforms (META): Meta has made significant investments in AI. It utilizes large language module (LLM) AI to help drive search results and predict the content its users will want to see. Meta has also developed its own silicon chip for AI processing applications and created a next-generation data center.

Amazon.com (AMZN): Amazon uses AI in its Alexa system and also offers machine learning (ML) and AI tools to its customers. Amazon's cloud computing business, Amazon Web Services (AWS), provides an AI infrastructure that allows its customers to analyze data and incorporate AI into their existing systems. AWS has more than 100,000 customers that can benefit from AI and ML services to personalize recommendations, improve safety and security, analyze their business, and increase customer engagement.

Apple (APPL): In addition to Siri, which utilizes AI to interact with customers, Apple will continue to make a percentage of AI services delivered on its platform. A significant example of this is OpenAI, which just launched its iPhone app for ChatGPT; it will pay Apple 30% of the revenue generated from the app. In addition to AI companies delivering services through Apple's platform, the company can also use its massive cash reserves to make major investments in AI that it builds itself or acquires using its massive cash reserves.

Compare Some Top Brokers for Investing in AI Stocks

Platform	Account Minimum	Fees
Merrill Edge	$0	$0.00 per stock trade. Options trades $0 per leg plus $0.65 per contract
E*TRADE	$0	No commission for stock/ETF trades. Options are $0.50-$0.65 per contract, depending on trading volume.

Best AI ETFs

Utilizing professionally managed ETFs or mutual funds that invest in AI companies lets professionals perform the re
t in. This also provides the investor with a portfolio of multiple AI stocks within a single investment. Investing in funds
and also paying attention to the fees charged by the funds to ensure total returns.

iShares Exponential Technologies ETF (XT): XT is a large capitalization fund that selects global stocks trying to disrupt
y stocks, which make up nearly half of the fund. The other half of the fund invests in healthcare and industrial stocks
ized difference in their more mature industries. This fund has an expense ratio of 0.46% and an annual dividend yiel
Defiance Machine Learning & Quantum Computing ETF (QTUM): QTUM has only $112 million under management. Th
lopment in quantum computing systems. Its benchmark is the BlueStar Quantum Computing and Machine Learning
d of 0.45%.
ROBO Global Robotics & Automation Index ETF (ROBO): ROBO invests in companies focused on robotics, automation
s. The fund’s expense ratio is 0.95%, and it has an annual dividend yield of 0.17%.

Compare Some Top Brokers for Investing in AI ETFs

Company	Account Minimums	Fees
Fidelity	$0	$0 for stock/ETF trades, $0 plus $0.65/contract for options trade

Interactive Brokers
$0
$0 commissions for equities/ETFs available on IBKR's TWS Light, or low costs scaled by volume for active traders that
.65 per contract for options on TWS Light; that is also the base rate for TWS Pro users, with scaled rates based on vol

Charles Schwab
$0
$0 for stock/ETF trades, $0.65 per contract for options

How to Search for AI Investments

Buying individual AI stocks represents more work for the investor. The first step is to read about the industry to und
to invest in this sector. As outlined earlier, there are pure plays and more conservative plays within the AI universe, a
ant to this market sector. Once the investor has an idea of the overall parts of the AI market they want to invest in, th
mental and technical.

Earnings forecasts: Earnings are a great way to judge the performance of a company, and AI companies with consist
anies will be viewed as growth stocks, so earnings growth will be an important criterion for many investors. Earnings
ply.
Annual reports: Annual reports provide important narrative information about the activities of the company, and the
metrics, such as debt to equity and other accounting ratios used to make financial decisions about stocks.
Relative performance vs. the market: Relative performance is looking at how an individual stock performs relative to
st to look at the relative performance between similar companies.
Growth analysis: This analysis deals with the growth of a company over time, with the investor looking at earnings, m
rength of the company and its prospects.
Analyst projections: Analysis projections and research reports may be particularly helpful for investors new to AI. Thi
company prospects changing much more quickly than with stocks in more mature industries. Therefore, it is helpful
d understanding of the overall AI space, as well as the prospects of individual stocks relative to competitors in the se

FAQs

Can Investors Make Money in AI?

Artificial intelligence use has been growing, and the technology appears poised to break out further and deliver on e
businesses and real-world applications. Like any disruptive technology that requires capital investment, AI offers ple
ologies also involve risk, so investors should determine the best way to gain exposure to this market. Options include
or investing in ETFs and mutual funds that offer a portfolio of multiple companies in the AI space. Investors may also
increase their revenues as AI becomes more widely adopted across the economy to their portfolios.

How Can You Invest in AI Art?

Art can now be created using artificial intelligence. A user can type or speak of an image they want to create, and an
vided by the user. These AI programs use the user's description in conjunction with images available throughout the
AI-generated artwork has been utilized by people of all ages and backgrounds. Copyright is an issue related to AI-gen
xamples, many artists feel their copyrights are being violated by these programs, putting their livelihoods at risk. The
f artwork utilized by AI art generators, such as Pinterest, Getty Images, Snap Inc., and Shutterstock.

How Can You Invest in AI Startups?

Startup companies are often created in new and promising fields, such as artificial intelligence and machine learning
d by venture capital investors, then taken public to capitalize on their initial investment and to raise more capital as t
s products to a wider customer base. While investing in startup companies is risky, the rewards for investing in a suc
rtup companies include Apple, Amazon, and Microsoft, and its early investors have, obviously, been very well reward

Can You Invest Directly in AI?
Yes, investors can make direct investments in artificial intelligence and machine learning. This can be done by investi
ds that focus their investments in AI stocks. There are widely held, well-known AI stocks, as well as much less known

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1.1 – Why should I invest?
Before we address the above question, let us understand what would happen if one chooses not to invest. Assume y
day-to-day living; this can include expenses like housing, food, transport, shopping, medical, etc. The balance of Rs.2

For the sake of simplicity, let us ignore the tax effect in this discussion.
To drive the point across, let us make a few simple assumptions –

The employer is kind enough to give you a 10% salary hike every year.
The cost of living is likely to go up by 8% yearly.
You are 30 years old and plan to retire at 50, this translates to 20 working years.
You don't intend to work after you retire.
Your expenses are fixed, and you don't foresee any other expenses.
The balance cash of Rs.20,000/- per month is retained as hard cash.

Going by these assumptions, here is what the cash balance will look like in 20 years.

If one were to analyze these numbers, one would soon realize this is a scary situation. A few things are quite obvious

After 20 years of hard work, you have accumulated Rs.1.7Crs.
Since your expenses are fixed, your lifestyle has not changed over the years, and you probably even suppressed you
After you retire, assuming the expenses will continue to grow at 8%, the retirement corpus of Rs.1.7Crs is good enou
th year onwards, you will be in a tight spot with literally no savings left to back you up.

What would you do after you run out of money in 8 years? How do you fund your life? Is there a way to ensure that y
At this point, you may think that the assumptions are simple and that real life does not work like this. I agree, and I w
ove calculation is that no investments are made, hence the cash retained has a flat or zero growth.
Let's consider another scenario where instead of keeping the cash idle, you choose to invest the cash in an investme
in the first year, you retained Rs.240,000/- which, when invested at 12% per annum for 20 years (19 years assuming y
nd of the 20th year. For those interested in math, here is how that works –
= 240000*(1+12%)^(19)
= 2067063
Dont worry about the math at this point. We will explain that later in this module (and several other modules in Vars

Your cash balance has increased significantly with the decision to invest surplus cash. The cash balance has grown to
(when you choose not to invest). Clearly, with the decision to invest, you are in a much better situation to deal with y
Now, going back to the initial question of why invest? There are a few compelling reasons –

Fight Inflation – By investing, one can deal better with the inevitable reality of life – the growing cost of living – genera
Create Wealth – By investing, one can build a bigger corpus by the end of the target period. In the above example, th
's education, marriage, house purchase, retirement holidays, etc
Better life – To meet life's financial aspirations.

1.2 – Where to invest?
Having figured out the reasons to invest, the next obvious question is – where would one invest, and what return car
asset class that suits the individual's risk and returns profile. For example, one individual will be open to taking a lot o
ake moderate risk, while another would want zero risk.
Think of an asset class as an investment vehicle defined by its risk and return characteristics. The following are some

Fixed income instruments
Equity
Real estate
Commodities (precious metals)

Fixed Income Instruments
Fixed-income instruments are investment avenues where your principal amount (the money you invest) is perceived
nvest. The bank's fixed deposit scheme is the simplest example of a fixed investment instrument. The interest paid o
d to the investor at the end of the investment period, also known as the maturity period.
A few examples for fixed-income instruments are –

Bank's Fixed deposits
Bonds issued by the Government of India (also called G Sec bonds and T Bills)
Bonds issued by Government related agencies such as GAIL, HUDCO, NHAI, etc
Bonds issued by corporate's (Tata, Bajaj, Reliance, Adani)

As of October 2022, the typical return from a fixed-income instrument (bank's FD) varies between 5 – 6%. Governme
or 10%. The rates across different instruments vary because of the risk varies. The Govt bonds are considered the sa
, the govt can't cheat and run away with your money. Corporate bonds are risky, though; investment in corporate bo
past.
Equity
Investment in Equities involves buying shares of publicly listed companies. The shares are traded on the Bombay Sto
When an investor invests in equity, unlike a fixed-income instrument, there is no capital guarantee. However, as a tra
Indian Equities have generated upwards of 12% CAGR (compound annual growth rate) over the past 10 to 15 years.
Investing in some of the best and most well-run Indian companies has yielded over 20% CAGR in the long term. Iden
patience.

Real Estate
Real Estate Investment involves transacting (buying and selling) commercial and non-commercial land. Typical exam
buildings. There are two income sources from real estate investments: Rental income and Capital appreciation of th
%, which is not so attractive, in my opinion. The appreciation in land prices is in select pockets and is not uniform.
The transaction procedure can be quite complex involving legal verification of documents. The cash outlay in real es
ic to measure the returns generated by real estate. Hence it would be hard to comment on this.

Commodity – Bullion
Gold and silver are considered one of the most popular investment options. Gold and silver, over the long term, hav

turn of approximately 5-8% over the last 20 years. There are several ways to invest in gold and silver. One can invest
ds, popularly called as SGBs.
Going back to our initial example of investing the surplus cash, it would be interesting to see how much one would h
y one – fixed income, equity, or bullion.

By investing in fixed income at an average rate of 9% per annum (good corporate bond), the corpus would have grov
Investing in equities at an average rate of 15% per annum, the corpus would have grown to Rs.5.4Crs.
Investing in bullion at an average rate of 8% per annum, the corpus would have grown to Rs.3.09Crs.

Equities tend to give you the best returns, especially when you have a multi-year investment perspective.
Many of you reading this may wonder why I've not considered Cryptocurrencies as an asset class. When you invest y
nd regulatory frameworks to protect you as an investor. Crypto, lacks all these; hence I'd suggest you stay away from
egulatory framework.
It is best if your investments have a mix of all asset classes. It is wise to diversify your investment among the various
et classes is termed 'Asset Allocation', and we will discuss asset allocation later in Varsity.
For instance, a young professional may take a higher risk given the age and years of investment available. Typically ir
t in equity, 20% in precious metals, and 20% in fixed-income investments. The percentage mix changes based on risk
fixed income (Govt bonds maybe), 10% in equity markets, and 10% in precious metals.
1.3 – Things to note before investing
Investing is an integral part of financial planning, but before you start your investment journey, it is good to be aware

Risk and Return go hand in hand. Higher the risk, the higher the return. The lower the risk, the lower the return.
Investment in fixed income is a good option if you want to protect your principal amount. It is relatively less risky. Ho
inflation return. Example – A fixed deposit that gives you 9% when the inflation is 10% means you lose a net of 1% p
orporate fixed-income instrument.
Investment in Equities is a great option. It is known to beat inflation over a long period. Historically equity investmen
estments can be risky.
Real Estate investment requires a significant outlay of cash and cannot be done with smaller amounts. Liquidity is an
whenever you want.
Gold and silver are relatively safer, but the historical return on such investment has not been very encouraging.

You can download the excel sheet used in the chapter to generate the two tables.

Key takeaways from this chapter

One has to invest, to secure his or her's financial future.
The corpus you build at the end of the investment period is sensitive to the return percentage. A slight variation in th
Choose an instrument that best suits your risk and return appetite.
Equity should be a part of your investment if you want to beat inflation in the long run.
A good investment practice is to build a portfolio that mixes all asset classes.

What Is Mid-Cap?
Mid-cap (or mid-capitalization) is the term that is used to designate companies with a market cap (capitalization)—o
a mid-cap company falls in the middle between large-cap (or big-cap) and small-cap companies. Classifications, such
any's current value; as such, they may change over time.

Key Takeaways

Mid-cap is the term given to companies with a market cap (capitalization)—or market value—between $2 billion and
For companies, some of the appealing features of mid-cap companies are that they are expected to grow and increa
their growth curve.

Mid-cap stocks are useful in portfolio diversification because they provide a balance of growth and stability.

Understanding Mid-Cap

There are two main ways a company can raise capital when it's needed: through debt or equity. Debt must be paid b to tax advantages). Equity may cost more, but it does not need to be paid back in times of crisis. As a result, compan lance is referred to as a firm's capital structure. Capital structure, especially equity capital structure, can tell investors

One way to gain insight about a company's capital structure and market depth is by calculating its market capitalizat as small-caps, have $2 billion or less in market capitalization. Large-capitalization firms have over $10 billion in mark een these two categories (ranging from $2 billion to $10 billion in market capitalization). Additional categories such a 0 million) and nano-cap (less than $50 million) have been added to the spectrum of market capitalization for the sake

For investors, a mid-cap company may be appealing because they are expected to grow and increase in profits, mar curve. Since they are still considered to be in a growth stage, they are deemed to be less risky than small-caps, but m e risk of seeing their market capitalization rise, mainly due to an increase in their share prices, to the point where the

While a company's market cap depends on market price, a company with a stock priced above $10 is not necessarily ply the current market price by the current number of shares outstanding. For example, if company A has 10 billion s n of $10 billion. If company B has one billion shares outstanding at a price of $5, company B has a market capitalizat e, it has a higher market capitalization than company B. Company B may have the higher stock price, but it has one-t

Advantages of Mid-Caps

Most financial advisors suggest that the key to minimizing risk is a well-diversified portfolio; investors should have a estors see mid-cap stocks as a way to diversify risk, as well. Small-cap stocks offer the most growth potential, but tha most stability, but they offer lower growth prospects. Mid-cap stocks represent a hybrid of the two, providing a bala

No one can accurately predict when the market will favor a specific kind of company, whether it's a large-, mid- or sm mentioned above. But the percentage of mid-caps that you'll want to invest in depends on your specific goals and ris

However, there are many advantages to mid-cap companies that investors may want to consider. When interest rat Mid-cap companies typically can get the credit they need in order to grow, and they do well during the expansion pa

Mid-caps are not as risky as small-cap companies, which means they tend to do relatively well financially during tim nown, are often focused on one specific business, and have been around long enough to make a niche in their targe y may have a higher return, which could be more appealing to a less risk averse investor's bottom line.

Investor's can either buy a mid-cap company's stock directly or buy a mid-cap mutual fund—an investment vehicle t

7.1 – Overview

If I were to ask you to give me a real-time summary of the traffic situation in your city, how would you possibly do it? Your city may have thousands of roads and junctions; it is unlikely you would check every road in the city to find the k a few important roads and junctions across the city's four directions and observe how the traffic is moving. If you c the traffic situation is chaotic; else, traffic can be considered normal.

The few important roads and junctions you tracked to summarize the traffic situation served as a barometer for the Drawing parallels, if I were to ask you how the stock market is moving today, how would you answer my question? Th change and about 2,000 on the National Stock Exchange. It would be clumsy to check every company, figure out if th Instead, you would check a few important companies across key industrial sectors. If a majority of these companies

own, you would say markets are down; and if there is a mixed trend, you would say markets are sideways or flat for
So essentially, identify a few companies to represent the broader markets. Whenever someone asks you how the ma
and then answer. These companies that you have identified collectively make up the stock market index!

7.2 – The Index
Luckily you need not track these selected companies individually to get a sense of how the markets are doing. The in
give you this information. This pre-packaged market sentiment indicator is called the 'Stock market Index.'
There are a few important indices in India. The S&P BSE Sensex represents the Bombay stock exchange, and the Nift
here is the Nifty Bank Index (Bank Nifty), which is quite popular. Bank Nifty represents the banking sector as a whole
S&P stands for Standard and Poor's, a global credit rating agency. S&P has the technical expertise in constructing the
ies the S&P tag. NSE itself maintains the indices via a related company called NSE Indices Limited.
Nifty 50 consists of the most frequently traded stocks on the National Stock Exchange; we will soon discuss the meth
dex gives us an updated, accurate representation of the market sentiment. The movements in the Index reflect the c
s up, it is because the market participants think the future will be better. The index drops if the market participants p
7.3 – Practical uses of the Index
Some of the practical uses of Index are discussed below.
Information – The index reflects the overall sentiment and trend in the market. The index broadly represents the co
icates people are optimistic about the future. Likewise, people are pessimistic about the future when the stock mark
For example, the Nifty 50 value as of 21st November 2022 is 18150, but around six months ago, the Nifty 50 was at 1
x months, indicating bullishness in the market. In other words, market participants have been optimistic about the In
The time frame for calculating the index can be for anything. For example, the Index at 9:30 AM on 21st November w
 within an hour. Such movement indicates that the market participants are not enthusiastic from a short-term persp
Benchmarking – A yardstick to measure the performance is required for all the trading or investing activity people do
rated Rs.20,000 return to make your total corpus Rs.120,000/-. How do you think you performed? Well, on the face o
 during the same year?
Well, suddenly, it may seem to you that you have underperformed in the market! Usually, the objective of market pa
ou can't figure out how you performed in the stock market. It would be best if you had the index to benchmark the p
Trading – Trading on the index is probably one of the most popular uses of the index. Majority of the traders in the m
or general state of affairs and translate that into a trade. The trader usually takes a short-term call on the index to tr
For example, imagine this situation. At 10:30 AM, the Finance Minister is expected to deliver the budget speech. An h
 expect the budget to be favorable to the nation's economy. What do you think will happen to the index? Naturally, th
nt to buy the index at 18,150. After all, the index is the representation of the broader economy.
So as per your expectation, the budget is good, and the index moves to 18,450. You can now book your profits and e
sible through what is known as the 'Derivative' segment of the markets. We are probably a bit early to explore deriva
hrough the derivative markets.
Portfolio Hedging – Investors usually build a portfolio of stocks. A typical portfolio contains 15 – 20 held for the long t
e, they could foresee a prolonged adverse movement in the market (ex-2008), potentially eroding the capital in the p
uch a situation. We will explore this topic in a futures trading module.

7.4 – Index construction methodology
Knowing how the index is constructed is important, especially if one wants to advance as an index trader. As we disc
ectors representing the economy's state. To include a stock in the index, it should qualify for certain criteria. Once qu
the stated criteria. If it fails to maintain the criteria, the stock gets replaced by another stock that qualifies the prered
Based on the selection procedure, the list of stocks is populated. Each stock in the index should be assigned a certai
rtance a certain stock in the index gets compared to the others. For example, if ITC Limited has a 3.85% weightage in
y's movement can be attributed to ITC. You can check the weights of all index stocks here.
The obvious question is – How do we assign weights to the stock that make up the Index?
There are many ways to assign weights, but the Indian stock exchange follows a free-float market capitalization meth
rket capitalization. The larger the market capitalization, the higher the weight.
Free float market capitalization is the product of the total number of shares outstanding in the market and the stock
For example, company ABC has 100 shares outstanding in the market, and the stock price is at 50, then the free-floa
At the time of writing this chapter, the following are the top 10 index heavyweight-

Sl No
Name of the company
Industry
The weightage (%)

01
Reliance Industries Ltd
Oil & Gas
11.03

02
HDFC Bank Ltd
Bank
8.26

03
ICICI Bank Ltd
Bank
7.94

04
Infosys Ltd
IT
7.06

05
HDFC Ltd
Housing
5.62

06
TCS Ltd
IT
4.1

07
ITC Ltd
FMCG
3.85

08
Kotak Mahindra Bank
Bank
3.51

09
L&T Ltd
Infra
3.07

10
Axis Bank Ltd
Bank
3.0

As you can see, Reliance Industries Ltd has the highest weightage. This means the Nifty index is most sensitive to pri
7.5 – Sector-specific indices
While the Sensex and Nifty represent the broader markets, certain indices represent specific sectors. These are calle
s the mood specific to the banking industry. The CNX IT on NSE represents the behavior of all the IT stocks in the sto
construction and maintenance of these indices are similar to the other major indices.

Key takeaways from this chapter

An index acts as a barometer of the whole economy.
An index going up indicates that the market participants are optimistic.
An index going down indicates that the market participants are pessimistic.
There are two main indices in India – The BSE Sensex and NSE's Nifty 50
An index can be used for various purposes – information, benchmarking, trading and hedging.
Index trading is probably the most popular use of the index.
India follows the free-float market capitalization method to construct the index.
There are sector-specific indices that convey the sentiment of specific sectors.

What Are LUPA Stocks?
LUPA stocks are a nickname for four companies that were born in the mobile app generation. Also referred to as th
four companies have completed their initial public offerings (IPOs) and are now actively traded on public stock excha

Key Takeaways
LUPA stocks include Lyft, Uber, Pinterest, and Airbnb.These stocks were formed during the rise of the app economy.
of the four at $4.0 billion, while Airbnb has the largest at $61.2 billion.
Understanding LUPA Stocks
The L in LUPA stands for Lyft, the mobile ride-sharing company that emerged as a competitor to Uber in 2012. U sta
has expanded into other markets. It was founded in 2009. P stands for Pinterest, the web-based photo bulletin boar
hort-term rental and experience platform that has revolutionized the travel and lodging industry.

All of these companies emerged as part of the app economy and were funded by venture capital and private equity
r loyalty, but profits were elusive (as with most startups). Still, their scale and popularity have enticed public markets
n the last few years.

Lyft
Lyft, the popular ride-sharing app based in San Francisco, was originally founded in 2007 as Bounder Web, Inc. It ch
as founded by entrepreneurs Logan Green and John Zimmer, who are CEO and President of the company.

The company completed its initial public offering (IPO) in March 2019. Its stated mission is "to improve people's lives

Since its IPO, and as of November 23, 2022, shares have fallen nearly 84%. In terms of market cap, Lyft is the smalle

Uber
Uber, Lyft's key competitor in the ride-sharing economy, has had a busy decade since it was formed in 2009 as Uber
amp, the ride-sharing app operates globally and has expanded into other businesses including food delivery, truckin

In May 2019, Uber went public. Shares are down over 31% since then, as of late November 2022. Now, the company d or moved to ban the service. In 2017, co-founder Kalanick stepped down amid controversy and was replaced by fo

Pinterest
The popular photo-sharing online pin-up board was the vision of entrepreneurs Ben Silbermann, Paul Sciarra and E

The company is headquartered in San Francisco but has offices all over the world. Half of its users are outside of the
vember 2022, the company's stock is up almost 32% since then.

Airbnb
The popular peer-to-peer short-term lodging rental platform has disrupted the travel industry in ways its founders r
lso has expanded into tourism services and other ventures. The brainchild of entrepreneurs Brian Chesky, Joe Gebbi
like New York, that has restricted Airbnb's ability to operate, given intense lobbying efforts from the hotel industry, a

Airbnb completed its IPO in December 2020. Shares are up just around 42% since then, as of late November 2022. A
cap—coming in at $61 billion. For context, that's more than the market cap of the largest hotel chain operator in the

The Bottom Line
These four companies were some of the biggest unicorns, which are private startup companies with estimated valu
i-billion dollar companies.

Investors have shown they are willing to reward other technology-based companies that lose money as they did wit
PA or PAUL stocks have been able to grow their businesses backed by venture capital and private equity investment

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What Is the S&P 500 Index?
The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicl
nts because three of them have two share classes listed.

It is not an exact list of the top 500 U.S. companies by market cap because there are other criteria that the index inc
t gauges of prominent American equities' performance, and by extension, that of the stock market overall.

Key Takeaways
The S&P 500 Index features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitaliz
gency Standard and Poor's.The S&P is a float-weighted index, meaning the market capitalizations of the companies i
ic trading.Because of its depth and diversity, the S&P 500 is widely considered one of the best gauges of large U.S. st
nvest in the S&P 500 because it's an index, but you can invest in one of the many funds that use it as a benchmark, t

Investopedia / Julie Bang

Weighting Formula and Calculation of the S&P 500
The S&P 500 uses a market-cap weighting method, giving a higher percentage allocation to companies with the larg

Company Weighting in S & P=Company market capTotal of all market caps\text{Company Weighting in S \& P}= \frac
ghting in S & P=Total of all market capsCompany market cap

Determining the weighting of each component of the S&P 500 begins with adding up the total market cap for the inc
To review, the market cap of a company is calculated by taking the current stock price and multiplying it by the comp
the S&P 500 as well as the market caps of individual companies are published frequently on financial websites, savin
The weighting of each company in the index is calculated by taking the company's market cap and dividing it by the t

Other S&P Indices
The S&P 500 is a part of the S&P Global 1200 family of indices. Other indices included are the S&P MidCap 400, whic
600, which represents small-cap companies. The S&P 500, S&P MidCap 400, and S&P SmallCap 600 combine to cove
1500.34

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es not include all offers available in the marketplace.

S&P 500 Index Construction
The S&P only uses free-floating shares when calculating market cap, meaning the shares that the public can trade. T
are issues or company mergers. The value of the index is calculated by totaling the adjusted market caps of each co
tary information of the S&P and is not released to the public. The S&P Index (SPX) is not a total return index and doe

However, you can calculate a company's weighting in the index, which can provide investors with valuable informat
t might have an impact on the overall index. For example, a company with a 10% weighting will have a greater impac

The S&P 500 is one of the most widely quoted American indexes because it represents the largest publicly traded c
rge-cap sector and is also a float-weighted index (a type of capitalization weighting), meaning company market caps
.1

The S&P 500's most recent rebalancing was announced on Sep. 1, 2023, and took effect before markets opened on S
al Corp. and Newell Brands Inc., respectively.6

S&P 500 Competitors

S&P 500 vs. Dow Jones Industrial Average (DJIA)
Another common U.S. stock market benchmark is the Dow Jones Industrial Average (DJIA). The S&P 500 is often the
, while the DJIA has historically been associated with significant equities from the retail investor's point of view. Instit
tive of U.S. equity markets because it comprises more stocks across all sectors (500 versus the Dow's 30).

Furthermore, the S&P 500 uses a market-cap weighting method, giving a higher percentage allocation to companies ex that gives companies with higher stock prices a higher index weighting. The market-cap-weighted structure tends

S&P 500 vs. Nasdaq

Nasdaq is a global electronic marketplace for trading securities. There are several equity market indexes that includ
the S&P 500 Index may also be in one or more of the various Nasdaq indexes.

Among the most-watched Nasdaq stock indices are the:

Nasdaq 100 Index, which includes 100 of the largest, most actively traded common equities listed on Nasdaq.
Nasdaq Composite Index, which the media often simply refers to as the Nasdaq (and which includes more than 2,50
Nasdaq Global Equity Index (NQGI), which includes international stocks.
PHLX Semiconductor Sector Index (SOX), which is the leading barometer of stocks related to the semiconductor indu
OMX Stockholm 30 Index (OMXS30), which includes 30 actively traded stocks on the Stockholm Stock Exchange.8

S&P 500 vs. Russell Indexes

The S&P 500 is a member of a set of indexes created by Standard & Poor's. The Standard & Poor's set of indexes is l
indexes unless stated otherwise (as in the case of equal-weighted indexes, for example).

However, there are two large differences between the construction of the S&P and Russell families of indexes. First,
, while Russell indexes use a formula to choose stocks to include. Second, there is no name overlap within S&P style
e the same company in both the value and growth style indexes.9101112

S&P 500 vs. Vanguard 500 Fund

The Vanguard 500 Index Fund seeks to track the price and yield performance of the S&P 500 Index by investing its to
h component with approximately the same weight as the S&P index. In this way, the fund barely deviates from the S

The S&P 500 is an index, so it can't be traded directly. Those who want to invest in the companies that comprise the
hat tracks the index, such as the Vanguard 500 ETF (VOO).

Limitations of the S&P 500 Index

One of the limitations of the S&P and other market-cap-weighted indexes arises when stocks in the index become o
If a stock has a heavy weighting in the index while being overvalued, the stock typically inflates the overall value or p

A company's rising market cap isn't necessarily indicative of a company's fundamentals so much as it reflects the sto
ult, equal-weighted indexes have become increasingly popular whereby each company's stock price movements hav

Example of the S&P 500 Market Cap Weighting

In order to understand how the underlying stocks affect the S&P index, the individual market weights must be calcu
et cap of the index. Below is an example of Apple's weighting in the index:

Apple (AAPL) reported 15.7 billion shares outstanding in its quarterly filing for the period ending July 1, 2023, and ha
ept. 21, 2023.1617
Apple's market cap is $2.7 trillion as of Sept. 21, 2023.18
The S&P 500 total market cap is approximately $39.7 trillion as of Aug. 31, 2023, which is the sum of the market caps
Apple's weighting in the index was approximately 6.8%, or $2.7 trillion divided by $39.7 trillion.

Overall, the larger the market weight of a company, the more impact each 1% change in a stock's price will have on t of all 503 components on its website, outside of the top 10.

Why Is It Called Standard and Poor's?
The first S&P Index was launched in 1923 as a joint project by the Standard Statistical Bureau and Poor's Publishing.
ged in 1941 to become Standard and Poor's.207

Which Companies Qualify for the S&P 500?
In order to be included in the S&P 500 Index, a company must be publicly traded and based in the United States. It a
apitalization, have a public float of at least 10% of its shares, and have positive earnings over the trailing four quarte

How Do You Invest in the S&P 500?
The simplest way to invest in the S&P 500 Index (or any other stock market index) is to buy shares of an index fund t
the companies represented on the index, meaning that the fund's performance should mirror the performance of t

The Bottom Line
The S&P 500 Index is one of the most widely used indexes for the U.S. stock market. These 500 companies represen
and software companies to banks and manufacturers. Historically, the index has been used to provide insight into t
y a private company, the S&P 500 is now a popular yardstick for the performance of the market economy at large.

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If you are looking to start investing in the market but don't feel like you have enough money to buy enough shares t
solution. This strategy allows you to invest in stocks based on a specific dollar amount rather than buying a specific r
start investing at a lower threshold. Buying fractional shares on Webull's platform is streamlined and easy. You simp
approved list of thousands of stocks and ETFs. We'll take an in-depth look at how to buy fractional shares through W
trading is the right fit for your portfolio needs.

How to Buy Fractional Shares on Webull
Buying fractional shares on Webull is a very simple process. To open an account, you have to provide some basic pe
l status, and what type of securities you want to invest in. Once the application has been filled out, most investors wi
e the account has been approved, you merely need to fund the account and you will be ready to start investing.

Step 1: Open a Webull account. Opening an account with Webull is straightforward. Users can sign up using their ph
or Google profile. You will then have the option to select "open an account." Next you will be asked to verify your ide
form of identification. From there, you will enter in your basic personal information, employment information, finan
all this is filled out, you will enter your email address for verification of account application approval. When you rece
u are ready to fund your account and start investing. You can fund the account via an ACH transfer with a linked ban

It is important to note that you can choose between a cash account and a margin account. With the cash account, yo
count requires an account balance above $2,000 and unlocks the ability to use leverage beyond your balance to incr

Step 2: Log in to your Webull account. Once you have opened a Webull account, you can login and search for the sto
shares of. If fractional share trading is available for that particular stock, there will be a green diamond icon on the s

Step 3: Click the "Trade" tab. After deciding on the stock that you'd like to buy and determining that it can be traded
he bottom of your screen. From there, switch the order type to "market," as fractional share trading at Webull can or

Step 4: Change setting from “Shares” to “Dollars.” You will then need to change the setting from “share” to “USD” in o
u’d like to invest and review all order information for accuracy.

Step 5: Submit your order. Once you have verified your order information, click the “buy” button at the bottom of th
your order before clicking the “buy” button because once an order is placed, Webull does not have the option to mod

Compare Some Top Online Brokers

Platform
Fractional Share Purchases
Fractional dividend reinvestment
Available Securities

Webull
Yes
Yes
Equities and ETFs ONLY. The list of active symbols is maintained by Webull.

Fidelity
Yes
Yes
More than 7,000 stocks and ETFs

Interactive Brokers
Yes
No
More than 11,000 stocks, ETFs and ADRs

Charles Schwab
Yes
Yes
All S&P 500 Stocks only, No ETFs

Robinhood
Yes
Yes
ETFs and stocks above the volume and size thresholds

What You Need to Open a Webull Brokerage Account

To open your new account at Webull, you will need to provide your basic personal and financial information.

Personal Information

When opening your account online, you will be asked to provide personal and contact information:

NameAddressSocial Security number Date of birthPhone numberEmail addressDriver's license or other valid form o

Financial Information

In addition to providing your personal information, you will be asked to provide your employment and basic financi
you will then have the option to fund your account via ACH transfer from your current U.S. bank account or wire tra
s).

Unlike a full service brokerage, Webull does not ask you about your financial goals or long-term financial planning. T
If you are looking for a low-cost, no-commission platform that is easy to use for placing trades, Webull is a good opt
form–offering account consolidation, goal planning, or research–you may need to look elsewhere.

The Benefits of Trading on Webull

The most obvious benefit of opening an account and trading fractional shares at Webull is the speed of the process.
ng. Webull offers thousands of U.S. stocks and ETFs for fractional share trading. However, you can really only deter
in your account dashboard and seeing if the green diamond icon that indicates fractional share availability is by the

In terms of the quality of the trading platform, Webull offers a decent selection of charting tools and a basic stock s
, but for a streamlined, no-fee brokerage, it is more than adequate for fundamental stock research and basic techni
options that will appeal to more active traders.

Another differentiating factor is that Webull offers margin trading. Because of the volatility of the market and the fa
bull that you must pay back with interest, this option may be best suited for a more seasoned investor. It is importa
ou will still have to pay back the original amount borrowed plus interest even if the stocks lose value.

All that said, buying fractional shares with a cash account is quick and easy, and funding your Webull account can b

Investopedia Gives Webull Top Ratings For:

Best Broker for Low-Cost Options Trading
Best Low-Cost Day Trading Platform
Best Low-Cost Options Broker

Factors to Consider When Investing in Fractional Shares

Selection of stocks and ETFs available for fractional share investing: Webull offers thousands of stocks and ETFs for
ocks or ETFs are approved, you must search the specific stock from your Webull account dashboard and look for the
ional shares or not.

Fees and commissions: Getting started at Webull is simple with $0 commissions for online U.S. stock and ETF trades
buy and sell fractional shares.

Account minimums: Investors at Webull can buy fractional shares for as low as $5; there is no minimum to open an

Research amenities: Once you open an account with Webull, you will have access to limited research amenities from
search any stock or ETF to see the current market price and basic information. The “news” tab is another resource th
trending financial topics.

Educational content: The educational content provided by Webull is basic information on how to invest, what invest
Investors can access this library of videos from the “learn” tab.

FAQs

What Are Fractional Shares?

Fractional shares allow investors to buy a fraction, or portion, of a whole share of a stock. Investing in fractional shar
in companies that you may otherwise not be able to easily buy shares of. For instance, if you want to invest in a com
ave $100 to buy a full share. At Webull, you can invest in this company for as little as $5. In this case, your stake in th
strategy, you are investing based on a specific dollar amount that you set, not an individual stock’s price or a certain
s with a lower entry point of accessibility, thereby allowing themto gain market entry sooner into expensive stocks. M
y their portfolio at smaller account values than would otherwise be possible.

What Is Webull?

Webull, founded in 2017, is a Chinese-owned company headquartered in New York. Webull is a discount broker that
fering commission-free trades, no fees, and no account minimum requirements, Webull has positioned itself to serve
ard brokerage accounts, which provide the choice to invest in: StocksETFsOptionsFractional share trading is currently
ly available for the latest version of the mobile app. Keep in mind that only stocks and ETFs from an approved list are
to invest in options or crypto, that cannot be done fractionally at this time.

Do Fractional Shares Make You Money?

Investing in fractional shares is a good way to dollar-cost average your money into the market. When utilizing this str
ral stocks over the course of time, which will accumulate into a portfolio that includes full shares of multiple stocks. E
ket timing where you may be paying a premium or getting a discount on a transaction based on market factors. Low
hat the asset appreciates over time. Over time, diversified portfolios are more likely than not to appreciate.

Can You Buy Fractional Shares on Charles Schwab?

Webull is not the only option when it comes to fractional share trading. Charles Schwab is an excellent online platfor
any stock listed on the approved list of S&P 500 stocks for an investment as low as $5. Schwab also allows investors
iversifying your portfolio is quite easy to do. As many options as investors have when buying fractional shares at Cha
le. Webull offers fractional shares on select ETFs, as do other Schwab competitors like Fidelity.

Are Fractional Shares Harder to Sell?

Not owning a full share of a company can make it more complicated when you want to sell it. Webull offers investors
re is a minimum of 0.00001 shares per order for closing fractional share positions. It is also noted on the website tha
share positions.” Fractional shares are not able to be transferred, so any fractional share would need to be sold prior

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What Is Floating Stock?

Floating stock is the number of shares available for trading of a particular stock. Low float stocks are those with a lo
ing closely-held shares and restricted stock from a firm’s total outstanding shares.

Closely-held shares are those owned by insiders, major shareholders, and employees. Restricted stock refers to insi
on, such as the lock-up period after an initial public offering (IPO).

A stock with a small float will generally be more volatile than a stock with a large float. This is because, with fewer sh
. This results in larger spreads and often lower volume.

Key Takeaways

Floating stock refers to the number of shares a company has available to trade in the open market.To calculate a cor
held shares from its total number of outstanding shares.Floating stock will change over time as new shares may be i
s may buy or sell the stock.Low float stocks tend to have higher spreads and higher volatility than a comparable larg
positions in stocks that have a low float.

Understanding Floating Stock

A company may have a large number of shares outstanding, but limited floating stock. For example, assume a comp
ge institutions own 35 million shares, management and insiders own 5 million, and the employee stock ownership p
million shares (50 million shares minus 42 million shares), or 16% of the outstanding shares.

The amount of a company's floating stock may rise or fall over time. This can occur for a variety of reasons. For exar
l, which then increases the floating stock. If restricted or closely-held shares become available, then the floating stocl

On the flip side, if a company decides to implement a share buyback, then the number of outstanding shares will de
anding stock will also go down.

A stock split will increase floating shares, while a reverse stock split decreases float.

Why Floating Stock Is Important

A company's float is an important number for investors because it indicates how many shares are actually available
is typically an impediment to active trading. This lack of trading activity can make it difficult for investors to enter or e

Institutional investors will often avoid trading in companies with smaller floats because there are fewer shares to tra
ds. Instead, institutional investors (such as mutual funds, pension funds, and insurance companies) that buy large bl
at. If they invest in companies with a big float, their large purchases will not impact the share price as much.

Special Considerations

A company is not responsible for how shares within the float are traded by the public—this is a function of the seco
n shorted by investors do not affect the float because these actions do not represent a change in the number of sha
shares. Similarly, the creation and trading of options on a stock do not affect the float.

Example of Floating Stock

As of September 2023, General Electric (GE) had 1.088 billion shares outstanding.1 Of this, 0.20% were held by inside
tal of 76% or 830 million shares were likely not available for public trading. The floating stock is therefore about 260

It is important to note that institutions don't hold a stock forever. The institutional ownership number will change re
ling institutional ownership coupled with a falling share price could signal that institutions are dumping the shares. I
accumulating shares.

Is Floating Stock Good or Bad?

Stock float isn't good or bad, but it can affect an investor's decisions. The amount of floating stock a company has—t
hat stock. Stocks with a smaller float tend to have high volatility, while stocks with a larger float tend to have lower vo

at, because it's easier to enter and exit positions for these stocks.

What Is Stock Flotation?
Stock flotation is when a company issues new shares to the public. It can help the company raise capital. The opposi
cks: fewer shares are available to trade.

What Is the Difference Between Floating and Non-Floating Shares?
The floating shares are the shares available to trade, while non-floating shares are those held by shareholders and c

The Bottom Line
A company's floating stock is the shares it has available to trade on the open market. Traders tend to prefer stocks v
stock that has greater liquidity. Stocks with larger floats have more shares available, making them more liquid and ea

The meanings of big-cap and small-cap are generally understood by their names, which indicate how valuable they a
to as large-cap stocks—are shares of larger companies. Small-cap stocks, on the other hand, are shares of smaller co

Labels like these can often be misleading because many people run under the assumption that they can only make
m the truth—especially nowadays. If you don't realize how big small-cap stocks have become, you could miss some p

Small-cap stocks are often attractive due to their lower relative valuations and potential to grow into big-cap stocks
as changed over time. What was once considered a big-cap stock in previous decades may be thought of as a small-c
onal information to help investors understand terms that are often taken for granted.

Key Takeaways

Big-cap (large-cap) stocks have a market cap of $10 billion or more.
Small-cap stocks generally have a market cap of $250 million to $2 billion.
Small-cap stocks shouldn't be overlooked when putting together a diverse portfolio.
Big-cap stocks don’t always mean larger returns on investment.
Mid-cap stocks fall somewhere in between small-caps and big-caps.

Scaling up Stocks
Before we do anything else, we first need to define the word cap—which is short for capitalization. The term in its en
s the market's estimate of the total dollar value of a company's outstanding shares.1

To get this figure, you need to multiply the price of a stock by the number of shares outstanding.1 One thing to keep
of market capitalization, you actually need to add the market value of any of the company's publicly traded bonds to

The market cap shows the size of the company, which is something of interest to most investors. That's because it g
ncluding its risk assessment. Although the value of small-cap stocks may vary from broker to broker, the general con
ion to $2 billion.1

One misconception people have about small-caps is that they are startup companies or are just brand-new entities
heir larger counterparts in that they have strong track records, are well established, and have great financials. And b
chance of growth.1 This means they have more potential for investors to earn money faster.

In general, small-cap stocks are thought to be more volatile than big-cap stocks and thus provide both greater risk bu
rger, more mature companies that are not seeking aggressive growth.

The Big-Caps

Big-cap stocks refer to the largest publicly traded companies, with market caps of more than $10 billion, like Genera
hip stocks—companies with a history of dependable earnings, solid reputations, and strong financials. Some exampl
Boeing Co.2 Though companies like these tend to perform well and provide safe returns for investors, you should no

In general, big-cap stocks are established, mature, and stable. They tend to be less volatile and reward investors wit
have the misconception that the large-cap moniker means there is no risk at all. There have been several cases in fi

Enron is just one example. It serves to demonstrate that the bigger they are, the harder they fall. The company, whi
ccounting scandal. The company used mark to market (MTM) accounting to make the company look like it was much
y, but the company continued to hide its losses and debt, using off-balance-sheet entities to mask toxic assets. The c
el, including CEO Jeffrey Skilling and the company's accounting firm, faced criminal charges.4

The lesson? Just because it's a large-cap doesn't mean it's always a great investment. You still have to do your resea
provide you with a great basis for your overall investment portfolio.

Dow vs. Nasdaq: The average market cap for the Dow remains much larger than the average market cap for the Nas

The Small-Caps

Small-cap stocks, as the name implies, are far smaller in terms of market valuation—but also, generally, scale, scope
ion to $2 billion and are found in all business types, economic sectors, and growth phases.1

One common misconception about small-caps is that they are startups or brand-new companies. In reality, many sm
ecords and great financials. And because they are smaller, small-cap share prices have a greater chance of growth.

Historically, small-cap stocks may have outperformed large-cap stocks.7 However, whether smaller or larger compa
other factors like the broader economic climate.8 For instance, big-caps seem to hold their own better during bear m

At the same time, small-cap stocks tend to be more volatile (and thus riskier) than their larger-cap peers. It often tak
n for a small-cap stock's price to fluctuate more in a single trading day than those of larger companies. That is somet
tract more active traders like day traders. Note that because these stocks often have less liquidity, it is also more diff

Ranking Market Capitalizations

The definitions of big- or large-cap and small-cap stocks differ slightly from one brokerage company to the next and
efinitions are relatively superficial and only matter for the companies that lie on their edges. The classifications are in
these definitions to determine which stocks to buy.

The current approximate definitions are as follows:

Mega-cap: Market cap of $200 billion and greater10
Big-cap: $10 billion and greater, up to $200 billion
Mid-cap: $2 billion to $10 billion
Small-cap: $250 million to $2 billion1
Micro-cap: $50 million to $250 million
Nano-cap: Under $50 million11

These categories have increased over time along with the market indexes. And it is important to note that these def in several circles, stocks with market caps greater than $100 billion are seen as mega-caps.

Remember market capitalization is based on the stock price and therefore the perceived value of a company, not the

Shifting Numbers

The big-cap stocks get most of Wall Street's attention because that's where you'll find the lucrative investment bank ty market in the United States, which is why they make up the nuclei of many investors' portfolios.

Mega-cap stocks, on the other hand, tend to shift in numbers. There were at least 7 of these stocks in existence in 2 ltdown and the Great Recession.1213 In the years since, mega-cap stocks have made a resurgence, and behemoths cap highs approaching $2 trillion each. As of 2022, the total number of mega-cap companies around the world is aro

But what about small-caps? Remember, just because they have a smaller market cap doesn't mean you won't find v stock market in small-cap stocks because some of them have some of the strongest track records around.

What Are Some Characteristics of Big-Cap Stocks?

Aside from having a market capitalization of $10 billion or more, large-cap stocks also tend to be those of older, mor y regular dividends to their shareholders because they see stable, established sources of income and profitability. La of which are also blue-chip stocks.

What Are Some of the Risks of Investing in Small-Cap Stocks?

Small-cap stocks can be great growth opportunities, but investors should also be aware of the risks associated with s meaning that price swings and drawdowns can be larger than with bigger companies' stocks. These shares may also aking it more costly to enter and exit positions.At the company level, smaller companies may have a harder time acc an be a limiting factor for operations and growth.

What Indexes Track Big-Cap Stocks?

If you want to invest in big-caps, you can look to index funds or ETFs that track indexes such as the S&P 500 (the 500 rage (DJIA), which covers 30 blue-chip stocks.15

What Indexes Track Small-Cap Stocks?

If you want to invest in small-caps, you can look to index funds or ETFs that track indexes such as the Russell 2000 In

Which Are Better: Big-Caps or Small-Caps?

This will depend on the type of investor you are. If you have a greater risk tolerance and longer time horizons, small- are able to grow more rapidly than larger companies. If you prefer stable appreciation and dividend income, big-cap versify and hold a mix of stocks containing both large and small companies.

The Bottom Line

The big and small labels are also attached to the major stock exchanges and indexes, which also leads to confusion. of only big-cap stocks while the Nasdaq is often viewed as being comprised of small-cap stocks. These perceptions w tech boom, the market caps of the stock exchanges and indexes vary and overlap.

Labels such as big and small are subjective, relative, and change over time. Big does not always mean less risky, but et analysts. This attention, however, generally means that there are no value plays in the big-cap arena.

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3.1 – Overview
Many corporate entities work in tandem to ensure transactions in the market flow smoothly. Right from the time you
e these shares hit your DEMAT account, market intermediaries work seamlessly together to ensure your transaction

These entities play their role quietly behind the scene, always complying with the rules laid out by SEBI and ensuring
he stock market. These entities are generally referred to as Financial Intermediaries or market intermediaries.
Together, these financial intermediaries, interdependent on one another, create an ecosystem in which the financial
intermediaries and the roles they play in the ecosystem.
3.2 – The Stock Broker
The stockbroker is probably one of the most important financial intermediaries you need to know. A stockbroker is a
change and holds a stockbroking license. SEBI grants the license through due diligence, and the broker is expected t
A stockbroker is your gateway to the stock markets to make investments in stocks, bonds, ETFs, and Mutual funds. T
a stockbroker of your choice. Many stock brokers are registered in India, and you can choose a broker based on pe
stockbrokers are –

The simplicity of the broker platform
The efficiency of the broker's support system
Access to ready reports – Profit & Loss reports, Tradebook, Tax P&L
Broker's net worth (you dont want to deal with a broker who is not profitable or does not have a good P&L)
Initiatives like education

Once you decide on your broker and open a trading and DEMAT account, you can start transacting in the stock mark
nteract with your broker.

You can call your broker, identify yourself with your client code (account code) and place an order for your transactio
and confirm the status of the same while you are still on the call.
Do it yourself – this is perhaps the most popular way to transact in the markets. The broker gives you access to the n
terminal, you can view live price quotes from the market and place orders yourself. For example, Zerodha's trading
Advanced users can access the market programmatically via APIs. Some of the brokers provide APIs for a fee.

The essential services provided by the broker include…

Access to the markets and allow you to transact
Margins for trading, we will discuss this point at a later point
Support in terms of call and trade, help you resolve queries, educate you on markets
Issue contract notes for the transactions – A contract note is a written confirmation detailing the transactions you ha
Facilitate the fund transfer between your trading and bank account
Provide you with a back-office. The back office is a portal to access many reports about your account. Zerodha's bac
The broker charges a fee for the services provided, also called the 'brokerage charge' or just brokerage. The brokera
ikes a balance between the brokerage charged and the services provided.

3.3 – Depository and Depository Participants
When you buy a property, the only way to identify and claim that you own the property is by producing the property
fe and secure.
Likewise, when you buy a share (a share represents part ownership in a company), the only way to claim ownership
ng but a document entitling you as the owner of the shares in a company. Before 1996 the share certificate was in pa
rted to digital form. Converting a paper format share certificate into a digital format share certificate is called "Dema
Did you know the Harshad Mehta scam of 1992, played a significant role in digitizing the share certificate? I'd sugges
ves you a good perspective of the market's ecosystem before it went digital.
The share certificate in DEMAT format has to be stored digitally. The storage place for the digital share certificate is t
that offers the Demat account service. Think of the demat account as a digital vault for your shares. As you may hav
from the Depository are interlinked.
For example, if your idea is to buy Infosys shares, then all you need to do is open your trading account, look for Infos
role of your trading account is done. After you buy, the shares of Infosys will automatically get credited to your dem
Likewise, when you wish to sell Infosys shares, you must log in to your trading account and sell the stock. The act of s
kend, because your trading account and demat account are linked, the broker debits your demat account of the shar
At present, only two depositaries offer DEMAT account services. The National Securities Depository Limited (NSDL) a
no difference between the two, and both operate under strict SEBI regulations.
You cannot walk into National Stock Exchange's (NSE) office to open a trading account, likewise, you cannot walk into
demat account, you must speak to a Depository Participant (DP). A DP helps you set up your DEMAT account with a D
ry. Even the DP is governed by the regulations laid out by the SEBI.
Zerodha is a depositary participant of Central Depository Services (India) Limited (CDSL).
3.4 – Banks
Banks play a straightforward role in the market ecosystem. They help facilitate the fund transfer from your bank acc
ccount are linked. Broker's link these accounts after verifying your bank account.
You can link multiple bank accounts to your trading through which you can transfer funds and trade. Irrespective of
nt, funds can be withdrawn to only one bank account. The account you choose to withdraw funds (from your trading
e primary bank account and up to 2 secondary bank accounts. You can add funds to all the bank accounts, but witho
Also, dividend payments and money from buybacks will be sent to the primary bank account. The primary bank acco
r, and the transfer agents (RTA).
At this stage, you must have realized that the three financial intermediaries operate via three different accounts – a t
by the depositary participant, and a Bank account offered by a bank. All three accounts operate electronically and ar
3.5 – NSE clearing Limited and ICCL
NSE Clearing Limited and Indian Clearing Corporation (ICCL) are wholly owned subsidiaries of the National Stock Exc
The job of the clearing corporation is to ensure guaranteed settlement of your trades/transactions. For example, if y
hat one share to you at Rs.446. For this transaction, you will be debited Rs.446 from your trading account, and the se
a typical transaction like this, the clearing corporation's role is to ensure the following:

Identify the buyer and seller and match the debit and credit process
Ensure no defaults – The clearing corporation also ensures no defaults by either party. For instance, after selling the
faulting in his transaction.

For all practical purposes, it's ok not to know much about NSE Clearing Limited or ICCL simply because you, as a trad
ectly. You need to know these institutions are also heavily regulated and work towards a smooth settlement and effi
Clearing corporations are also involved in the margining process, which is critical while trading complex instruments
in a related discussion.

The key takeaway from this chapter

The market ecosystem is built by a cluster of financial intermediaries, each offering services unique to the functionin
A stockbroker is your market access, so choose a broker that matches your requirements.
A stockbroker provides you with a trading account that is used for all market-related transactions (buying and selling
A Depository is a corporate entity that holds the shares electronically in your name in your account. Your account wi
There are only two depositories in India – NSDL and CDSL.
To open a DEMAT account with one of the depositaries, you must liaise with a Depository Participant (DP). A DP func
A clearing corporation works towards clearing and settling trades executed by you.

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What Is a Meme Stock?

A meme stock refers to the shares of a company that have gained viral popularity due to heightened social sentimen
ularly on social media platforms. These online communities can dedicate heavy research and resources toward a pa
in discussion threads on websites like Reddit and posts to followers on platforms like X (formerly Twitter) and Faceb

Though some believe meme stock communities coordinate efforts to influence the prices of those shares, meme sto
ls, each with their own investment views and preferences. Collectively, their independent actions have been shown t
eme stocks can become overvalued relative to fundamental technical analysis.

Key Takeaways

Meme stocks are shares of companies around which online communities have formed to promote and build narrati
subreddit r/wallstreetbets.GameStop (GME) is widely regarded as the first meme stock, whose price rose as much a
t squeeze.Meme stocks have generated their own slang and language that's used in online forums and social media.
t could be driven by viral posts on various social media platforms.

Understanding Meme Stocks

A meme is an idea or some element of popular culture that spreads and multiplies across people's minds. Memes g
media grew. They allow people to rapidly spread humorous, interesting, or sarcastic videos, images, or posts to othe
ng such posts could make them go viral.

With the internet, chat rooms and discussion boards devoted to investing and promoting stocks also arose. In the la
the prices of so-called dotcom stocks—a bubble that famously burst with far-reaching economic consequences.

Meme stocks, however, didn't truly emerge until the year 2020 via the Reddit forum r/wallstreetbets. Unlike its pred
me known for its unconventional and often irreverent tone. In this and other forums that have popped up since, use
hile also putting their own money to work.

Unlike online pump-and-dump schemes aimed at defrauding unwitting investors, the promotion of meme stocks la
even after the price spikes.

GameStop: The First Meme Stock

The YouTube persona Roaring Kitty posted a future viral video laying out the case for why shares of brick-and-morta
$50 per share in August 2020. In the video, he explained that the stock had among the highest short interest in the m
these funds would need to cover their positions in the event of a massive short squeeze, driving the stock much hig

Roaring Kitty's real name is Keith Gill who was also on Reddit as u/deepF...Value and active on the subreddit r/wallstr
A few days later, the former CEO of Chewy.com and investor Ryan Cohen purchased an unknown amount of GME st
came public knowledge Cohen owned a 10% share in the company.3 On Jan. 12, he joined the board and the stock r
se from the price at the time of Cohen's and Gill's previous posts.45

Then, in January 2021, the short squeeze that The Roaring Kitty had suggested took place in earnest, with the price c
vering and panic buying.6

The main victims of the squeeze ended up being a handful of hedge funds, some of which were forced to shut dowr
avid vs. Goliath or Robin Hood connotation of taking from the rich Wall Street elite and rewarding the small retail inv

Meme stock activity was given a great boost from bored individuals stuck at home during COVID-19 lockdowns comb
app saw overwhelming trading volume in meme stocks at times, causing multiple trade delays, outages, and platfor
as well as regulatory fines and restitution of approximately $70 million.7

Other Meme Stocks

While GameStop was the first successful meme stock, it was not the only one. WallStreetBets users quickly identifiec
ese included AMC Entertainment Holdings Inc. (AMC), the movie theater chain that saw flagging profits amid the CO\
e maker.

Both stocks also saw their shares rapidly increase by multiples.8 Indeed, as these became recognized meme stocks,
ge the humor (for the "lulz") of seeing such legacy companies emerge from the ashes in the stock market.

Some meme stocks did not fare as well as others, even with the occasional short squeeze. Other meme names have
SS), Vinco Ventures (BBIG), Support.com, and even the meme stock enabler Robinhood Markets Inc. (HOOD).9

A Meme Stock Glossary

Meme stock communities have developed a specific lingo used in their posts online. Some of these terms include (a

Apes: □ Members of the meme stock community. Some have attributed this to a meme related to the movie Rise of t
from the banding together of "dumb apes" to take on the Wall Street elite.
BTFD: An acronym for "buy the f***ing dip." Buying the dips means going long on a stock after its price has declined
wdown.
Diamond hands: □□ This has come to mean holding onto a stock despite (even heavy) losses, confident that the pric
FOMO: "Fear of missing out," that if you don't catch the meme stock wave, you'll regret it.
Hold the line: a battle cry to encourage others to stand firm with diamond hands in the face of volatility.
Paper hands: □□ This is a derogatory slur leveled against those who fail to maintain diamond hands. These are perce
too quickly.
Stonks: An ironic misspelling of the word "stocks." This meme predates WallStreetBets and often depicts a crudely de
ward in price.
Tendies: □□ Short for chicken tenders, "tendies" refer to profits made in meme stocks. There are several claims for w
To the moon: □□ The idea that a stock will rise extraordinarily high, as if to the moon.
YOLO: "You only live once," so why not buy into a meme stock?

Special Considerations

Meme stocks have been a boon to investors, day traders, and brokerage platforms but companies have also capitali
persistent demand for shares among individual investors, AMC Theaters CEO Adam Aron took advantage of the elev
ngs in 2021. This raised more than $1.5 billion in the first quarter (Q1) from voracious meme stock buyers.10

GameStop followed suit in 2021, raising nearly $1.7 billion via a secondary offering of 8.5 million additional shares a

In 2022, Bed Bath & Beyond announced intentions to sell 12 million shares in a secondary offering as meme stock p
eply following the company's announcement of the plan.13

Meme Stocks and Short Selling

One of the features of meme stocks, especially early on, has been that they tend to be heavily shorted names. This r
a large proportion of the company's outstanding shares have been sold short.

Short selling is when somebody sells shares that they do not own, hoping to buy them back at a lower price. It is thu
s from somebody who is long the stock in order to sell them. As more and more shares are sold short in this way, th
s hard to borrow, even the most motivated short seller may be unable to do so.

Meme stocks often happened to be hard to borrow, with a high short-interest ratio.

Short Squeeze

Stocks are sold short on margin (because they involve borrowed shares). As the price of the shorted stock rises, the
be covered in a timely fashion, often prompted via margin calls, whereby the broker demands funds to make up fo

Ultimately, a short seller may run out of available funds to hold on to the short and will be forced to buy back the sh
orts are forced to cover at once, it adds additional upward pressure on the stock's price as they are all forced to buy
short squeeze, and it accelerates a stock's price increases as more and more short sellers are forced to bail out to c

The GameStop Squeeze

GameStop, among the first meme stocks, is a prime example of how the retail investor community identified a high

GameStop (GME) became a heavily shorted stock due to a decline in foot traffic at malls and dwindling revenues. Th
outstanding. The case that a short squeeze could be precipitated was then developed and touted on Reddit and othe
Management's Michael Burry and Chewy co-founder Ryan Cohen, also took long positions.

From there, the number of retail investors buying shares and call options snowballed, driving up the price. The price
various big-name investors and public figures, such as Elon Musk and venture capitalist Chamath Palihapitiya.

GameStop's stock price then surged due to a massive short squeeze affecting some major hedge funds that were sh
he stock price went from less than $5 a share to $325 (by January 2021) in less than six months.14

Why Are They Called Meme Stocks?

A meme is an idea that spreads rapidly among people. Memes began to take the form of humorous social media po
-named because ideas about them spread rapidly on social media and web forums. Meme stocks also see communi
meme, inventing specific terms and symbols to accompany the stock.

Is There a Meme Stock ETF?

Roundhill Investments came out with a meme stock-focused ETF in December of 2021 under the ticker symbol 'MEM
al media popularity and market sentiment. Eligible securities are initially given a social media activity or "meme" sco

pecific social media platforms over a trailing 14-day period, with consideration paid to their short interest. The top 25
ned and rebalanced twice a month.15Single stock ETFs have also recently been introduced, which provide leveraged
ese have been approved for trading so far, but do include some meme stocks like Tesla and NVIDIA.

Are Meme Stocks Real Investments?
Meme stocks are actual stocks listed on exchanges and available for trade. In that sense they are real. However, criti
do with their fundamentals and much to do with their entertainment value as speculative playthings, much like casi

Where Are the Meme Stocks Today?
In general, many of the meme stocks that saw sky-high stock prices in 2021 have come down quite a bit in 2022, som
n elevated, although still far lower than the all-time highs.While some thought that the meme stock craze would be s
ock communities pumped the brick-and-mortar retailer Bed Bath & Beyond (BBBY) to extreme levels in the summer
n.Retail investors are also likely to remain keen to pick up on the latest meme stock. Dominated by younger investor
ns in a short period, especially in the face of rising housing costs and inflation in general. But meme stocks also rema
o be the ones to experience the most losses if it all comes crashing down.

The Bottom Line
So-called meme stocks became a hot investment theme for day traders and retail investors early in 2021, resulting i
(GME) and AMC Entertainment Holdings, Inc. (AMC). Named after the virality of internet memes found on social med
d hype their prospects, even though meme company fundamentals remained questionable.

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What Is the Clientele Effect?
The clientele effect explains the movement in a company's stock price according to the demands and goals of its inv
d, or other policy change or corporate action which affects a company's shares.

The clientele effect assumes that specific investors are preliminarily attracted to different company policies, and tha
djust their stock holdings accordingly. As a result of this adjustment, stock prices can fluctuate.

Key Takeaways
The clientele effect is a common occurrence whereby stock prices are influenced by shareholder demands.One side
rs seek out stocks from a specific category.A specific instance of this effect is dividend clientele, a term for a group of
company conducts its dividend policy.
How the Clientele Effect Works
The clientele effect is a change in share price due to corporate decision-making that triggers investors' reactions. A c
e may cause them to sell some or all of their holdings, depressing the share price.

Large policy shifts can be disruptive for both the company’s long-term interests, as well as shareholders’ portfolios.
ven clientele, it is generally best not to tinker with it too much.

There is a good deal of controversy about whether the clientele effect is a real phenomenon in the markets. Some b
y’s clientele to move a stock’s price greatly. Moreover, even though investors could switch to companies that offered
fees, taxable events, and other costs.

Dividend Clientele

Public equities are typically categorized either as dividend-paying securities or not. Each of these categories links to
.

For example, high-growth stocks traditionally do not pay dividends. However, they are more likely to exhibit substar
dividend-paying stocks tend to show smaller movements in capital gains but reward investors with stable, periodic c

Shareholders in a dividend clientele generally base their preferences for a particular dividend payout ratio on comp
r age.

The clientele effect is often connected with dividend rates and payouts by a company.

Special Considerations

Some investors, like the legendary Warren Buffett, seek investment opportunities in high-dividend stocks. Others, su
with the potential for extravagant capital gains. Thus, the effect first outlines the way in which the company's matur
tor type.

The second facet of the clientele effect describes how current investors react to substantial changes in a company's
idends and reinvests all of its profits back into its operations, it initially attracts growth investors. However, if the con
channeling money to dividend payouts, high-growth investors may be inclined to exit their positions and seek other
me investors may now view the company as an attractive investment.

Consider a company that already pays dividends and has consequently attracted clientele seeking high dividend-pay
o decrease its dividend offerings, the dividend investors may sell their stock and reinvest the proceeds in another co
pany's share price is apt to decline.

Example of the Clientele Effect

In 2016, the CEO of Northwestern Mutual publicly announced in a press release a 45-basis-point drop in the dividen
s dividend policy negatively. Following the disclosed plans, the company depressed its dividend rate from 5.45% to 5

Meanwhile, in 2001, Winn-Dixie slashed its dividend and altered its payment structure, opting to distribute income c
ers, many of which valued the regular current income, were not happy, and the stock tanked. Some experts see this

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It’s never been easier for traders to invest in today’s volatile financial markets with a plethora of online trading platfo
ider, selecting an online platform that meets your specific investment needs can be both time-consuming and overw

To speed up the learning curve, let’s walk through the basics of online investing and outline some of the important f
trade.

Key Takeaways

Online investing allows investors easy, cost-effective access to global financial markets.
Things to consider when selecting an online broker include regulation, platform security, fees/commissions, product
When investing online, traders can use market, limit, stop, and take-profit orders.
Investors can use Yahoo! Finance and Google Finance as a starting point for researching stocks, futures, options, and

Selecting an Online Broker

When selecting an online broker, here are several essential things to consider.

Regulation

Ensure that the broker is registered to sell securities. Investors can do this easily by checking the Financial Industry
s name in the search function.

Platform Security

To protect your funds and identity, select an online broker that has enhanced security features—such as two-factor
erts—and agrees not to sell your personal information to third parties.

Fees/Commissions

If you intend to trade actively, it's important to choose an online broker that offers competitive trading commissions
r zero commission, be aware that they may make money through a wider spread between the bid and ask price. Also
ly account maintenance fees, data fees, and activity fees. Yes, some brokers will charge you for not trading within on

Product Offerings

Make sure that the platform you select offers all the products that you want to trade. For instance, if you like to trad
uments, ensure that the platform offers stocks, exchange-traded funds (ETFs), options, and futures trading. Well-kno
g to offer leading cryptocurrencies on their trading platform and trialing a new crypto wallet.1 Traders just starting m
ing or stock simulation account to hone their skills before risking real money.

Online Reviews

What are other customers saying? Pay particular attention to reviews about customer service, platform usability, an
e broker has many reviews, and look for patterns in what customers are saying. For example, if many reviews are co
he broker may need to improve in that area.

Two-factor authentication (2FA) is a security system that requires two distinct forms of identification to access somet
ng accounts by setting up 2FA.

Understanding Basic Order Types

Investors should familiarize themselves with basic order types that are universal across all trading platforms. Knowi
ion and manage risk.

Market Order

This is an order to buy or sell a security at the best available price. For example, suppose the bid/ask spread in Appl
the stock at market. They would get an immediate fill at $180.10—the best ask price. Traders typically use market o

Limit Order

A limit order specifies the maximum price that a trader is willing to pay for a security (buy limit order) or the minimu
revisit the example bid/ask spread in Apple being $180.00–$180.10, but the trader thinks they can sell at a higher pr
stock will not sell unless the bid price reaches at least $200. Limit orders are useful for traders who are more concer

Stop-Loss Order

This order helps control a trader’s risk by buying or selling at the market price once a security has traded at or throu
s the trader’s stop price, the order becomes a market order and executes at the next best available price. Let’s say a
ade if the share price falls below $150. They would place a stop-loss order at $150. If the stock drops to $150, then th
filled at the best available bid price. Online investors should get in the habit of always using stop-loss orders to minir

Take-Profit Order

As its name suggests, this type of order sets a specific price to close an open position at a profit. If the price of a secu
ger a sale. However, if the price doesn’t reach the limit price, then the order remains unfilled. It’s also called a buy sto
is has noticed overhead resistance on the Apple chart at $180. Therefore, they decide to place a take-profit order at
level.

More Complex Orders

As well as these basic orders, many online trading platforms offer more complex order types, such as all or none (A

The size of the global online trading market topped over $8 billion in 2021, according to market research.4

Online Investing Research

There are plenty of free resources on the web to help with online investing. Traders can check the latest stock quote
e fundamental data like market capitalization, price-to-earnings (P/E) ratio, and company financials. If you’re a charti
tive web-based charting platform and social network that allows traders to perform detailed technical analysis, share

Those who want to run scans based on technical and/or fundamental metrics should check out FINVIZ. As well as sc
s are moving by using the site’s heatmap. This research tool—which has both a free and a premium service—even a
or both buy-and-hold investors and online day traders.

Even if investors plan on executing their trades, they still may consider seeking the services of a registered investme
cess to exclusive full-service broker research.

What are the main things to consider when selecting an online broker?

When selecting an online broker, things to consider include regulation, platform security, fees/commissions, produc

What are the basic order types that a trader needs to understand when investing online?

Basic order types for online investing include market, limit, stop, and take-profit orders. These orders help investors

What are some credible sites to undertake online investment research?

Investors can visit Yahoo! Finance and Google Finance to find stock quotes, a stock’s fundamentals, and company fin
s (ETFs), or commodities should explore FINVIZ, a research tool offering both a free and a premium service.

The Bottom Line

Investing online allows traders easy, cost-effective access to global financial markets. Before getting started, it’s imp
platform and to conduct some basic research to ensure that the broker meets all of your investing needs and comp
rs the flexibility to make their own financial decisions or collaborate with a registered investment advisor.

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The Basic Materials Sector: An Overview

The basic materials sector is an industry category made up of businesses engaged in the discovery, development, ar
ed in mining and metal refining, chemical products, and forestry products.

Within this sector are the companies that supply most of the materials used in construction. That makes the compa
hey tend to thrive when the economy is strong.

The category is sometimes referred to simply as the materials sector.

Basic Materials Explained

Companies in the basic materials sector are involved in the physical acquisition, development, and initial processing
l, gold, and stone are examples.

Key Takeaways

The basic materials sector is made up of companies involved in the discovery, development, and processing of raw r
are sold for use in nearly all other industry sectors.The sector is particularly sensitive to the ups and downs of the ec
For the most part, raw materials are naturally occurring resources. Some are considered finite. That is, it takes millio
plans of any company. Others are reusable but are not available in infinite quantities at any given point in time.

The Basic Materials Stock Sector

For the purposes of stock categorization, the most common materials within the sector are mined products, such as
rtain chemical producers and energy sources also are included in the basic materials sector.

Containers and packaging are categorized as basic materials, whether they're made of glass, metal, or cardboard.

Basic Materials or Not?

Not all businesses that work with basic materials are included in the sector. For example, while a metal mining comp
, even one which works only with mined metal, is not. It is deemed a retailer or a wholesaler who is a buyer of the ba

Not even all chemicals qualify as basic materials. For example, industrial fertilizers and paint additives are categorize

More than 200 mutual funds, index funds, and ETFs focus their investments in the basic materials sector.

Energy Sources

Certain energy sources, notably natural gas, are considered basic materials. Crude oil and coal qualify in their natura

The refined versions of these products are included because the demand for them is nearly universal. They are critic

Demand for Basic Materials

The basic materials sector is subject to the law of supply and demand in the same way as consumer goods are. In fa
s drops, the demand for the raw materials involved in their production also drops.

The basic materials sector also is affected by shifts in the housing market as many raw materials are finished in orde
ent slows, the demand for lumber products decreases.

Key Takeaways
The basic materials sector is made up of companies involved in the discovery, development, and processing of raw r
aw materials they need to manufacture their goods.Basic materials are substances that occur naturally such as oil, s
d demand.

Examples of Basic Materials Companies

Three of the biggest American companies are included in the basic materials sector, and all three are involved in the
the oil field services company Schlumberger Ltd.

DuPont de Nemours and Co. and Monsanto Co., both chemicals companies, are listed in this sector. So are two big p
r of crushed stone, gravel, and concrete, and Steel Dynamics Inc., a maker of finished steel products.

Basic Materials Stocks

More than 300 stock mutual funds, index funds, and exchange-traded funds (ETFs) focus on investments in the basi

The many ETFs include Vanguard's Vanguard Materials ETF, Blackrock's iShares Global Materials ETF, and iShares U.

Mutual funds in the sector sometimes focus narrowly on one segment, such as the Fidelity Select Chemicals Fund a

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Automated investing might be the smartest way to simplify wealth-building. By automating your investing you're les
d transferred directly into your 401(k) or an investment account. From beginners to sophisticated options traders, a
growth. We've designed this guide to help you explore the ways to automate your investing from simply reinvesting

How to Automate Your Investing

It's usually quick and easy to automate your investing. Before setting up the account, review the platform's FAQ pag
ded to open an automated investing account. Each platform will have its own process. Next, gather your bank accou
e investment account platform will walk you through the process step-by-step.

Here's what you can expect when setting up your automated investing account:

Create an investment account: Account setup involves choosing a user ID and password for the account. Then you'll
or IRA account. Advanced traders that look to use leverage in their swing trading may first need approval to open ce
Choose your assets: With robo-advisors and micro-investing apps, you'll answer several questions about your goals,
the assets for you. Workplace retirement accounts provide a list of investments from which to choose, while self-dire
and mutual funds. Frequently, you'll find helpful articles to help you choose your investments on the website's educ
Link your funding account: This is where you choose the checking or savings account for the fund transfer. For this s
's routing number, and your account number. With a 401(k), 403(b), or 457 account, this step is unnecessary, as mon
ment account.
Set your funding schedule: For robo-advisors, round-up apps, and self-directed accounts, you'll select how frequently
into the automated investment account. With your workplace retirement account, make sure to set up a large enoug
m contribution limit into your 401(k).

Wealthfront

Best Overall, Best for Portfolio Management, Portfolio Contents, & Best for Goal Planning
$500 for investment accounts, $1 for cash accounts, $0 for financial planning
0.25% for most accounts, no trading commission or fees for withdrawals, minimums, or transfers. 0.42%–0.46% for 5

Betterment
Best for Beginners & Cash Management
$0, %10 to start investing
0.25% (annual) for investing plan or $4/month fee for balances under 20K, 0.40% (annual) for the premium plan

M1 Finance
Best for Low Costs, Socially Responsible Investing, & Sophisticated Investors
$100 ($500 minimum for retirement accounts)
$0

E*TRADE Core Portfolios
Best for Mobile
$500
0.30%

Merrill Guided Investing
Best For Education
$1000 or $20,000 with an advisor
0.45% annually of assets under management, assessed monthly. With advisor—0.85%. Discounts available for Bank

Understand the Top Automated Investment Types

You can set up an automated investment plan in a variety of ways. From robo-advisors to your employer 401(k), we'
pes to ensure that you are converting today's earnings into wealth for tomorrow.

Robo-advisors: Robo-advisors such as Wealthfront, Betterment, Fidelity Go, and Schwab Intelligent Portfolios provide
r of your goals and timeline and the digital investment manager will create an investment portfolio that meets your r
r retirement, and the robo-advisor keeps your investments allocated according to your preferences. Some robo-advi
ors.
Employer-sponsored retirement accounts: Most employers provide a way for you to save for retirement through a 4
o transfer into the account. Some employers also include an additional matching contribution, up to a specific perce
you select. While in the account, your money grows without being taxed.
Dividend reinvestment plans (DRIP): A DRIP is an option within your investment account to have all of your dividends
asset. By reinvesting your investment income into additional shares, your account value will compound more quickly
Recurring transfer: You can direct your bank to have a specific amount of money regularly transferred from checking
ically transferred into taxable investment, retirement, and any financial account on a daily, weekly, monthly, or other
account.
Rounding up: Acorns and other round-up micro saving and investing apps allow you to link a debit and/or credit card
dollar, up to 10 times the original amount.1 Whenever you spend with that card, the round-up amount will automat

What You Need to Open an Automated Investing Account

First, find out what information is required to open an automated investing account.

Personal Information

The personal information and documentation required to complete the onboarding process typically includes:2

NameSocial Security number (or taxpayer identification number)AddressTelephone numberE-mail addressDate of b
vernment-issued identificationEmployment status and occupationWhether you are employed by a brokerage firmAn

Minimum Deposits

Fortunately for investors, there are many automated investment accounts with low-minimum deposit requirements
rokerage firms up to $100,000 for the comprehensive Empower robo-advisor, which also includes access to certified

If you are new to investing and just starting out, you might open your automated investing account at a major broke
ADE, Fidelity, or Charles Schwab. Or, if you're seeking a robo-advisor with low minimums, SoFi Automated Investing,
$100 to get started.

Factors to Consider When Opening an Automated Investing Account

With so many choices about how to automate investing, it can be confusing to narrow down your selection. To make

Customer service: Phone customer service can be very important for both new and experienced investors. Be aware
o a human matters to you, then look into live customer service availability and contact times.

Fees and commissions: Research from Vanguard and other firms has shown a direct correlation between lower fees
m, understand the fees you'll be paying, including management fees and fund expense ratios. Determine whether th

Account minimum: Investigate how much money you'll need to open the account as well as maintain it. Determine w
or your financial situation.

Research tools: For self-directed investment accounts, carefully review the screeners, calculators, trading platforms,
nvestor, make certain, before opening an account, that the research tools match up with your needs.

What Is Automated Investing?

Automated investing is a strategy to ensure that you regularly save and invest for the future. We all have the tendenc
tions are frequently forgotten by February. Automated investing pre-programs our behavior to put investing for the
converting today's earnings into tomorrow's prosperity. This strategy works when saving for retirement, a child's coll
that is more than five years in the future. The automated investment concept involves implementing a few simple st
nt from which the investment funds will be drawn. Next, choose where you want to invest. The choices include your
micro-investing app, or a robo-advisor. Reinvesting your dividends and capital gains within your brokerage account
ents, and then set up a regular transfer from the cash account into the investment account. Finally, you choose the a
lan is enacted, your money will automatically transfer into the designated accounts and investments. That way, wher
e the entire process is automated. In fact, when markets go down, you'll be set up to benefit from one of the best inv

How Does Automated Investing Work?

Think of automated investing like automated bill pay. You set up the parameters, such as amount to be invested, the
transfers from your bank account or paycheck go directly to your investment accounts. This automates the contribu
nt, you may have another step to them put that money to work. Often this can be eliminated if you are buying into p
te the investment portfolio through a robo-advisor where the contributions will automatically be invested according
count setup.

Is Automated Investing a Good Idea?

Automated investing is a good idea for nearly everyone. Behavioral finance research suggests that we are not always
nvestment behavior, such as irregular investing or avoiding investment, automated investing can improve your long-
account before you can spend it and diverts it into long-term financial assets, leading to wealth-building,

Is Automated Investing Risky?
Investing in financial markets is risky in that the value of your initial investment can decline. In fact, automated inves
esting. By regularly deploying money into the financial markets during both up and down markets, you are practicin
when prices are lower and fewer shares when prices are higher. This is the “buy low” recommendation in action.

Are Micro-Investing Apps a Good Choice?
Micro-investing apps have their pros and cons. The benefit of these round-up investment apps is that you can get st
f you only invest your spare change and do not set up a larger automated deposit into the app, it will take you a long
me that monthly, you invest $50 in spare change into your investment account, which earns an average 7% per year
0 monthly auto deposit in addition to the $50 spare change investment and you’re investing $400 per month. With a
7 in 10 years.

Should I Use an Automated Investing Platform?
Yes, there are multiple reasons to use an automated investing platform.Automated investing removes the tendency
dvisors provide excellent pre-made, set-it-and-forget-it investment portfolios.Workplace retirement accounts offer a
the employer match.Dividend reinvestment answers the question of what to do with capital gains and income paym
nsider setting up automated investment strategies.

What Is the October Effect?
The October effect refers to the belief that stocks tend to decline during the month of October. It is considered to be
n, as most statistics contradict the theory.

Some investors may be nervous during October because some large, historical market crashes occurred during this

Along with the September effect (which also predicts weaker markets during October), actual evidence for the exist
lid.

Indeed, October’s 100-year stock market history has, in fact, been net positive. That's in spite of being the month of
and Black Monday in 1987, when the Dow plummeted 22.6% in a single day, (and remains arguably the worst single-

Key Takeaways
The October effect is the perception that stock markets decline during the month of October, and it is classified as a
with the supposed September effect and Santa Claus rally.The October effect is considered to be more of a psycholo
nter the theory.The October effect, as well as other calendar anomalies, largely have seemed to disappear over the p
h, on average, over the past century or more.
Understanding the October Effect
Proponents of the October effect, one of the most popular of the so-called calendar effects, argue that October is w
d. These include 1929's Black Tuesday and Black Thursday and the 1987 stock market crash.2

While statistical evidence doesn’t support the phenomenon that stocks trade lower in October, the psychological ex

The October effect, however, tends to be overrated. Despite the moniker, this seeming concentration of dark marke

In fact, September historically is more often down than October.3 And from a historical perspective, October has m

This makes October an interesting prospect for contrarian buying. Investors who tend to see a month negatively car
, the end of the October effect, if it ever was a market force, may be at hand, as the month's stock market results hav
or more.

October Crashes

What is true about October is that it traditionally has been the most volatile month for stocks. According to research
ober in the S&P 500 than in any other month in history, dating back to 1950.

Some of that can be attributed to the fact that October precedes elections in early November in the U.S. every other

September, not October, has more historical down markets. However, October also has had its fair share of record s
given October the reputation for stock losses include:

The Panic of 1907Black Tuesday (1929)Black Thursday (1929)Black Monday (1929)Black Monday (1987)

Interestingly, the catalysts that set off both the 1929 crash and the 1907 panic happened in September or earlier, ar

In 1907, the panic nearly occurred in March. Throughout the year, the public's confidence in trust companies persist
ck of regulation. Eventually, public skepticism came to a head in October and sparked a run on the trusts.5

The 1929 Crash arguably began in February, when the Federal Reserve banned margin-trading loans and cranked up

In contrast to October effect predictions, October 2022 was one of the most positive months in U.S. stock market his
o 6%.7

The Disappearance of the October Effect

The numbers don't support the October effect. If we look at all October monthly returns going back more than a cer
October is a losing month.

Not surprisingly, some historical events have occurred in the month of October, but they most likely have remained
nous. Markets have also crashed in months other than October.

Many investors today have a better memory of the dotcom crash and the 2008–2009 financial crisis, yet none of tho
month.

Lehman Brothers' collapse happened on a Monday in September and marked a major escalation in the global stake
nday.

For whatever reason, the news media no longer leads with black days—and Wall Street doesn't seem eager to revive

Moreover, an increasingly global pool of investors doesn't have the same historical perspective when it comes to the
s, in reality, a gut feeling mixed with a few random occurrences and a media label created the myth.

In a way, this is unfortunate, as it would be ideal for investors if financial disasters, panics, and crashes occurred in j

Is the October Effect Real?

The data suggest that it isn't. But some people seem to believe in it, perhaps because many of the events that happe
nt at the time. Because there is a psychological bias toward predicting a negative outcome for this month, there is po
.

Are Stocks Usually Down in October?

No. Since 1928, stocks have, on average, risen in the month of October by more than 0.6%.8

Which Has Been the Worst Month for Stocks Historically?

That depends on the time period you look at. Over the past century, September has been the worst-performing mor

The Bottom Line

The October effect is the belief that stocks fall, on average, during the month of October. This supposed market ano
ave occurred during this month, such as 1987's Black Monday.

However, actual evidence for the October effect is scant—and, in fact, October has been a net positive month, on av
of the best-performing months in recent stock market history.

As with other supposed market anomalies, the reality is that they probably don't exist, as markets do tend to be effi
own). As such, one probably should not use the notion of the October effect to make trading decisions.

What Is an Income Stock?

An income stock is a security that pays regular, often steadily increasing, dividends.

Key Takeaways

Income stocks are stocks that offer regular and steady income, usually in the form of dividends, over a period of tim
ield that may generate the majority of the security's overall returns. The ideal income stock would have very low vola
asury note rate, and a modest level of annual profit growth.Income stocks are different from growth stocks, which h

Understanding an Income Stock

Income stocks usually offer a high yield that may generate the majority of the security's overall returns. While there
cks have lower levels of volatility than the overall stock market, and offer sustainable, higher-than-average dividend y

Income stocks may have limited future growth options, thereby requiring a lower level of ongoing capital investmen
tors on a regular basis. Income stocks can come from any industry, but investors commonly find them within real es
ors, utilities, natural resources, and financial institutions.

Many conservative investors seek income stocks because they want some exposure to corporate profit growth. At th
for a low risk and consistent source of revenue, perhaps for investors who are older and do not have regular salarie

The ideal income stock would have very low volatility (as measured by its beta), a dividend yield higher than the pre
of annual profit growth. Ideal income stocks would also show a history of increasing dividends on a regular basis so
yments.

Example of an Income Stock

Retail behemoth Walmart Inc. is an example of an income stock. As its stock price has risen over the last thirty years
vidend payout.1

The company's dividend yield peaked at 3.32% in 2015 and, as of July 16, 2021, is at 1.55%, which is superior to the y
te the threat of e-commerce and increased competition from Amazon, which has taken away its market share.

Income Stocks vs. Growth Stocks

While many conservative investors target income stocks, those able and/or with the desire to take more risks are pe
stocks, growth stocks usually do not pay dividends. Instead, company management often prefers to reinvest retaine
.

For example, a recently public technology firm might choose to hire a new team of engineers or put all their efforts
nly requires technical expertise but also marketing and sales power, along with significant customer experience to re

While growth stocks can bring significant capital gains, they generally also carry more risk than income stocks. With
ents paying off to generate a return on their investment (ROI). If the company's growth is not as high as expected, sh
anes and share prices drop.

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Common stock is not just a piece of paper—or, these days, a digital entry—but a ticket to ownership in a company.
ions by voting for the board of directors and corporate policies. Over the long term, this type of equity can offer attra
ompany has to liquidate its assets, common stockholders are at the back of the line, getting paid only after bondhol
ir share.

The value of common stock issued is reported in the stockholder's equity section of a company's balance sheet.

Key Takeaways

Common stock is a security that represents ownership in a corporation.In a liquidation, common stockholders recei
d stockholders are paid.There are different kinds of stock traded in the market: value stocks are lower in price in rela
that tend to increase in value due to increasing earnings.Investors should diversify their portfolios by putting mone

Common Stock Explained

Common stock is primarily a form of ownership in a corporation, representing a claim on part of the company's ass
but this doesn't mean you own the company's physical assets like chairs or computers; those are owned by the corp
you own a residual claim to the company's profits and assets, which means you are entitled to what's left after all ot

Traded on exchanges, common stock can be bought and sold by investors or traders, and common stockholders are
hem. Typically, they are paid out of a company's earnings, and the decision to distribute them is made by the board
tal requirements, and broader financial goals.

The first-ever common stock was issued in 1602 by the Dutch East India Company and traded on the Amsterdam St
ve been created worldwide, with major exchanges like the London Stock Exchange and the Tokyo Stock Exchange lis

Take the Next Step to Invest

Advertiser Disclosure

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The offers that appear in this table are from partnerships from which Investopedia receives compensation. This com
es not include all offers available in the marketplace.

Larger U.S.-based stocks are traded on a public exchange, such as the New York Stock Exchange (NYSE) or Nasdaq. A
ther 5700 listed from the other U.S. stock markets, making the NYSE the largest in the world by market cap.1 Smaller
r exchanges are considered unlisted and their stocks are traded over the counter.

What Is Preferred Stock?
Preferred stock is a distinct class of stock that provides different rights compared with common stock. While both ty
a higher claim to the company's assets and dividends than common stockholders. This elevated status is reflected in

Common Stock vs. Preferred Stock
Common and preferred stock both let investors own a stake in a business, but there are key differences that investo

Common Stock vs. Preferred Stock

Common Stock
Preferred Stock

Voting Rights
Holders have voting rights in the company and can participate in decisions about corporate policies and the election
Generally, holders do not have voting rights, although this can vary depending on the specific share terms.

Dividends
Not guaranteed and are paid out at the board of directors' discretion.
Usually fixed it must be paid before any dividends are given to common stockholders.

Liquidation Preference
Holders are last in line to claim any remaining assets, following bondholders and preferred stockholders.
Holders have a higher claim on assets and are paid out before common stockholders.

Convertibility
Cannot be converted into other forms of security.
May be converted to common shares based on terms.

Volatilability

Generally, more since it is more alert to company performance and market conditions.
Less, due to fixed dividends and a greater claim on assets.

Market Participation
Holders benefit directly from increases in the company's value.
Typically, do not participate in the company's growth beyond the fixed dividends.

Voting Rights
Shareholders in a company have the right to vote on important decisions regarding the company's management. Fo
Usually, common stock allows the shareholder to vote, but preferred stock often does not confer voting rights.2

Dividends
Both common and preferred stockholders can receive dividends from a company. However, preferred stock divider
the dividend rate of the stock. Businesses can choose whether or not and how much to pay in dividends to common

Should a company not have enough money to pay all stockholders dividends, preferred stockholders have priority o
e preferred stock, any skipped dividend payments accumulate as “dividends in arrears” and must be paid before divi

Trading and Price Changes
Common stock and preferred stock trade on the open market. Investors can choose to purchase or sell either type o

However, investors generally trade common stocks rather than preferred stocks. Due to their fixed dividends and lo
ility and greater growth potential than common stocks. Because of their stable dividends and lower volatility, preferr
a predictable income stream. These stocks are also normally less liquid than common stocks, meaning they are trac
looking for short-term gains.

Corporate Bankruptcy
For common stock, when a company goes bankrupt, the common stockholders do not receive their share of the ass
s makes common stock riskier than debt or preferred shares.

The upside to common shares is they usually outperform bonds and preferred shares in the long run. Most compar
mpany has several bonds available on the secondary market: preferred stock, such as its Series L (WFC-L), and comm

Initial Public Offerings
For a company to issue stock, it initiates an initial public offering (IPO). An IPO is a major way for a company seeking
PO process, a company works with an underwriting investment bank to determine the type and price of the stock. O
the general public on the secondary market.

Image by Sabrina Jiang © Investopedia 2020

Advantages and Disadvantages

Both common stock and preferred stock have pros and cons for investors to consider.

Pros and Cons of Common Stock

Pros

- More frequently traded than preferred stock
- Higher potential returns
- Voting rights

Cons

- May not receive dividends
- Lower priority to receive dividends or in the event of bankruptcy
- More price volatility

Pros and Cons of Preferred Stock

Pros

- Higher priority to receive dividends
- Less price volatility
- Fixed dividends that won't decrease

Cons

- May lack voting rights
- Lower potential returns
- Traded less frequently

How to Invest in Common Stock

Stocks should be considered an important part of any investor's portfolio. They carry greater risk than assets like CD
s with a higher potential for rewards. Over the long term, stocks tend to outperform other investments but in the sh

Investors can choose from different kinds of common stock. Growth stocks belong to companies expected to experi
value stocks are priced lower relative to their fundamentals and often pay dividends, unlike growth stocks.

Stocks are also classified by market capitalization into large-, mid-, and small-cap categories. Large-cap stocks are m
stable companies. In contrast, small-cap stocks often belong to newer, growth-oriented firms and tend to be more v

How to Invest in Preferred Stock

Investors can trade for preferred stock just like common stock. However, because of how they differ from common

Researching the issuing company is essential. Investing in preferred stock from a shaky company is as risky as buyi tock are likely to produce losses.

One key thing to consider when choosing preferred stock is the dividend. Compare the dividends you'll receive relat
tive return. A better yield can result in greater returns.

Moreover, take note of whether the stock is callable or convertible. Callable preferred stocks can be repurchased by
on future dividends. Convertible preferred stock, meanwhile, can be converted into common stock at the company's
ck rises significantly.

How Do I Use Common Stock to Vote at Company Meetings?
Most ordinary common shares come with one vote per share, granting shareholders the right to vote on corporate a
attend, you can cast your vote by proxy, where a third party will vote on your behalf. The most important votes are t
tion, whom to elect to the board of directors, or whether to approve stock splits or dividends.

Why Is Common Stock Called an Equity?
Common stock represents a residual ownership stake in a company, the right to claim any other corporate assets af
ns a balance sheet composed of assets and liabilities. Assets include what the company owns or is owed, such as its
he other side of the ledger are liabilities, which are what the company owes. These include payables, debts, and othe
larger than the total liabilities. The residual amount left to the owners is known as shareholders' equity and is repre

Why Do Companies Issue Preferred Stock?
Selling preferred stock, like any other shares, lets a company raise money by selling a stake in the business. A compa
payment, or to invest in new projects. Preferred stocks are less dilutive of company ownership since they do not con
not least because being less volatile makes them appeal to different investors. The fixed dividends also stabilize the
nal investors. Another reason is that, for some companies, the cost of issuing preferred stock is lower than issuing b
stock are not mandatory and generally are not tax-deductible for the corporation. However, they might still be less c
y to entice bond investors.

Is Preferred or Common Stock a Better Investment?
Each type has pros and cons. Common stock tends to offer higher potential returns, but more volatility. Preferred st
This suggests that long-term investors who can handle greater volatility will prefer common stock, while those who w
d stock.

Are There Other Different Types of Stock?
Common and Preferred are the two major types. Some companies issue different classes of stock or even types of c
two classes of common stock: GOOG and GOOGL.

The Bottom Line
Common stock, as its name implies, is one of the most ordinary types of stock. It gives shareholders a stake in the u
f directors and a claim to a portion of the company's assets and future revenues. However, common stockholders ha
dividend payments and in recovering their investment if the company is liquidated.

What Is Index Rebalancing?
Index rebalancing is the periodic adjustment of an index’s asset weights to ensure it accurately reflects its purpose.
ing a financial market segment. Just like a music service occasionally swaps out tracks in its playlists to stay up to dat
orting, adding, or removing of component stocks.

For example, if an index tracks the technology sector, rebalancing could involve removing companies that have pivo ernatively, if the S&P 500 index is to include the 500 largest American stocks, it must periodically add or remove thos

Key Takeaways
Index rebalancing is the process of adjusting the composition of a market index, ensuring it's reliable and relevant.R
ecting stock prices, sector trends, and broader market sentiment.For those invested in index-tracking funds or excha
ments, present investment opportunities, and have tax consequences.Not all indexes are rebalanced the same way;
rket cap-weighted, equal-weighted, or sector-specific.Keeping an eye on any rebalancing events and understanding t
and adapt strategies effectively.

Why Rebalance an Index?

The primary reason for rebalancing an index is to reflect an accurate collection of securities, and a proper weighting
ndex.

Over time, companies can grow, shrink, or change their business focus. If an index remains static, the weighting of i
ing stocks and not sufficiently representative of the worst-performing stocks. That means it risks becoming an outda
ions and therefore no longer represents the intended market segment. Rebalancing refreshes the index, ensuring it

Indexes often serve as benchmarks for investment products like mutual funds and exchange-traded funds (ETFs). If
rge companies begin to dominate—this could expose investors to higher risks. Rebalancing redistributes weights acr

Rebalancing ensures an index adapts to economic and sector shifts. For example, in its March 2024 rebalancing, the
K) to the index, replacing Whirlpool (WHR) and Zion Bancorporation (ZION).1

How Is an Index Rebalanced?

Index rebalancing involves an initial review of assets, setting criteria based on market conditions, and making subse
dition or removal of specific assets. Understanding how index rebalancing is done can demystify this essential proce

Let's dive into the steps involved in index rebalancing: the initial review, reviewing the inclusion criteria for the index
implementation.

Initial Review: Assessing the Current Landscape

Data gathering: The index manager collects data on all companies or assets in the index, as well as potential candida
Performance analysis: Past performance, trends, and the market capitalization of companies whose shares are held

Setting the Criteria: The Rulebook

Market capitalization: A minimum market cap is often set to ensure that the index only includes companies with a si
fications. For example, the S&P 500 only includes large-cap companies, while the Russell 2000 only includes small ca
Liquidity: Stocks must often meet specific minimum trading volume criteria to ensure they can be easily bought or s
Sector representation: An index may aim to have a diverse set of companies from various sectors. Other indexes mi
Other factors: These could include dividend yields, price-to-earnings ratios, or geographic distribution, among others

Selection and Deselection: Making the Cut

Identify candidates: A list of potential new entrants and possible exits is made based on the criteria.Vetting process:
h the index's overall objectives.Final list: After further scrutiny, the final list of companies to be added or removed is

Weighting: Balancing the Scales

Methodology: Indexes usually use market-capitalization weighting, though other methods include equal and revenu

Calculation: The weight of each company in the index is recalculated based on the method used.
Normalization: The index is often “normalized” to have a specific starting value, which makes tracking its performanc

Implementation: Rolling Out Changes

Announcement: The index administrator publicly announces the changes, usually a few days or weeks before the ef st to the announcement, and trading volume typically increases.Adjustment: Stocks that no longer meet the criteria a weighted again based on the updated stock list.Effective date: At this point, the index officially adopts the new chan

Index Rebalancing in Action

The S&P 500 is a widely followed index of 500 large-cap U.S. stocks that represents the most commonly used perfor P Dow Jones Indices maintains the index and selects which companies are included based on criteria like market cap ion.

The S&P 500 is rebalanced quarterly, usually on the third Friday of March, June, September, and December. Howeve ble after a merger, acquisition, bankruptcy, or delisting.4

During an S&P 500 rebalance, the weights of the different shares in the index are adjusted to reflect their latest shar ded or removed based on the eligibility criteria.

How Index Rebalancing Impacts the Stock Market

An immediate and visible impact of index rebalancing is increased trading activity. Institutional and retail investors r emoved from an index.5 For example, asset managers who run index funds or index ETFs must scramble to adjust t ing of specific stocks. This surge in trading can be significant, and it's often seen as a short-term opportunity for trad

An increase in trading activity often leads to volatility for the stocks involved in the rebalancing. Shares newly added ds buy them. Conversely, those being removed may dip in price as they are sold off. While these price changes are g for active investors.6

Rebalancing can also generate sector shifts in the market. For example, if an index adds technology stocks and rem stocks while reducing the appetite for energy shares. Although only connected to the index initially, these shifts can and individual stock performance.

When a company is added to a prestigious index like the S&P 500, it's seen as a vote of confidence that can positivel val from an index is seen as a negative indicator.

What Index Rebalancing Means for Investors

For those who invest in index funds or ETFs that aim to replicate the performance of a particular index, rebalancing lanced, the index fund or ETF that tracks it will modify its holdings to match the new composition. As an investor, you eviewing and rebalancing your portfolio to ensure it still aligns with your financial goals.

For long-term investors, the implications of rebalancing might not be immediately apparent, though they could bec —say, from value-oriented companies to growth-oriented ones—it may no longer serve as a suitable benchmark for vestment choices and look for alternative index-tracking funds that better match your long-term goals.

The announcement of index rebalancing can also present short-term trading opportunities. Stocks added to an inde ity, while those being removed may dip in price. Savvy investors can leverage these fluctuations for short-term gains and thorough analysis.

When an index fund or ETF adjusts its portfolio, this may result in capital gains or losses. These are often passed to i
anding the tax consequences of index rebalancing can help you take steps to mitigate your tax burden.

How Often Is an Index Rebalanced?

The frequency of index rebalancing depends on the index in question. Some indexes, like the S&P 500, are rebalance
pecialized or thematic indexes might have unique rebalancing schedules. A rebalancing may also occur between sch
e rebalancing schedule of the index you're interested in is crucial, as this will affect your investment strategy.

Do All Indexes Undergo Rebalancing?

Market-cap-weighted indexes like the S&P 500 must undergo regular review and rebalancing to ensure that market c
t specific sector weights are in line.8 Alternatively, price-weighted indexes like the Dow Jones Industrial Average are r
their market capitalization. As a result, these indexes might rebalance less frequently, typically when a stock underg
circumstances, you might encounter indexes that do not undergo rebalancing at all. These are usually historical or f
tments or benchmarking. They serve more as a snapshot of the market at a particular time and are not designed to

Is Index Rebalancing Good or Bad for Individual Investors?

Rebalancing has mixed effects on individual stocks and is often neutral for ordinary investors. Being added to an ind
demand, which is often seen as a positive development. Conversely, being removed from an index can lead to a pric
nerally short-term and often balance out over time.

What Is the Difference Between Index Rebalancing and Portfolio Rebalancing?

Index rebalancing refers to adjusting the components of a market index, like the S&P 500, while portfolio rebalancin
s with their investment goals. While index rebalancing can require portfolio rebalancing, they are distinct and serve c

The Bottom Line

Understanding index rebalancing can arm you with the knowledge to improve how you navigate the investment lan
ing how and why indexes are rebalanced can help you make more informed decisions that align with your financial g

What Is a Dual Class Stock?

A dual class stock is when a company issues two share classes. A dual class stock structure can consist of Class A an
of voting rights and dividend payments.

When multiple share classes of stock are issued, typically one class is offered to the general public, while the other i
lass offered to the general public often has limited or no voting rights, while the class available to founders and exec
control of the company.

Key Takeaways

A company or stock with a dual-class structure has two or more classes of shares with different voting rights.Typicall
reater control and voting rights, while the general public is offered a class of shares with little or no voting rights.Sup
founded and currently run the company to think long-term, rather than be at the mercy of shorter-term-oriented in
ures are controversial because they do not allow public shareholders a say in running the company and distribute ri

Understanding a Dual Class Stock

Dual class stock is designed to give specific shareholders voting control. Classes of stock with unequal voting shares
ntrol, but do want the public equity market to provide financing.

In most cases, these so-called super-voting shares are not publicly traded and company founders and their families
Although there is no standard nomenclature for multiple share classes, Class A shares are normally superior to Clas
hy investors should research the details of a company's share classes if they are considering investing in a firm with

Well-known companies, such as Ford and Warren Buffett's Berkshire Hathaway, have dual class stock structures, wh
l majority voting power with a relatively small percentage of total equity.

The dual-class structure at Ford, for instance, gives the Ford family control of 40% of the voting power, while owning
example is Echostar Communications CEO Charlie Ergen, who controls around 91.8% of the vote with his powerful C

Dual-class structures allow companies to access public capital without sacrificing control.

Special Considerations

While they've recently become popular, dual-class structures have been around for some time in various forms.

The New York Stock Exchange (NYSE) banned dual-class structures in 1940 after an outcry in 1926 over automotive c
ng shares for the public. However, the exchange reinstated the practice during the 1980s in the wake of competition
everse any voting rights attributed to the new class, or issue any classes of shares with superior voting rights.

7%

The approximate percentage of U.S. companies in the Russell 3000 Index with a dual- or multiple-class structure, acc

In recent times, the number of companies opting for a dual-class structure during listing has multiplied. This is parti
this strategy to retain control over their outfits. Alphabet Inc.'s Google is the most famous example of this trend (see

Alphabet Inc.'s Google is the most famous example of this trend. Many investors were frustrated at Google's initial p
capitalization among the top 30 firms worldwide, issued second Class B shares to founders with 10 times the amoun

Several stock indexes have stopped including companies with dual-class structures. The S&P 500 and FTSE Russell a

Dual Class Stock Controversy

Dual class stock structures are controversial. Their supporters argue that the structure enables founders to demons
er near-term financial results. It also helps founders retain control over the company as potential takeovers can be a

On the other hand, opponents argue that the structure allows a small group of privileged shareholders to maintain
the majority of the capital. In effect, there is an unequal distribution of risk.

The founder is able to access capital from public markets at minimal economic risk. Shareholders carry a major part

Academic research has proved that powerful classes of shares for insiders can actually hinder long-term outperform
lders. According to them, the effects of a dual-class structure can be limited by placing a time-bound restriction on su
interest over time.

Examples of Dual-Class Structures

Alphabet subsidiary Google is the most famous example of a company with a dual-class structure. When it was liste
ffering. Class A shares were reserved for regular investors and had one vote per share. Class B shares were reserved
ose for the "ordinary" A shares.5

Many investors were frustrated at this initial public offering (IPO), given that the internet giant boasted a market cap
mpany added a third class of shares. These Class C shares came with zero voting rights.

Other examples of companies with dual-class structures are Meta (formerly Facebook), Zynga, Groupon, and Alibab

4.1 – Overview

This chapter was updated on 15th November 2022. A few comments in the query section may seem out of place. Kir
The initial three chapters set the background on basic market concepts you need to know. It becomes necessary to a
ublic? A good understanding of this topic lays a sound foundation for all future topics.
In this and the next chapter, we will learn about why companies go public and, in the process, also learn a few financ

4.2 – Origin of a Business

Before we seek an answer as to why companies go public, let us figure out a basic concept – the origins of a typical b
understand IPOs better. Let us split this story into several scenes to understand how the business and the funding e
st in the public market.

Scene 1 – The Angels

Let us start our story. Imagine a passionate entrepreneur with a business idea – to manufacture highly fashionable,
e, and the best quality cotton is used to manufacture these t-shirts. The entrepreneur is confident that the business
As you'd imagine, the entrepreneur will face a typical problem – how to fund the idea? Assuming the entrepreneur h
stors initially. Chances are, the entrepreneur will approach the family and immediate friends to pitch the idea and ra
Let us assume that the entrepreneur pools some of his money and convinces two good friends to invest in his busin
n their friends. The two friends in this context are referred to as the Angel investors. Please note that angel money is
So let us imagine that the promoter (entrepreneur) and the angels raise INR 5 Crore in capital. This initial money the
d.' Sometimes, it is also called a 'Friend & Family round.' It is important to note that the seed fund will not sit in the e
.
Angel funding need not always come from friends; there are professional angel investors who invest money in comp
In return for the initial seed investment, the original three (promoter plus two angels) will be issued share certificates
The only asset that the company has at this stage is cash. Hence the value of the company is only to the extent of the
, one can argue that the company's value is cash plus the company's unique business idea, and therefore the valuati
Issuing shares is quite simple; the company assumes that each share is worth Rs.10, and because there is Rs.5 crore
e worth Rs.10. In this context, Rs.10 is called the 'Face value' (FV) of the share. The face value could be any number b
cted by SEBI DIB guidelines to protect investors. If the FV is Rs.5, the number of shares would be one crore, and so o
Backed by the seed fund, the promoter kick-starts business operations. The entrepreneur moves cautiously, hires th
ring high-quality t-shirts. At this stage, the entrepreneur has one small manufacturing unit and one store to retail the

Scene 2 – The Venture Capitalist

The entrepreneur's hard work pays off, and the business generates a steady revenue stream. The company starts to
oter is no longer a rookie business owner. Instead, he is more knowledgeable about the business and, of course, mo
e business by adding one more manufacturing unit and a few additional retail stores in the city. The entrepreneur ch
d for business expansion is INR 7 Crs.
The entrepreneur is now in a better situation when compared to two years ago. The big difference is the fact that th
validates the business and its offerings. The entrepreneur can now access reasonably savvy investors for investing i
ly stage of business is called a Venture Capitalist (VC), and the money that the business gets at this stage is called Se
Assume the entrepreneur raises the 7 Crs required to expand the business. Typically when new investment flows int

There is a dilution of shares by the promoter.
The valuation of the business increases
All the previous investors (in this case, the two angles) tend to make notional profits on their initial investment.

With the VC's money coming into the business, the notional value (valuation) increases, and therefore, notional weal
As we advance with our story, the promoter now has the capital required for the business. As planned, the company
in the city. Things are going great; the product's popularity is growing, translating into higher revenues. The manage
al efficiency, which translates to better profits.

Scene 3 – The Banker

Three more years pass by, and the company is phenomenally successful. The company decides to have a retail prese
three cities, the company plans to increase its production capacity and hire more resources. Whenever a company p

ure is called 'Capital Expenditure' or simply 'CAPEX'.
The management estimates 40Crs towards their CAPEX requirements. How does the company get this money, or in
There are a few options for the company to raise the required funds for their CAPEX:

The company has made some profits over the last few years; a part of the CAPEX requirement can be funded throug
The company can approach another VC and raise another round of VC funding by allotting shares; if they do, it's calle
The company can approach a bank for a loan. The bank would be happy to tender this loan as the company has bee

Assume the company exercises all three options to raise funds for Capex. It plows back 15Crs from internal accruals,
Crs from another VC, and raises 15Crs debt from the bank.
Note that the company's valuation again increases with 10Crs coming in from series B. With the increase in valuatio
Also, I would encourage you to think about the wealth created over the years. This is exactly what happens to entrep
nt team.
Real-world examples of such wealth creation stories are companies like Infosys, Page Industries, Eicher Motors, Titan
could think of Google, Apple, Amazon, etc. The list is quite exhaustive.

Scene 4 – The Private Equity

A few years pass by, and the company's success continues to grow, and with the growing success of this 8-year-old c
branch out across the country. They also diversify the company by manufacturing and retailing fashion accessories,
The CAPEX requirement to fuel the new ambition is now pegged at 60 Crs. The company does not want to raise mon
nance charges, bites into the company's profits. For example, suppose the company generates Rs.100 as profit and p
Rs.80. We will discuss more on this in the Fundamental Analysis module.
The company decides on Series C funding. They cannot approach a typical VC because VC funding is usually small an
r comes into the picture. Think about the PE as a big brother of a VC. Here are a few differences between a PE and V

VCs tend to cut smaller cheques, while PE typically invests large amounts.
VC invests in early-stage businesses and takes a much higher risk than PE. PEs invest at a mature stage and take on l
PEs, upon investment, also take up a board seat in the company and oversee the company's functioning.

PE investors are quite savvy. They are highly qualified and have an excellent professional backgrounds. They invest l
e and place their people on the board of the investee company to ensure the company steers in the required directi
Usually, when a PE invests, they invest in funding large CAPEX requirements. Besides, they do not invest in the early
s that already have a revenue stream and have been in operation for a few years. Deploying the PE capital and utilizi
Let us assume that the company raises funds via a Private Equity company and expands its business.

Scene 5 – The IPO

Fast forward 5 years after the PE investment, the company has progressed well. They have successfully diversified th
s major cities. Revenues are good, profitability is stable, and the investors are happy. The promoter, however, does n
The promoter now aspires to go international! The company now wants the brand available across all the major inte
wide.
The company needs to invest in market research to understand the demographics of other countries, invest in peop
invest in real estate space across the world. The CAPEX requirement is huge; the management estimates this at 200

Fund Capex from internal accruals
Raise Series D from another PE fund
Raise debt from bankers
Float a bond (this is another form of raising debt)
File for an Initial Public Offer (IPO)
A combination of all the above

For convenience, let us assume the company decides to fund the CAPEX partly through internal accruals and the res
s shares to the general public. The general public will subscribe to the shares (i.e., if they want to) by paying a certai
first time to the public, it is called the "Initial Public Offer'.
We are now at a crucial juncture where a few questions need to be answered.

Why did the company decide to file for an IPO? In general, why do companies go public?
Why did they not file for the IPO when they were in Series A, B, and C situations?
What would happen to the existing shareholders after the IPO?
What does the general public look for before they subscribe to the IPO?
How does the IPO process evolve?
Which of the financial intermediaries are involved in the IPO markets?
What happens after the company goes public?

In the following chapter, we will address each of the above questions plus more, and we will also give you more insig
d have developed a sense of the sequence of events that would typically drive a company to raise funds via an IPO.

Key takeaways from this chapter

Before understanding why companies go public, it is important to understand the origin of business.
The people who invest in your business in the pre-revenue stage are called Angel Investors.
Angel investors take the maximum risk. They take in as much risk as the promoter.
The money that angels give to start the business is called the seed fund.
Angel's invests a relatively small amount of capital
The valuation of a company signifies how much the company is valued by considering the company's assets, liabilitie
Face value is simply a denominator to indicate how much one share is originally worth. Face value is also called the r
The money the company spends on business expansion is called capital expenditure or CAPEX
Series A, B, and C are funding the company seeks as it evolves. Usually, the newer the series, the higher the compan
Beyond a certain size, VCs dont invest, and hence the company seeking investments will have to approach Private Ec
PE firms invest large sums of money, usually at a slightly more mature stage of the business.
In terms of risk, PEs have a lower risk appetite as compared to VCs or angels.
Typical PE investors post their people on the investee company's board to ensure business moves in the right directi
The company's valuation increases as and when the business, revenues, and profitability increase.
An IPO is a process using which a company can raise funds from the general public. The funds raised can be for any
rs, etc

What Is a Cyclical Stock?
The price of a cyclical stock is affected by macroeconomic or systematic changes in the overall economy. Cyclical sto
pansion, peak, recession, and recovery. Most cyclical stocks involve companies that sell consumer discretionary item
less on them during a recession.

Key Takeaways
Cyclical stocks are affected by macroeconomic changes. Their returns follow the cycles of an economy.Cyclical stocks
nclude discretionary companies, such as Starbucks or Nike. Defensive stocks are staples, such as Campbell Soup.Cyc
duce higher returns during periods of economic strength.
Understanding Cyclical Stocks
Companies with cyclical stocks include car manufacturers, airlines, furniture retailers, clothing stores, hotels, and re
ir homes, shop, and travel when the economy is doing well.

These discretionary expenses are some of the first things consumers cut when an economy does poorly. Cyclical sto
and companies may go out of business.

Investors should be careful about their positions in cyclical stocks but they shouldn't avoid them entirely.
Cyclical stocks rise and fall with the economic cycle. This predictability in the movement of their prices can lead som
s at a low point in the business cycle and sell them at a high point.

Investors should use caution about the weight of cyclical stocks in their portfolios at any point in time but this doesn
ely.

Special Considerations

Cyclical stocks are seen as more volatile than noncyclical or defensive stocks, which tend to be more stable during p
ial for growth because they tend to outperform the market during periods of economic strength. Investors seeking l
olios with a mix of cyclical stocks and defensive stocks.

Investors frequently choose exchange-traded funds (ETFs) to gain exposure to cyclical stocks during expanding eco
clical ETF investments in the Consumer Discretionary Select Sector Fund (XLY).1

Cyclical vs. Noncyclical Stocks

The performance of cyclical stocks tends to correlate with the economy but the same can't be said about noncyclica
conomic trend, even when there's a slowdown in the economy.

Noncyclical stocks are also referred to as defensive stocks. They encompass the consumer staples category with go
usiness cycles, even economic downturns.

Companies that deal with food, gas, and water, such as Walmart, are examples of those that have noncyclical stocks
for investors because it helps hedge against losses sustained by cyclical companies during an economic slowdown.

Example of Cyclical Stocks

Cyclical stocks are often further delineated by durables, nondurables, and services. Durable goods companies are i
have an expected life span of more than three years. Companies that operate in this segment include automakers s
kers such as Ethan Allen.2

The measure of durable goods orders is an indicator of future economic performance. It may be an indication of st
rders are up in a particular month.

Nondurable goods companies produce or distribute soft goods that have an expected life span of fewer than three
la and Procter & Gamble.3

Services is a separate category of cyclical stocks because these companies don't manufacture or distribute physical
ertainment, and other leisure activities for consumers. Walt Disney (DIS) is one of the best-known companies operat
hat operate in the digital area of streaming media, such as Netflix (NFLX).

How Can I Collect Income From Investing in Stocks?

A stock is essentially an ownership interest in a company. You own a small percentage of the enterprise when you p
s as payment when and if the company does well. You can use them to reinvest and purchase more shares or you c
l have capital gains income if you can sell your shares for more than your investment in them, including any trading

What Are Some of the Best Cyclical Stocks?

The "best" of any type of stock is the one that most closely accommodates your goals and your risk tolerance. That s
n other factors. Yahoo Finance recommends cyclical stocks of companies with names that we're all familiar with, like

What Is a Counter-Cyclical Stock?

As the term "counter" implies, a counter-cyclical stock is noncyclical. Its price is inclined to move in the opposite direc
The prices of these stocks tend to go up when the economy is struggling and a recession is looming or has already b

The Bottom Line

A cyclical stock moves in sync with trends in the economy. The price soars when the economy is flourishing, but it ca
to be companies that produce and sell products that are discretionary rather than necessary components of life. Thi

Cyclical stocks tend to produce high returns but this is confined to times of economic strength. They'll tank when the
th noncyclical stocks in a portfolio.

Preference shares, which are issued by companies seeking to raise capital, combine the characteristics of debt and e
securities. Preference shareholders experience both advantages and disadvantages. On the upside, they collect divid
But on the downside, they do not enjoy the voting rights that common shareholders typically do.1

Key Takeaways

Preference shareholders receive dividend payments before common shareholders.Preference shareholders do not e
es incur higher issuing costs with preferred shares than they do when issuing debt.12

Advantages of Preference Shares

Owners of preference shares receive fixed dividends, well before common shareholders see any money.1 In either c
e is a wrinkle to this situation because a type of preference shares known as cumulative shares allow for the accumu
So, once a struggling business finally rebounds and is back in the black, those unpaid dividends are remitted to pref
hareholders.

Higher Claim on Company Assets

In the event that a company experiences a bankruptcy and subsequent liquidation, preferred shareholders have a h
risingly, preference shares attract conservative investors, who enjoy the comfort of the downside risk protection bak

Additional Investor Benefits

A subcategory of preference shares known as convertible shares lets investors trade in these types of preference sh
if the value of common shares begins climbing.3 Such participating shares let investors reap additional dividends tha
mined profit targets.

Disadvantages of Preference Shares

The main disadvantage of owning preference shares is that the investors in these vehicles don't enjoy the same voti
not beholden to preferred shareholders the way it is to traditional equity shareholders. Although the guaranteed re
es rise, the fixed dividend that once seemed so lucrative can dwindle. This could cause buyer's remorse with prefere
ared better with higher interest fixed-income securities.

Financing through shareholder equity, either with common or preferred shares, lowers a company's debt-to-equity r

Company Benefits

Preference shares benefit issuing companies in several ways. The aforementioned lack of voter rights for preference
g it retain more control. Furthermore, companies can issue callable preference shares, which affords them the right
lable shares are issued with a 6% dividend but interest rates fall to 4%, then a company can purchase any outstandin
wer dividend rate. This ultimately reduces the cost of capital. Of course, this same flexibility is a disadvantage to shar

Coming up with good gift ideas isn't always straightforward. Younger children usually desire the latest fad (which th
tend to buy what they need and can be difficult to satisfy.

In many ways, you can't go wrong with giving shares in a company as a gift. Sure, this may not generate as much ex
wever, stock is one of the few things that has a decent chance of growing in value, turning money into more money.

Key Takeaways

Stocks make satisfying gifts, regardless of the recipient's age or the occasion.
When choosing which stock to buy, consider exchange-traded funds (ETFs) as an alternative to regular shares.
Shares can be gifted via brokerage accounts, through specialist online apps, or, in some cases, directly from the com
If the stock you choose exceeds your budget, consider buying fractional shares instead.
Gifting stock may be subject to gift tax and will trigger a taxable event when the recipient eventually decides to sell.

Buying gifts that adults actually want without breaking the bank is no easy task. But giving a share of company stock
ase that one thing they don't have and have always wanted.

For kids, it's a slightly harder sell because they may not have any long-term dream for which they're actively saving u
d learning about managing money and investing early can serve them well later in life.

Which Stock Should I Buy?
There are many companies out there, and choosing the right stock(s) requires careful consideration. The goal is to n
l want to consider the interests of the person for whom you are buying, as well as the growth potential.

Consider what the recipient likes, and find a company that operates in that area. Then go through its accounts, appl
it would make a good investment. Your best bet would be to draw up a shortlist of several companies first and then
oised to grow in value for years to come.

If you need some inspiration, take a look at what stock gifting platform GiveAshare lists as the top 10 most popular s

Tesla Inc. (TSLA)
Amazon.com Inc. (AMZN)
Manchester United PLC (MANU)
Atlanta Braves Holdings Inc. (BATRA)

Harley-Davison Inc. (HOG)
Starbucks Corp. (SBUX)
Barrick Gold Corp.
McDonald's Corp. (MCD)
Madison Square Garden Sports Corp. (MSGS)
Domino's Pizza Inc. (DPZ)

Can’t Decide Which Stock to Buy? Consider ETFs!

Exchange-traded funds (ETFs) are a great way to gift multiple stocks in one transaction. You can choose index-basec
track the Standard & Poor's 500 (an index of 500 large U.S. companies). Or you can choose a sector-based ETF that re
interested in planes, for instance, and there is a specific ETF that contains major airline stocks: JETS.

There is virtually an ETF for most any sector or asset class, which should make your decision a lot easier. You can se
, or index that might be interesting to your gift recipient, and you're likely to find many selections to choose from. Als
gular shares and can be bought and sold on a fractional basis (see below), too.

Fractional Shares

You might find that buying even one share in a company is more than you can afford or want to spend. In this case,

When they go public, companies issue a set number of shares, each of which represents a portion of ownership. Ho
, called a fractional share, and to essentially invest a dollar amount of your choosing in a given company. Unless you
n for higher-priced shares.

Many online brokerages permit investors to buy fractional shares for as little as $1 to $10.

ESG Investments

If you or the stock's recipient cares deeply about how companies behave and conduct their business, then environm
ur shopping list. ESG investing basically involves purchasing stocks in companies that, according to independent thir
boxes that need to be checked before a company can qualify as an ESG leader, and they are:

Environmental: The E in ESG looks at how a company takes care of the planet. This can include how it generates ener
Social: The S in ESG examines how the company manages relationships with its stakeholders, including employees, s
Governance: The G in ESG deals with how the company is run. Important factors considered here include fair execut
ectors, and the use of accurate and transparent accounting methods.

In short, the goal is to make as much money as possible by investing in companies that are deemed good for society
ilable investments. However, there's also the argument that using an ESG-based screening process to select stocks w
being hit by big scandals that damage their share prices.

Where to Buy Stock Gifts

Gifting stocks has never been easier and can be achieved from the comfort of home fairly quickly. There are several

Brokerage account transfer: You can buy the stock with your brokerage account and transfer it to the recipient, assu
set up a custodial account, leaving you in control until they reach a certain age.
From the source: Some companies allow you to purchase their stock directly from their website.
Online app: There are plenty of apps that specialize in gifting stock. Examples include GiveAshare, Unique Stock Gifts

Gifted Stock Tax Considerations

Before taking the leap and buying your loved ones a company's stock as gifts, it's important to be aware of any pres
t charge you for making the gift if it's a large one. The recipient—if all goes according to plan and the stock's value in
they eventually decide to cash in on your present.

Gift Tax

The gift tax, a federal tax applied to gifts, won't be an issue for most people. Donors aren't taxed on stock gifts unles
18,000 in 2024) and exceed the lifetime gift tax exemption, which as of 2023 is set at $12.92 million ($13.61 million in
are gifting stock to your husband or wife, there's nothing to worry about.4

Capital Gains

When a stock is eventually sold, the IRS must be notified, and the investor (the gift recipient, in this case) will be taxe
bracket, and the gain that was made relative to the original purchase price.5

If the recipient sells the investment within one year at a profit, they will have made a short-term capital gain, which i
enerally leads to a better outcome because long-term gains are taxed at lower capital gains rates.5

Like ordinary income tax, capital gains rates become steeper as an individual's income for the tax year grows.
Gift givers should also know that the recipient's capital gain is determined by how much the investment originally co
eral years later sold for $1,000, the recipient would be taxed on a profit of $900.65

Of course, there's a chance that the gift doesn't pay off. If things go pear-shaped and the stock is eventually sold at a
es can serve as deductions on the investor's tax return, bringing down the total amount of capital gains or, failing tha
Capital losses can also be deferred for use in future years until the total amount of the loss is exhausted.5

How do I gift stock to my child?

If you plan to give stock to a minor, you can set up a custodial account on their behalf. You'll then be in charge of the
age, usually 18 or 21. Hopefully by then, the beneficiary will be mature enough to manage their own finances and m

What are the tax consequences of gifting stock?

Gifts are only taxed if they are worth more than $17,000 in 2023 or $18,000 in 2024, not destined for a spouse, and e
t at $12.92 million for 2023 and $13.61 million in 2024.2 These generous allowances generally mean that a taxable ev
of by the recipient.4 The amount of tax paid on a profitable sale depends on the beneficiary's income, the holding p
ase price. Losses, too, must be declared but can be used to reduce tax liabilities.65

Can I transfer stocks I own to another person?

Absolutely. The owner of company stocks is permitted to transfer ownership without incurring any penalties. The pr
option to make a transfer on their platforms. All you need to do is give your written consent and basically fill out som
o complete this type of transaction, you'll need to get in touch with the company's transfer agent, whose contact info
the company's website.

The Bottom Line

Looking for a gift for someone's birthday or for the holidays but coming up short on ideas? You might want to consi
e potential to grow in value over the years, and not many gifts can offer that.

It's easy to give a gift of stock, through your brokerage account, directly with a share transfer, or from the company
ich to choose. If that's the case, you might want to consider ETFs, which are baskets of multiple stocks represented b
s to give a portion of an expensive stock or simply to give a gift based on a dollar amount.

There are unlikely to be any immediate tax consequences in giving a gift of stock. More likely, the tax considerations

What Is Share Turnover?

Share turnover is a measure of stock liquidity, calculated by dividing the total number of shares traded during some period. The higher the share turnover, the more liquid company shares are.

Share turnover should not be confused with the turnover rate of a mutual fund or an exchange traded fund (ETF), w

Key Takeaways

Share turnover reflects the liquidity of a market by dividing trading volume over outstanding supply for a given perio the stock or why, for the period being measured, it may be more or less liquid than other stocks.Because it only spea t be used as a primary investing criterion.Stocks with higher share turnover ratios are considered more liquid and ea os show stock is more illiquid.A higher share turnover may also indicate momentum; if good news or bad news drive gher for a given period.

Understanding Share Turnover

Share turnover ratio indicates how easy, or difficult, it is to sell shares of a particular stock on the market. It compare lar period with the total number of shares that could have been traded during that same period. Investors may be u mpany with low share turnover. That said, share turnover is interesting as a measure because the correlations don't

Investors often assume that smaller companies will see less share turnover because they are, in theory, less liquid t er portion of share turnover compared to large companies.

Part of this is pricing. Some large companies have share prices in the hundreds of dollars. Although their huge floats ual percentage of the total outstanding is small. In contrast, smaller companies usually have correspondingly cheape on the growth prospects is smaller in terms of capital commitment. One reason companies split their stock is to try t

Sometimes large, high-quality companies have less share turnover than smaller, lower-quality companies because th trading.

Calculating the Share Turnover Ratio

To compute a company's share turnover ratio, you need two numbers. The formula for share turnover is:

Share Turnover = Trading Volume / Average Shares Outstanding

The first number is the trading volume. The trading volume is the average number of shares traded in a given perio his information for any given security.

The second number is the average shares outstanding. This is the total number of shares of a stock a company has f authorized shares a company has; the number of shares outstanding is often less (but may be equal to) what they a

Interpreting Share Turnover

Unfortunately, there is no rule of thumb for what a healthy share turnover ratio is as it depends on the company an sonality will see their share turnover ratios surge along with the demand for the stock at these times.

Often, companies with higher stock prices will have lower turnover as a single share of stock is more expensive to b
seem less desirable; as a company performs better and its stock price rises, its liquidity may fall.

Another aspect of share turnover is defining an investor's desired goal for liquidity. During economic downturns wh
hat is harder to buy or sell. These types of illiquid assets may help preserve its value during volatility as they can't be
s generally want liquid assets, stocks with lower share turnover may still fit into the investment goals of some invest

Example of Share Turnover

The share turnover ratio only tells you how easily an investor can get trade of shares. It doesn't necessarily tell you a
. For example, at the end of 2021, Apple had approximately 16.4 billion shares issued and outstanding.1 On Dec. 31,
es.2 Therefore, at the end of 2021, Apple's share turnover ratio for the month of December was:

Apple's Share Turnover = 110.78 million / 16.4 billion = 0.68%

Alternatively, at the end of 2021, Microsoft had 7.547 billion shares outstanding, and its 30-day average daily volum

Microsoft's Share Turnover = 28.31 million / 7.547 billion = 0.38%

At a glance, it may seem that Apple's stock performed nearly twice as well. However, these percentages are simply r
ple relative to the number of outstanding shares available to trade than compared to Microsoft.

Limitations of Share Turnover

While it is still a useful measurement, share turnover does have its limitations. Share turnover doesn't rely any actu
rading period with a very high turnover ratio but end at the exact same price as before.

The share turnover ratio also fails to indicate the direction a stock may be heading. For example, imagine the news t
om buying gas-powered vehicles. Shares of companies impacted would likely fall as investors would seek to sell thei
e, the stock's share turnover will likely be high. Though a higher share turnover is often better, that may not always b

How Do You Calculate Share Turnover?

Share turnover is calculated by dividing the average number of shares traded over a given period by the average nu
ge result represents what percent of all available shares that could have been traded were actually traded.

Why Is Share Turnover Important?

Share turnover communicates to investors the liquidity of the stock they hold. Some investors were more comfortab
Alternatively, some investors may want lower liquidity, as this makes it harder for traders to emotionally sell their sh
the price movement of a stock, it simply informs investors on how easily their shares may be sold in the future.

Is a Low or High Share Turnover Ratio Better?

Generally, a high share turnover ratio is better if investors want to more easily buy or sell securities. A high share tu
estor is intentionally seeking stock that is more difficult to sell (which may stabilize its value during emotional period
s with low share turnover calculations.

How Can a Company Improve Its Share Turnover Ratio?

A company can not directly improve its share turnover ratio, as share turnover is simply a reflection of how the mar
iquidity, it can do several things.First, a company can perform a stock split. Although this will increase the number o
stock price and make it more accessible for new investors to buy full shares. Second, a company can perform well. S
ndously well, more investors will demand the stock, driving up the number of shares people trade and increasing th

Correction—June 22, 2022: A previous version of this article misidentified Apple stock as illiquid.

Preferred vs. Common Stock: An Overview

There are many differences between preferred and common stock. The main difference is that preferred stock usua
y stock does, usually at one vote per share owned.1 Many investors know more about common stock than they do a

Both types of stock represent a piece of ownership in a company, and both are tools investors can use to try to prof

Key Takeaways

The main difference between preferred and common stock is that preferred stock gives no voting rights to sharehol
ver a company's income, meaning they are paid dividends before common shareholders.Common stockholders are
d out after creditors, bondholders, and preferred shareholders.

Preferred Stock

One main difference from common stock is that preferred stock comes with no voting rights. So when it comes time
corporate policy, preferred shareholders have no voice about the future of the company. In fact, preferred stock fun
shares, investors are usually guaranteed a fixed dividend in perpetuity when bond holders receive coupons until bo
ders are more senior in the list of stakeholders to be paid. This means, they are paid first before preferred sharehol

The dividend yield of a preferred stock is calculated as the dollar amount of a dividend divided by the price of the st
stock is offered. It's commonly calculated as a percentage of the current market price after it begins trading. This is c
t are declared by the board of directors and never guaranteed. In fact, many companies do not pay out dividends to

Like bonds, preferred shares also have a par value which is affected by interest rates. When interest rates rise, the v
mmon stocks, however, the value of shares is regulated by demand and supply of the market participants.

In a liquidation, preferred stockholders have a greater claim to a company's assets and earnings. This is true during
decides to distribute money to investors through dividends. The dividends for this type of stock are usually higher th
ority over common stock, so if a company misses a dividend payment, it must first pay any arrears to preferred shar

Unlike common shares, preferreds also have a callability feature which gives the issuer the right to redeem the shar
preferred shares have a real opportunity for these shares to be called back at a redemption rate representing a sign
red shares often anticipates callbacks and prices may be bid up accordingly.

Common Stock
Common stock represents shares of ownership in a corporation and the type of stock in which most people invest. W
stock. In fact, the great majority of stock is issued in this form.

Common shares represent a claim on profits (dividends) and confer voting rights. Investors most often get one vote
sions made by management. Stockholders thus have the ability to exercise control over corporate policy and manag

Common stock tends to outperform bonds and preferred shares. It is also the type of stock that provides the bigges
of a common stock can go up. But keep in mind, if the company does poorly, the stock's value will also go down.

The first common stock ever issued was by the Dutch East India Company in 1602.2
Preferred shares can be converted to a fixed number of common shares, but common shares don't have this benef

When it comes to a company's dividends, the company's board of directors will decide whether or not to pay out a d
e common stockholder gets bumped back for a preferred stockholder, meaning paying the latter is a higher priority

The claim over a company's income and earnings is most important during times of insolvency. Common stockholde
e company must liquidate and pay all creditors and bondholders, common stockholders will not receive any money