30.11.20

Stock Market Index

Sensex
↓
Sensitivity Index

Nifty
↓
National Stock Exchange + Fifty

Stock market Index refers to a number which denotes the percentage change in the weighted average price of certain securities listed in the stock exchange. Stock Market Indexes are generally published by independent organisation such as Credit Rating Agency in order to inform the investors about fluctuations of prices. The concept is very much similar to CPI which shows Rate of Inflation.

Sensex is the price index of Bombay Stock Exchange which is based on average price of 30 shares & the base year 1978–79. It is published by Credit rating Agency CRISIL in association with Standard & Poor & present value is almost 44,000 as against 100 in 1978–79.

Nifty on the other hand is the index of National Stock Exchange based on 50 top shares with highest market capitalisation & the base year 1995–96 with the base value 1000. It is currently running at around 12,000 which shows that the average price of these 50 shares have increased to 12 times in last 25 years. Market Capitalisation refers to the total value of shares that are available in stock market based on their market prices.

We have large no of indices published by agencies in India & Abroad. Some ~~inci~~ indices are sectoral indices which tell about the performance of any sector e.g. Nifty Bank, Nifty Auto.
In the international market we have the following popular names —

Dow Jones Industrial Average	USA
NASDAQ	USA
Nikkei 225	Japan
Shanghai Composite225 (SC225)	China
KOSPI	South Korea
Hang Seng	~~Hong~~ Honkkong
FTSE 100	U.K.

- **Hedging :-**

Hedging is a process by which an entity like a fund or investor insulates itself from any risk.

- **Insider Trading :-**

Insiders are the persons like promoters, managers or directors of a company who are prohibited from trading in the securities of their own company without seeking permission from SEBI. This is so because they can make abnormal profits related to common investors because of having ~~access to~~ access to internal information.

(Prohibition of Insider trading Regulation Act, 2015)

- **Dabba trading**

Illegal trading outside the stock exchanges in cash in order to evade tax & other obligations.

· **Blue Chip** ÷

The best rated shares which offer high return, safety & liquidity.

· **Circuit Breaker** ÷

A system to curb excessive speculation in stock market applied by the stock market authorities having suspension of trading for sometime.

· **Sweat Equity**:

Shares issued by a company to the employees in the honour of the work done or services rendered. These can be issued at discounts or sometimes free.

· ~~Underwri~~ **Underwriting** ÷

It is a contract of gurantee under which the underwriter agrees to buy the shares of a company if not subscribed by public.

· **Merchant Banker**

A firm or a financial institution which offers the services related to stock markets to the corporates that want to issue shares, debentures etc. They can be independent companies or can be departments of banks & other institutions.

A future Contract is an agreement between two parties to buy or sell any asset at a future date at the price agreed in present.

Option :

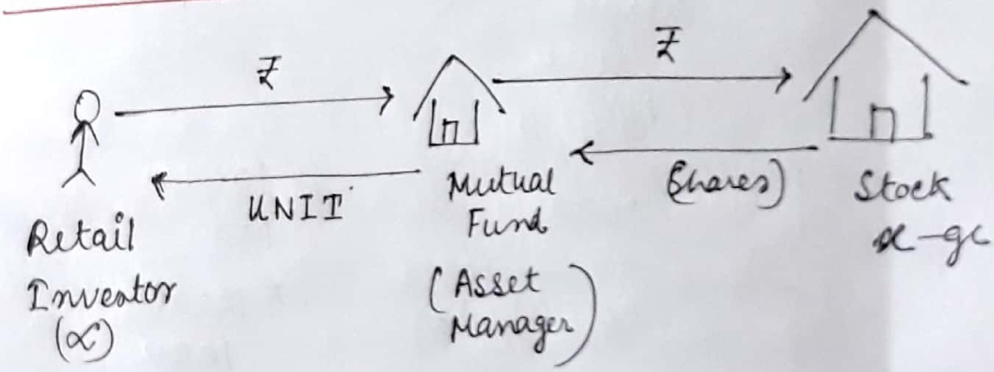
It is a contract which gives the right without obligation to buy or sell any asset on a future date ~~on the future~~ ~~date~~ at the price determined in present. Option premium is the amount which is the basis of such contract & it can be the maximum loss possibles making Options less risky alternative to future contracts.

- **Zero Coupan Bonds :-**

Bonds issued at a discounted price which are repayable at their face value without any interest. Infact, the amount of discount is the total cumulative interest which goes to investors.

Bonds	Issue Price	Monthly Value	Interest
With coupon (Interest)	₹ 100	₹ 100	7% yearly
Zero Coupon	₹ 60 Deep Discounting	₹ 100	0

- Mutual Fund :-



Mutual Fund is a Collective Investment
system in which contributions are taken
from large no of retail investors &
invested in appropriate stock through
professional managers. The shares are
purchased by fund managers in the
name of asset management companies.
The investors get a UNIT ~~for~~ from

mutual fund in respect of the investment made. The value of UNIT is directly proportional to the value of shares purchased & the investors get dividened & the capital gains on such units as their incomes. Hence, Mutual Funds are relatively safer for the retail investors because they are managed by the professionals.

$$\text{Net Asset Value (NAV) of unit} = \left(\frac{\text{Total Value of Shares}}{\text{No. of UNITS}} \right)$$

(2020)	=	$\frac{₹ 1000cr}{1000}$	= 1
(2022)	=	$\frac{₹ 1200cr}{1000}$	= 1.2

Unit Trust of India (UTI) was the 1st mutual fund in India established by govt. in 1963. In 1990s, the industry was opened to private sector as well & then large no. of Banks & financial Institutions started offering Mutual Funds. Moreover,

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there are different alternatives available to investors, e.g. there are i) growth & dividend funds

ii) Debt, Equity & Hybrid Funds.

iii) Open v/s closed Funds.

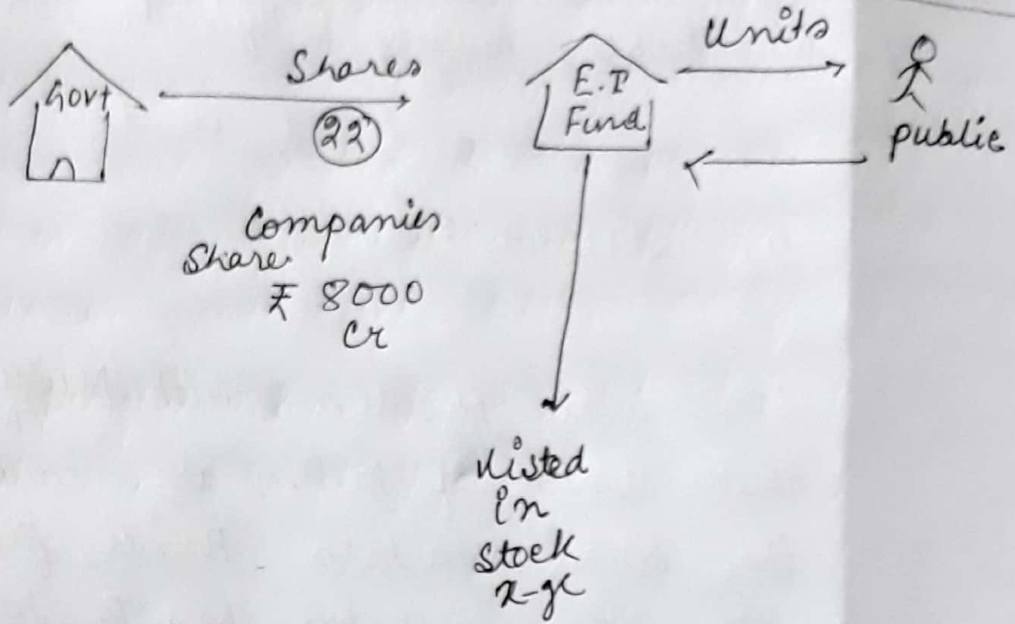
iv) Sectoral Funds.

One basic problem with Mutual Fund (M.F) is that units of M.F. are not listed in the stock markets. Hence, for the redemption investor has to follow the redemption procedure

Exchange Traded Funds (ETF)

ETF is the new generation mutual fund wherein the units are listed in some recognised stock markets & therefore investors can sell the units of ETF without getting back to the Fund manager. Hence, ETFs are getting popular these days.

Bharat 22 ETF is an example which was launched by central govt in 2017 through ICICI Prudential Mutual Fund comprising of 22 stocks of Public Sector enterprises & private companies originally held by govt.



Commodity markets in India

Commodity market is a system or a place where spot or future trading of commodities take place. The commodities include the following —

a) precious metals like gold, silver.

b) other metals like copper, zinc.

c) Agro-based commodities like cotton, jute, wheat, oilseeds.

d) Energy like crude oil, natural gas.

e) others like petrochemical etc.

Spot trading is any transaction where delivery takes place immediately or in short span of time. But future trading is a transaction where delivery is made in future but at the price determined at present.

We have more than 20 commodity exchanges in India that are recognised for future trading. These markets provide a system for the determination of market price of 100 of commodities as required by farmers, producers & consumers in any economy. Of these Multi-Commodity Exchange (MCX) & National Commodity & Derivative Exchange of India (NCDEX) are most popular.

Forward market commission has been the regulatory body for the commodity exchanges since 1953, but in 2015, it was merged with SEBI.

Insurance Sector

Insurance Sector in India is growing at a fast pace than ever before after the insurance sector was opened to the private companies & mor after the flagship programmes of union govt. like P.M. Jeevan Jyoti Yojna, P.M. Durghatna Bima Yojna, P.M.F.B.Y. & Aayushmaan Bharat Yojna.

I. Pen = $\left(\frac{\text{Prem}}{\text{GDP}}\right)$

Insurance Penetration which refers to the total premium divided by GDP in percentage is a good measure in this regard. In year 2000, this figure was almost 2.3% which is now standing at around 3.8% for life & non-life insurance together.

I. Den = $\left(\frac{\text{Prem}}{\text{Population}}\right)$ US \$

Insurance Density is the ratio of premium to the total population & computed in U.S Dollars. It is now standing at around 55 for life insurance & 20 for non-life. These figures show the huge scope possible in the insurance sector in India.

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