

“Basics of Stock Market”

1. Long term capital gain (LTCG)

If you buy & hold the shares for more than 1 year, and earn a profit while selling the share, it is known as LTCG.

2. Dividend

- Dividend is the return on investment in shares.
- It is not mandatory for the company to declare a dividend every year.
- Dividend is paid on face value of the share.
- Face value and market value of the shares are different terms. For e.g face value of the ‘Britania’ is Rs.2 and market value of the same is Rs.3000.

Both LTCG and Dividend are tax free for the individuals subject to limit.
For LTCG, limit is Rs. 1,00,000/- per year while for dividend it is Rs. 10,00,000/- per year.
Please note that these limits may change subject to Government regulations.

3. Face value

- It is the value which is written on the face of any financial instrument.
- If the face value of the share is split, it means that the number of shares will increase proportionately.

Eg. Original face value

Rs.2

Revised face value

Rs.1

Original No. of shares

50,000

New No. of shares?

1, 00,000

4. Promoter

A promoter is the one who undertakes to form a company with reference to a given object and sets it going and takes the necessary steps to accomplish that purpose.

5. Top Line & Bottom Line

Top line is turnover while bottom line is the profits of the company

6. Share Split

A stock split is an action in which a company divides the face value of its existing shares into a smaller face value due to which the number of shares increase proportionately.

7. Bonus shares

- Bonus shares are the shares issued by the company to its existing shareholders.
- They are distributed free of cost to its existing shareholders.

8. Who decides share prices?

- Share prices are decided by the market forces i.e demand and supply of the market.

9. Types of securities market

Primary market	Secondary market
<ul style="list-style-type: none">• Also known as 'New issue market'	<ul style="list-style-type: none">• Also known as Stock exchange (eg. NSE/BSE)
<ul style="list-style-type: none">• A company comes up with an IPO (Initial Public Offer)	<ul style="list-style-type: none">• A company comes up with an FPO (Further Public Offer)
<ul style="list-style-type: none">• Trading is directly between Issuer Company and investor.	<ul style="list-style-type: none">• Trading is directly between two investors.

10. DEMAT account

- DEMAT account is the account where the shares are stored.

11. Savings Account

- It is an account wherein money is stored

12. Trading account

- Trading account is the account through which shares are traded (buy/sell).

Note: Thus many banks these days offer a 3-in-1 Account which includes Demat, Savings and trading account.

13. Documents required for opening DEMAT account.

- PAN CARD
- Address proof
- Personalised cheques /Bank statement
- Passport size photo

14. Contract note

- It is like a receipt issued by a broker to investor which gives various details like the name of the stock bought/ sold/ quantity traded, price at which the share was bought/ sold etc.

15. Settlement Date

- It is the system where the transaction is settled after 2 working days from the trade date.

T + 2 = settlement date
Trade date + 2 working dates

16. Latest traded price

- The price at which the share was traded at the end.

17. Pre-opening market session

The 15 minutes session which starts BEFORE the actual market begins is known as the pre market opening session. The 15 minute market session is from 9 am – 9.15 am. It absorbs the heavy fluctuation in the market.

The 15 minutes session is further divided as follows:

9.00 - 9.07 - Order placement

9.08 - 9.11 - Matching order

9.12 - 9.15 – Stability

The further time details are as follows:

9.15am – 3.30pm – Market hours (for retail investors)
3.30pm – 4pm – Post Market hours – Brokers participate.
4.00pm – 9.00am next morning – After market hours/ After-market orders

18. After Market Orders

- Order placed between 4.00 pm to 9.00am next morning.
- It will be executed at 9.15am on the next working day.
- After market orders affect the price of shares at the opening.
- It is rarely possible that opening price of today = closing price yesterday.

19. Gap up ▲

- If the share price opens at a higher price than the previous day's closing price.

20. Gap down ▼

- If the share price opens at a lower price than the previous day's closing price.

21. Announcement date

- It is the date on which company announces the bonus/ split/ dividend etc.

22. Record date

- It is the date on which investors must have shares in the DEMAT account to enjoy the benefit (eg. bonus share/split/ dividend etc.) declared at the announcement date.

23. Types of investors

- i. RII – Retail Individual Investor who invest less than 2 lakhs in an IPO
- ii. HNI – High Net worth Individuals who invest more than 2 lakh in IPO
- iii. DII – Domestic Institutional Investor
- iv. FII/FPI – Foreign Institutional Investor/ Foreign Portfolio Investor

24. Depositories

- Convert physical shares into dematerialized format.
- Eg. NSDL – National Securities Depository Limited, CDSL – Central Depository Securities Limited

25. Depository Participant (DP)

- Broker is depository participant who has a direct account with depositories.

26. Corporate Actions

- A corporate action is an event initiated by a company that will bring an actual change to the securities issued by the company. ... Examples of corporate actions include stock splits, dividends, bonus, rights etc.

27. Volume

- Number of shares which are traded on a specific date.

28. Trading system

1. Open outcry (eg. GURU movie)
2. Online trading system

29. Types of order

1. **Limit order:** Limit order is where the investor bargains and does not offer to buy/sell at the current market price. (ref: girls shopping with bargaining)
2. **Market order:** It is an order where buyer/seller is ready to execute their trade at the current market price. (ref: boys shopping without bargaining)
3. **Stop loss order:** It is an order placed by the buyer at a price lower than his buying price. The biggest advantage of this order is that loss on share will be limited.
4. **IOC order (Immediate or cancel):** It is an order where the trader wants to immediately execute his buy/sell order and if it is not executed immediately, the order gets cancelled.
5. **GTC order (Good till cancelled):** If an investor places a limit order at the rate Rs.190, where the LTP is 195, the order will stay in the order book. If it gets executed, it will start appearing in the trade book.

If a GTD order is placed and order remains unexecuted till the day end then it will get automatically cancelled. In GTC, the order is reflected in the order book until the investor cancels it.

Note: A trader is allowed to modify the type of order which he has placed.

30. Bearish & Bullish:

- When the trader believes that the market is going to go down, it is said that **he is bearish on the share.**
- When the trader believes that the market is going to go up, it is said that **he is bullish on the share.**
- **To summarise,**

Red – Down – Bearish – Short

Green – UP – Bullish – Long

31. Short sell

- It is the trade where, a trader sells first and buys later. Short sell is preferred for traders if they are bearish about the market.

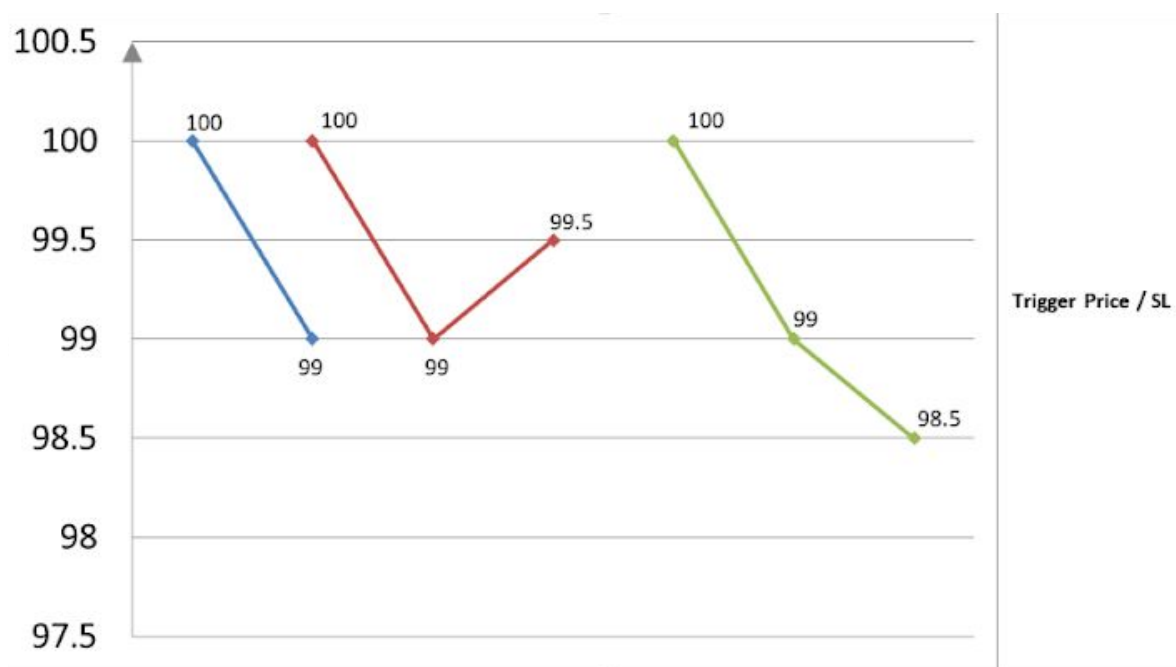
32. Shares Auction

- If a person does a short sell and does not square off his position, then his shares are auctioned. Brokers participating in the auction market in post-market hours i.e (3.30 pm - 4.00 pm) on behalf of their client. Any loss arising due to such a transaction will be borne by the short seller and any profit will be transferred to IEPF (Investors Education and Protection Fund)

33. Stop Loss (SL)

- It is an order placed by a buyer at a price which is lower than his buying price.

i. Stop Loss market

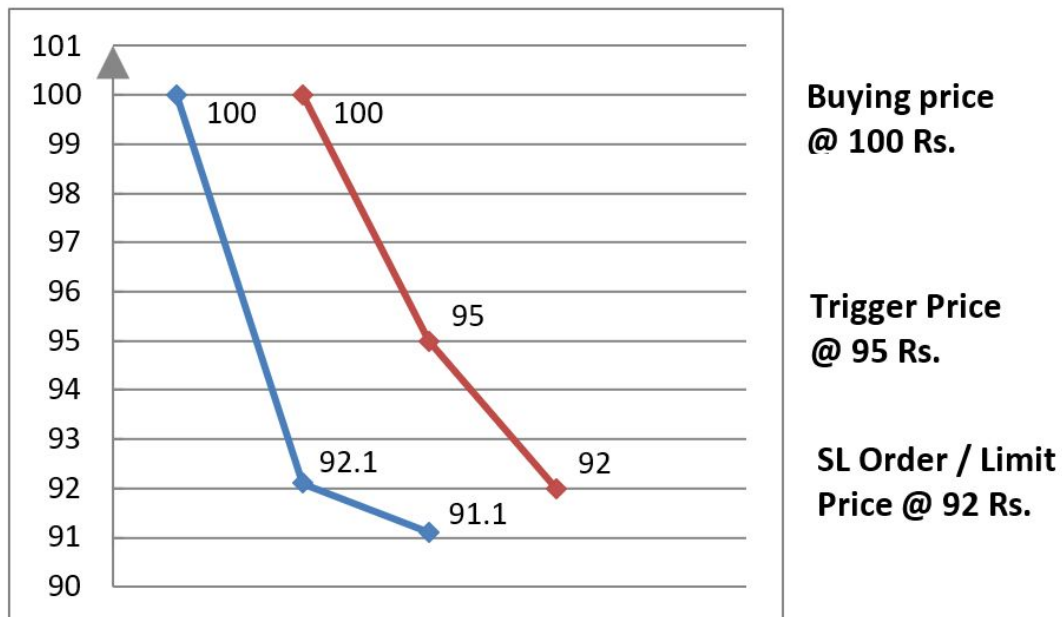


Here in the graph, buying price is Rs. 100 whereas trigger price is Rs.99.

- Situation 1: Ideal situation – Order gets activated at Rs.99 and gets executed.
- Situation 2: Order gets activated at 99 and gets executed at 99.50
- Situation 3: Order gets activated at 99 and gets executed at 98.50

The difference between the Trigger price and the price at which order gets executed is known as slippage which could be positive or negative.

ii. Stop loss limit order



Here in the graph, buying price is Rs. 100 whereas trigger price is Rs. 95 and Stop Loss Price is Rs. 92.

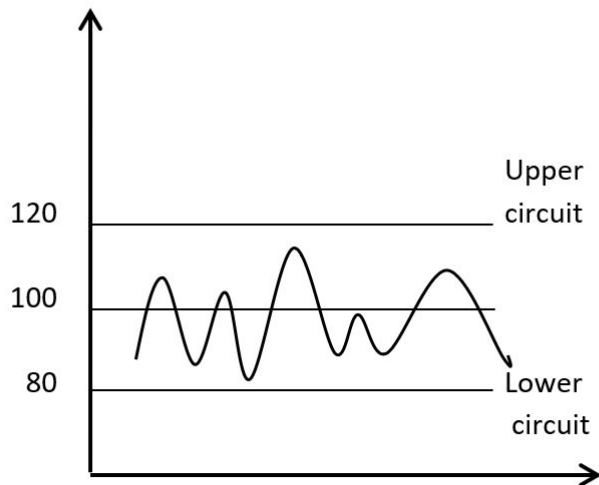
- Situation 1: (Ideal Situation) Order gets activated at 95 and gets executed at 92**
- Situation 2: (Very Volatile situation) Order gets activated ie. Triggered at Rs.95. The price moves down to 92.10 and at the next microsecond goes to 91.10 and thus doesn't get executed. This can be a risky situation if the markets crash within seconds.**

34. Circuit filter/Breaker

- It is a price level beyond which/below which a stock price cannot rise/fall on a single day.

Common circuit filter – 5%, 10%, 20%

Below given graph depicts a typical case where previous day closing price of a stock was Rs. 100 and the stock filter is at 20%. Thus the upper circuit will be at 120 Rs and the lower circuit will be at 80Rs.

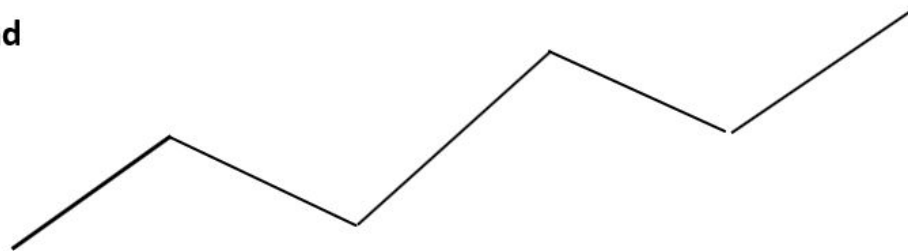


On day 2, 20% will be calculated on previous day i.e day 1 closing price.

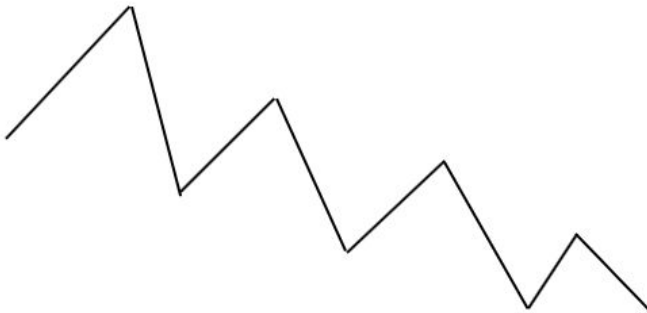
35. Trend Analysis

- Advantages
 - i. Price never lies (Yes bank, Sun pharma)
 - ii. Trade signals
 - iii. Done quickly and easily
 - iv. Trend analysis
 - v. Define levels easily
 - vi. Suitable to any Instrument or Market

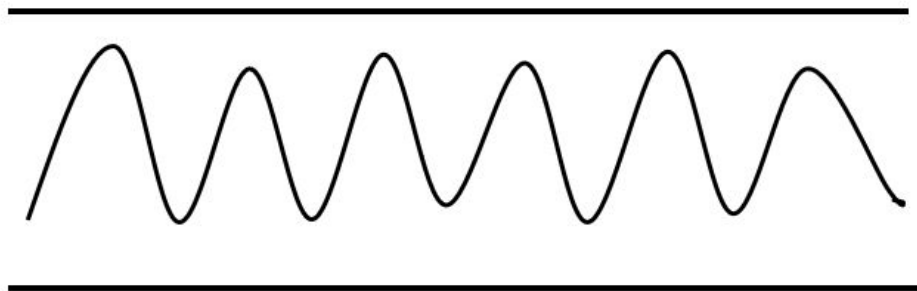
Upward trend



Downward trend



Sideways



Daily – For short term Weekly – For medium-monthly – For long term

36. Market capitalization

It is calculated by multiplying the total number of shares with the market price per share.

- TCS, RIL, HUL , etc. companies have the highest market capitalization.

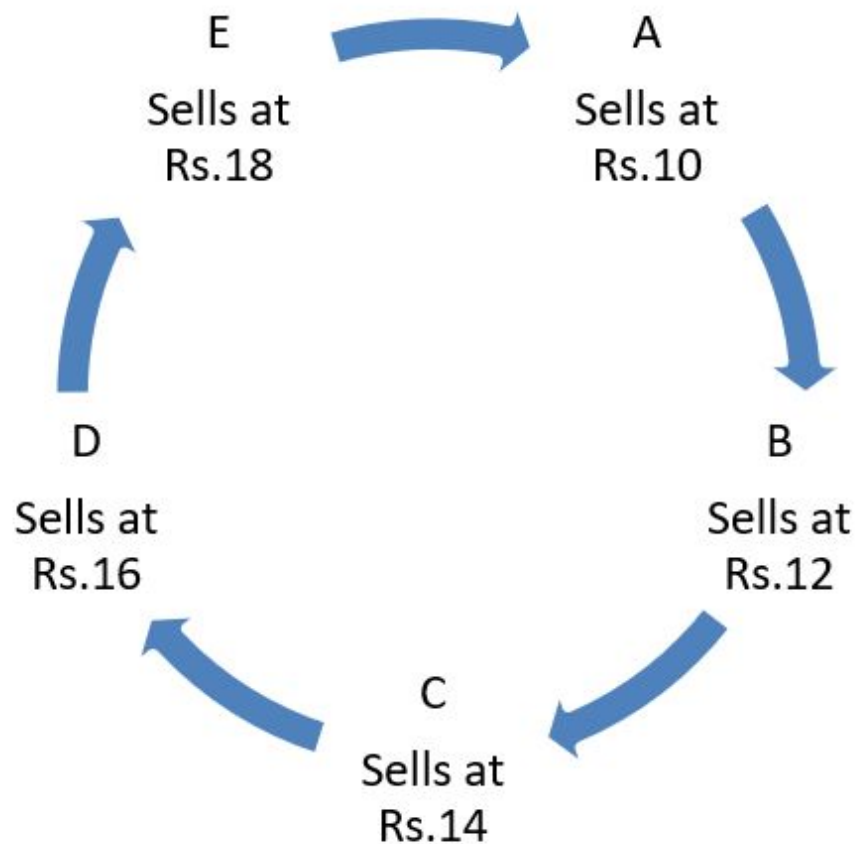
37. Market cap

- i. Large caps. – Market capitalization > 10,000 crores
- ii. Midcaps– Market capitalization between 500 crores to 10,000 crores
- iii. Small caps – Market capitalization < 500 crores.

Blue-chip companies are those companies whose market capitalization is good. So, generally, all blue-chip companies are large caps.

38. Ring trading

- Ring trading is a type of trading wherein artificial increase in the share price.



- Buzz is created for this particular share.

Note: Market surveillance department of BSE & NSE try to ensure that traders are not indulging themselves into ring trading. Action is initiated against such people if found to be guilty.

39. Block deal

- Block deal is a deal where a large number of shares change hands.

40. Types of order based on quantity.

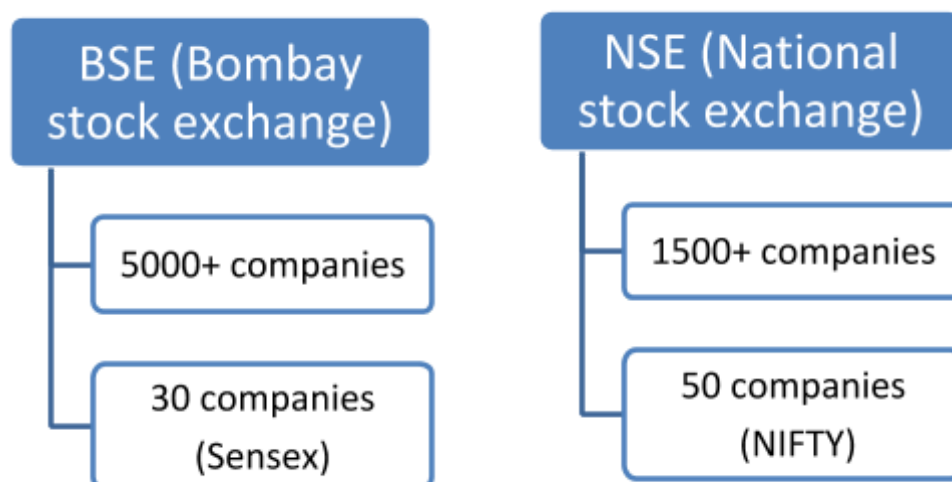
- AON – All or none
 - MF – Minimum fill
 - DQ – Disclosed quantity (Big quantity to sell but the other party does not want to know)
- It is a type of order, which enables buyer/seller to disclose only a part of the total quantity order. This facility is generally used by the large investor.

41. Bid – Ask Spread

- Bid-Ask spread is the difference between the best buying price and best selling price.

42. Market Indices

Market indices are generally a representative figure of the entire market and thus stocks which form a part of the index are chosen from multiple sectors.



1. NIFTY

It is an index of NSE.

It comprises of top 50 companies.

National fifty – NIFTY

2. SENSEX

It is an index of BSE.

It comprises of top 30 companies.

Sensitivity Index – SENSEX

43. Sectoral Indices

- Sectoral indices are generally a representative figure of a specific sector and thus include stocks from that particular sector only. Eg. BankEx, NIFTY IT , etc.

44. Free float market cap

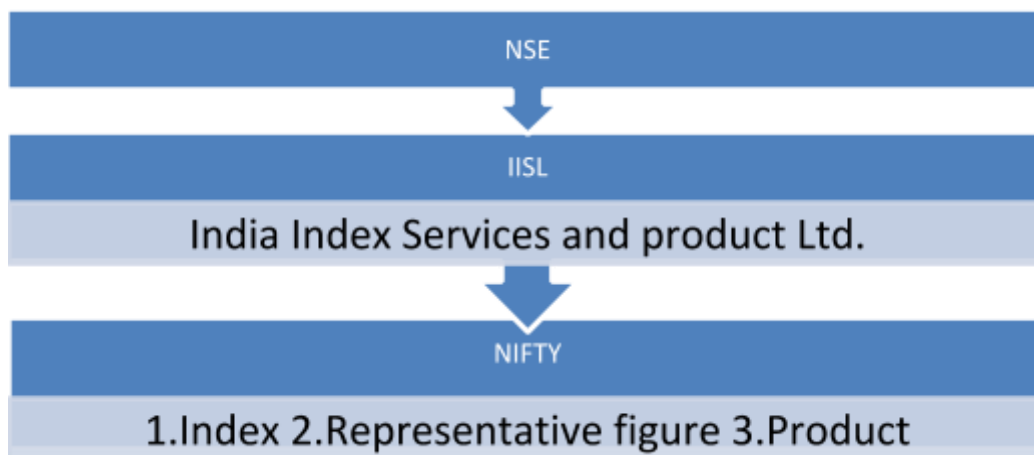
- It is calculated as

$\text{the number of shares freely floating} * \text{market price/share}$

- Number of shares freely floating = Shares held by exclusively promoters and which are not available for general trading.

45. Promoters pledging shares

- Promoters take a loan against shares held by them.



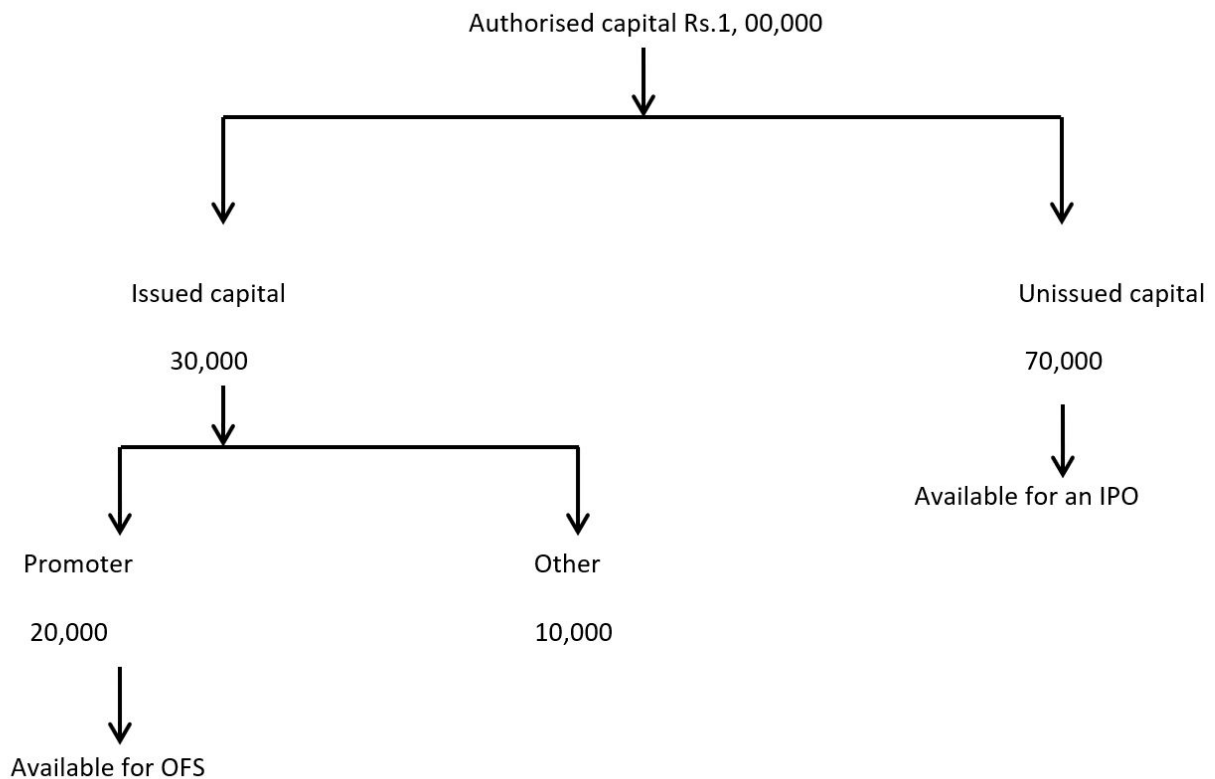
46. Lot size

- It is a minimum number of shares which can be bought/sold and in multiples there to.

47. IPO (Initial Public offer) vs OFS (Offer for sale)

IPO	OFS
Initial public offering	Offer For Sale
In an IPO, fresh shares are issued out of unissued capital.	In OFS, shares are issued out of promoters holding.

Eg.



48. Further Public Offer (FPO)

- When a listed company comes up with another round of fresh funding offer, it is known as FPO.

49. Book Value

$$\text{Book value} = \frac{\text{Asset} - \text{External Liabilities}}{\text{No. of shares}}$$

50. Merchant Banker

- Merchant banker helps in the entire IPO process almost like a single point of contact.
- Merchant Bank generally performs to 2 major functions.

Eg. Mergers & Acquisitions, Fundraising

51. Price Band

- Price band is a price range given to the investor to apply for shares. The minimum price at which we can bid for the shares is known as the lower band while the upper price at which we can bid for the shares is known as the upper band.
- E.g Price band for DMart company was 290-300 Rs.



v

52. Book Building Issue

It is a type of an issue where the price range is decided by the company and the investors are allowed to bid for the price within the given range. The company then finalizes the issue price based on certain parameters.

53. Prospectus

- It is an offer document wherein all major details of the company will be mentioned.

54. Importance of Primary Markets (IPO)

- Tap market larger area
- Fosters competitive process
- Diversification of ownership
- Better Disclosures

55. Underwriter

- An institution which subscribes for the difference between minimum subscription and actual subscription of shares.
- At least 90% (minimum) of the issued shares should be subscribed for by the investors.

56. Listing of IPO (Initial public offer)

- Shares gets listed at 10.00am on day 1 of listing.

57. Price Determination

- Criteria – Minimum subscription of 90% of IPO

Eg.

Price	No. of bids	Status
290	5	Reject
291	3	Reject
295	82	90% of subscription
300	10/100	Refund of Rs.5 each

In spite of the fact that maximum bids have been received at 300, the company will fix the price at 295. When people invest in IPO at ceiling price, but company lists fixes the issue price below the ceiling price, the difference shall be refunded to such investors.