Stock Invest

A stock is a type of investment that represents an ownership share in a company. Investors buy stocks that they think will go up in value over time.

Stocks are securities that represent an ownership share in a company. For companies, issuing stock is a way to raise money to grow and invest in their business. For investors, stocks are a way to grow their money and outpace inflation over time.

When you own stock in a company, you are called a shareholder because you share in the company's profits.

Public companies sell their stock through a stock market exchange, like SEBI (Investors can then buy and sell these shares among themselves through stockbrokers. The stock exchanges track the supply and demand of each company's stock, which directly affects the stock's price.

Stock prices fluctuate throughout the day, but investors who own stock hope that over time, the stock will increase in value. Not every company or stock does so, however: Companies can lose value or go out of business completely. When that happens, stock investors may lose all or part of their investment. That's why it's important for investors to spread their money around, buying stock in many different companies rather than focusing on just one.

Advantages

1. Probability of higher returns over the short-term

Investing in the stock market has the potential to generate increased inflation-beating returns within a short period of time as compared to other investment avenues such as PPF and fixed deposits, for that matter. Sticking to the basics of stock market – planning your trade, for instance and doing your due diligence can go a long way in securing superior returns for you.

2. Acquired ownership in the stakes of the listed company

The moment you buy stocks of a publicly listed company – no matter how small your share size is – it gives you a proportionate control over the stakes of that company. This ownership, in turn, grants you the voting rights, thereby allowing you to contribute to the strategic management of the particular company. You can obviously further your market footing by making prudent investments in shares of other reputed companies. In fact, there have been instances that stakeholders have thwarted potential management indiscretions by leveraging their right to vote.

3. Unmatched liquidity

Unlike other modes of investments, the liquidity element of investing in stocks is nearly unrivalled. Investors can decide to buy or sell within seconds, of course as they deem fit. Should you need an urgent flush of liquidity, you can always sell your shares and enjoy access to the cash.

4. Interests well-protected by a regulatory body

The stock market is regulated and governed by the Securities and Exchange Board of India (SEBI). It is the duty of SEBI to preside over any development and guarding stakeholders' interests. This again goes a long way in securing their interests in the face of any fraudulent activity or company, for that matter.

Disadvantages

1. Increased chances of volatilities

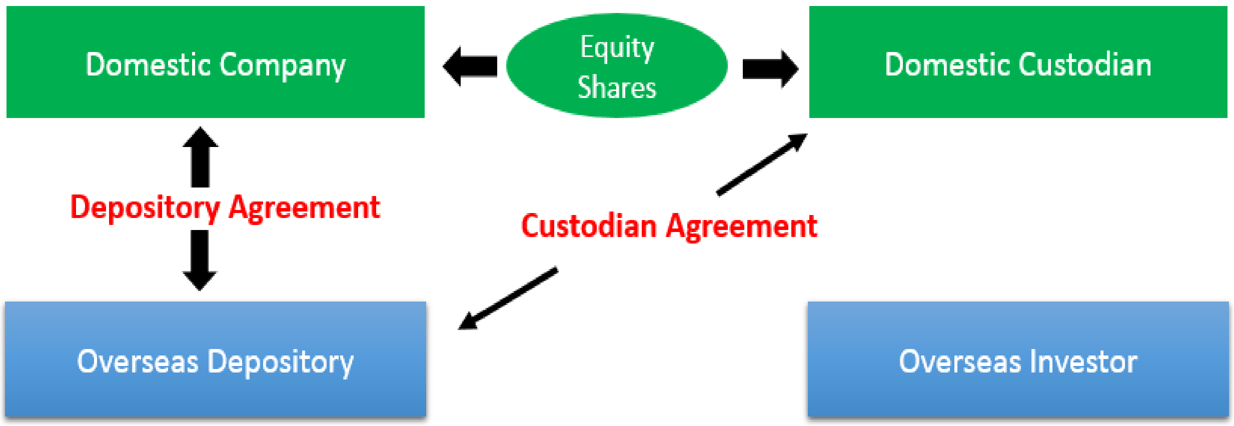
Considering that markets are volatile and ever-dynamic, investing in stocks involves its own wagers. Share prices spike and plummet multiple times within a single day. These fluctuations are mostly unforeseeable that can, in the process, pose risks to investments. Moreover, while chances of a large failure are not common, it can take years for the market to recover from the brunt of a crash.

2. Brokerage can eat into profit margins

Every time an investor decides to buy or sell shares, he/she will have to shell out a certain proportion as brokerage fees to the broker. This, in turn, can jeopardize profitability.

While investing in stock market has its own advantages and disadvantages, it's important to stay patient and invest for the long haul to maximize returns.

Global Depository Receipts (GDR)



Depository Receipt (GDR) is a certificate issued by an international bank to a company against purchasing some shares of the same company which are then traded on international stock exchange.

Simply, they are derivative equities which are traded in foreign markets, giving rights to shareholders for respective amount of local securities. In such case, shareholders are entitled to all dividends and capital gains. Thus, GDR allow investors in any country to purchase shares of company in any other country without losing the income or trading flexibility. GDR is also called as International Depository Receipt or Euro Depository Receipt.

GDR is a financial instrument used by private markets to raise capital denominated in either U.S. dollars or euros. GDR facilitates trade of shares importantly in emerging markets.

- Financial Intermediaries such as depository banks purchase the shares in one country, create a GDR containing those shares, and sell the GDR in the foreign market. It helps companies raise capital from foreign markets.
- GDR is a negotiable instrument, which can be denominated in any freely convertible security.
- Global Depository Receipts are based on the historical American Depository Receipts, the difference being ADRs are traded in America and GDRs are traded in multiple countries.

Some of the Indian companies who have GDRs in multiple countries include:

- Bombay Dyeing
- Axis Bank
- India bulls Housing
- HDFC Bank and many more.

GDRs are usually issued by companies from developing and emerging markets because they are able to offer relatively higher growth than developed economies and therefore are able to attract more investors.

Characteristics of Global Depository Receipts

1. **Exchange Traded –** Global Depository Receipts are exchange-traded instruments. The intermediary buys a bulk quantity of a foreign company and creates the GDRs which are then traded on the local stock exchange. Since GDRs are for multiple countries, they can trade on multiple stock exchanges at the same time.

2. **Conversion Ratio –** The Conversion Ratio, which means the number of shares of a company that one GDR holds can be anything ranging from a fraction to a very high number. It

depends on the type of investors that the intermediary is planning to target. Usually, one GDR certificate holds 10 shares. But the range is flexible.

3. **Unsecured –** Global Depository Receipts are unsecured securities. They are not backed by any asset other than the value of the shares that are held in that certificate.

4. **Price Based on Underlying –** The price of a GDR is based on the price of the shares that it holds. The price also depends on the supply and demand of a particular GDR which can be managed. The intermediary might price it a touch higher than just the value of the securities in terms of transaction costs etc to make a profit for being the intermediary.

Advantages of Global Depository Receipts

The following are the advantages of global depository receipts (GDR)

- **Liquidity –** Global Depository Receipts are liquid instruments that are traded on stock exchanges. The liquidity can be managed by managing the supply-demand of the instruments.

- **Access to Foreign Capital –** GDRs have emerged as one of the most essential mechanisms to raise capital from foreign markets in today's world. The securitization process is being carried out by big names such as JP Morgan, Deutsche, Citibank, etc. It is giving companies all over the world access to foreign capital through a relatively simpler mechanism. It is also helping companies increase their worldwide visibility by issuing GDRs in multiple countries.

- **Easily Transferrable –** Global Depository Receipts can be easily transferred from one person to another. This makes trading them easy even for non-resident investors. The transfer of GDR does not involve heavy documentation like some other securities.

- **Potential Forex Gains –** Since GDRs are international capital market instruments, they are exposed to foreign exchange rate volatility. The dividends paid for every share in a GDR is denominated in the domestic currency of the company whose shares are being held in the GDR. A favorable exchange rate movement can potentially provide gain beyond just the capital gains and the dividends received for the shares in a GDR.

Disadvantages of Global Depository Receipts

The following are the disadvantages of global depository receipts (GDR)

- **High Regulation –** Since Global Depository receipts are issued in multiple countries, they become subject to regulation from multiple financial regulators. It is important to adhere to all the regulations and even a small mistake can lead to a company being heavily reprimanded. Companies might have to bear huge consequences for even a small mistake.
- **Forex Risk** – As we stated earlier, Global Depository Receipts are exposed to the foreign exchange rate volatility. Since the dividends received and the original price of the shares are denominated in the foreign currency, an appreciation of foreign currency can reduce the return generated and even cause losses to the investors.
- **Suitable for HNIs** – Global Depository Receipts are usually issued with the multiple numbers of shares in each certificate to lower the transaction costs. Small investors might not be able to shell out that kind of money and might be unable to take advantage of the GDR. In this case, it becomes a more suitable product for HNIs
- **No Voting Rights** – Under the mechanism of the Global Depository Receipts, the shares of a company are sold in bulk to an intermediary in another country who further securitizes them into GDRs. Therefore, the voting rights in the company are retained by the intermediary who has directly bought the shares, and not by investors who buy the GDR.

Conclusion

Global Depository Receipts (GDR) has emerged as the most efficient and widely known methods of raising capital from foreign markets. It provides benefits both ways: giving domestic companies access to the foreign capital markets, and giving foreign investors the opportunity to invest in domestic companies. Investors like to buy GDRs holding shares of companies of developing and emerging markets in order to take advantage of high growth rates in those countries as compared to the developed countries. A GDR can be issued in any freely convertible foreign currency.