

## Secondary Market

### 4.1.1 Meaning

⇒ Secondary market refers to a market where securities are traded after being initially offered to the public in the primary and/or listed on the stock exchange.

⇒ Secondary market comprises of

→ Equity market

→ Debt market

It is a market, where buying and selling of shares takes place through stock exchanges.

### 4.1.2 Role of the secondary market

⇒ Provides an efficient trading platform for investors.

⇒ Helps companies through:

→ Price discovery

→ Monitoring and control functions

→ Incentive-based management decisions

⇒ Ensures a regulated and safe trading environment

⇒ Listed companies must follow strict rules & regulations → ensures quality and transparency.

## 4.1.3 Difference between Primary & Secondary Market

Primary market	Secondary market
Market for new issues of shares or bonds.	Market for trading existing securities.
Investors deal directly with issuers.	Investors deal with each other only.
Used for fund raising. * Initial Public Offer (IPO).	There is no such ways of raising funds. * Follow-on public Offer (FPO). * Rights issue.
It is for unlisted companies becoming listed (via IPO) privately traded - venture capital.	Only listed companies can trade here.

present of a large number of sellers  
who hold well known securities which are  
generally less liquid than stocks.

4.2 Stock Exchange

Role of a stock exchange

⇒ Provides an electronic trading platform under SEBI's supervision.

⇒ NSE uses National Exchange for Automated Trading (NEAT), a nationwide online trading system.

⇒ No physical presence needed; trades occur through computerized screens.

4.2.2 What is Demutualisation

⇒ A structure where ownership, management and trading rights of a stock exchange are separated.

⇒ All Indian stock exchanges are demutualised.

4.2.3 Mutual Exchange

Mutual Exchange	Demutualised Exchange
Ownership, management & trading rights in some group (brokers)	All three functions are separated
Possible conflict of interest	Eliminates conflict; independent governance

## 4.3 Stock Trading

### 4.3.1 Screen-Based Trading (SBTS)

⇒ Replaced traditional open outcry system  
⇒ Provides higher level of efficiency

⇒ Liquidity without intermediaries  
⇒ Transparency without friction

⇒ Traders enter price & quantity; system matches orders instantly

### 4.3.2 National Exchange for Automated Trading (NEAT)

⇒ NSE's advanced client-server trading system

⇒ Uses satellite communication for nationwide access

⇒ Ensures minimum response time and high uptime

; it has eliminated delivery function  
and thus transaction

#### 4.3.3 How to place orders with a Broker?

- ⇒ Visit broker's office or place orders via
  - Phone
  - Internet
  - SMS
  - As per the Model Client Broker

Agreement, where every client needs to enter with his or her broker.

#### 4.3.4 Access to Internet-Based Training (IBT)

- ⇒ Provided by many NSE brokers
- ⇒ Investor logs into broker website using username and password
- ⇒ Orders are placed securely online

#### 4.3.5 Other means of Trading

- ⇒ Personally, meeting the broker and placing the order
- ⇒ Phone trading
- ⇒ SMS trading
- ⇒ Requires registered number and security verification

#### 4.36 Contract Note

- ⇒ Legal proof of trades on behalf of client by a trading member
- ⇒ Required for dispute resolution
- ⇒ Issued in prescribed format; signed by authorized signatory
- ⇒ Contracts are kept in duplicate; the trading member and client should keep one copy each.

#### 4.37 Details required on contract note

- ⇒ Banker's name, address, SEBI registration number as stated
- ⇒ Client name and code
- ⇒ Order number, trade time and trade number (if applicable)
- ⇒ Quantity, price, brokerage, taxes
- ⇒ Stamp duty / consolidated stamp duty information
- ⇒ Signature of the Stock Broker / Authorized Signatory.

4.3.8 Maximum Brokerage

⇒ Cannot exceed 2.5% of trade value.

⇒ No minimum brokerage prescribed

4.3.9 Why Trade only on recognized stock exchanges?

⇒ Provides best way to trade

⇒ Best price

⇒ No counter party risk

⇒ Investor grievance mechanism

⇒ Protection from Investor Protection Fund

⇒ Mandatory under SCRA to trade through brokers

4.3.10 How to check if a Broker is registered?

⇒ Broker's SEBI registration number

starts with "INB"

⇒ Can be verified on the SEBI

website [www.sebi.gov.in](http://www.sebi.gov.in)

timewebs available at [www.sebi.gov.in](http://www.sebi.gov.in)

services of stock brokers

## 4.4 Precautions Before Investing

### 4.4.1 Key Points

⇒ Verify broker's SEBI registration

⇒ Always collect contract notes within 1 working day of execution of trade

⇒ Know your risk tolerance

⇒ Avoid rumours and tips

⇒ Take informed decisions by studying the fundamentals of a company

⇒ Beware of junktown companies

⇒ Verify sudden price or volume spikes. Also above watermarks

⇒ Be careful of claims of "quick huge returns"

### 4.4.2 Do's and don'ts for investors

#### Do's

⇒ Deal only with SEBI registered intermediaries before all else

⇒ Sign proper agreements; fill KYC.

⇒ Read Risk Disclosure Document

⇒ Check contract notes for accuracy.

- ⇒ Ensure receiving contract notes within 24 hours of the transaction
- ⇒ Make payments only in broker's name
- ⇒ Reconcile account statements periodically
- ⇒ Ensure trades are done under your unique client code.
- ⇒ Report wrong entries immediately

### Don'ts

- ⇒ Don't sign bank delivery slips
  - ⇒ Don't delay payments/deliveries
  - ⇒ Don't give money to unauthorized persons
- Portfolio Management Services (PMS) Providers
- ⇒ Don't trade using family/friends account
  - ⇒ Don't share Power of attorney except for valid transaction

### 443 SEBI SCORES

- ⇒ Online SEBI Complaints Redressal System
- ⇒ Investors can:
  - File complaints
  - Upload documents
  - Track complaint status
- ⇒ Complaint gets a unique registration number

## 2.5 Products in the secondary market

### 2.5.1 Main Instruments

A Share is the stamp of DEMS.

⇒ Equity shares / Ordinary shares - functional ownership of a company

⇒ Rights Shares / Rights Issue - new shares offered to existing shareholders at a fixed ratio

⇒ Bonus shares - free shares issued based on holdings based on number of shares the share holders own

⇒ Preference Shares - fixed dividend, priority over equity shareholders

⇒ Cumulative preference shares - fixed dividend, priority over equity shareholders

Unpaid dividends accumulate

⇒ Cumulative Convertible Preference Share

Dividends payable on the same date as bonds  
accumulate; later convertible to equity  
vested after a stipulated period

3 Bonds

⇒ Zero Coupon Bond - issued at discount and repaid at face value; no periodic interest. Return to holder = Issue price - redemption price

⇒ Convertible Bond - can be converted into equity at a fixed conversion price

⇒ Treasury Bill - short term govt securities (upto 1 year)

#### 4.6 Equity Investment

##### 4.6.1 Why invest in equities?

⇒ Highest returns potential in the long term  
⇒ NIFTY 50 has delivered ~17% annualized return over 20 years

⇒ Suitable for long-term wealth creation

⇒ However - equities carry high risk and require research

and - good research skills required

## 4.6.2 Average returns on Equity in India

Towards  $\Rightarrow$  NIFTY 50: 17% annualized returns  
(20-year period)

$\Rightarrow$  Additional  $\sim 1.5\%$  average annual dividend yield

## 4.6.3 Factors influencing stock price

### 1. Stock - specific factors

$\Rightarrow$  Earnings growth

$\Rightarrow$  Financial health

$\Rightarrow$  Management quality

$\Rightarrow$  Technology & marketing strength

### 2. Market specific factors

$\Rightarrow$  Political events

$\Rightarrow$  Global factors

Market factors are short-term; stock specific factors drive long-term value

4.6.4

Growth vs. Value Stocks are worth 22%

Growth stocks are dividend?

⇒ Companies with high growth potential

⇒ Low or no dividend payout

⇒ Profits reinvested for expansion

Value stocks

⇒ Shares undervalued compared to intrinsic value

⇒ The value investors tend to purchase usually based on relationship between current market price and certain business fundamentals

They are

→ Low P/E (Price-to-Earnings) ratio

→ High 'dividend' yield

→ High sales relative to market cap

⇒ Investors hold until market corrects the undervaluation.

date is just at time w/o

w/o date is just at time w/o

types at place w/o

## 4.6.5 How to acquire equity shares

⇒ Subscribe in primary market  
(IPO, FPO; Private placement)

⇒ Buy from secondary market  
from SEBI registered broker

## 4.6.6 What is Bid and Ask Price

### Bid Price

also sometimes

⇒ The bid is the price at which a buyer is willing to pay for a stock

⇒ You look at the bid price when you want to sell a stock

⇒ It shows the highest price buyers are ready to offer

### Ask (Offer) Price

⇒ The ask is the price at which a seller is willing to sell a stock

⇒ You look at the ask price when you want to buy a stock

⇒ It shows the lowest price sellers are ready to accept

## Example from Market Screen

Bid Qty	Bid Price(₹)	Ask Price(₹)	Ask Qty
1000	50.25	50.35	2000
500	50.10	50.40	1000
550	50.05	50.50	1500
2500	50.00	50.55	3000
1300	48.85	50.65	1450

### Interpretation

⇒ Best Bid (highest buyer price): 1000 shares @ ₹ 50.25

⇒ Best Ask (lowest seller price): 2000 shares @ ₹ 50.35

From above,  $\text{Bid - Ask spread} = 50.35 - 50.25 = ₹ 0.10$   
 Meaning of Bid - Ask spread.

⇒ It indicates liquidity of the stock

⇒ Smaller spread → Highly liquid stock

⇒ Larger spread → low. liquidity/  
less traded stock

#### 4.6.7 What is a Portfolio

⇒ A portfolio is a collection of various

investment assets

⇒ It is designed to help an investor achieve their financial goals.

⇒ It can include:

→ Shares

→ Debentures

→ Bonds

→ Mutual fund units

→ Gold

→ Art

→ Real estate

⇒ For most investors a portfolio mainly refers to financial instruments like

→ Shares

→ Debentures

→ Fixed deposits

→ Mutual funds

→ Bank deposits

4.6.8

## Diversification

Standard & Poor's

- ⇒ A risk management technique that spreads investments across different assets
- ⇒ Goal: Reduce the impact of any one security on the entire portfolio
- ⇒ Prevents large losses when one investment performs poorly
- ⇒ Considered the best way to reduce portfolio risk

4.6.9

## Advantages of diversified portfolio

- ⇒ Includes a mix of different asset classes
- ⇒ Different assets perform differently at any time
- ⇒ Falling in one asset class does not affect the whole portfolio
- ⇒ Example: If stocks fall, bonds may remain stable
- ⇒ Based on the principle: "Don't put all your eggs in one single basket"
- ⇒ Reduces the chance of entire portfolio being affected by the poor performance of a single asset.

## 4.7 Debt investment

### 4.7.1 What is a Debt instrument?

⇒ A contract where money is lent with pre-decided terms of

→ Interest rate

→ Payment schedule

→ Repayment of principal

⇒ Inv. India etc. Public Sector Undertakings

→ Bonds - issued by govt & PSU

→ Debentures - issued by private companies

### 4.7.2 Features of Debt instruments

#### 1. Maturity

⇒ Date on which principal is repaid

⇒ Term-to-Maturity = years left until maturity

#### 2. Coupon

⇒ Interest paid periodically

⇒ Coupon rate = % of face value

#### 3. Principal

⇒ Amount borrowed (face value or par value)

Example:

GS CG 2024 6.69%.

⇒ Govt. bond

⇒ Matures in 2024

⇒ Pays 6.69% coupon

⇒ Semi-annual interest =  $P \times N \times R$

= 100 (Central Govt bonds face value)

\* 0.5 (Semi-annual) \* 6.69/100

= ₹ 3.345 (on ₹ 100 FV)

#### 4.7.3 Interest

⇒ Amount paid by borrower to lender.

⇒ Paid on face value

⇒ May be annual, semi annual, quarterly, monthly

#### 4.7.4 Segments of the debt market in India

⇒ Government securities (G-Secs)

⇒ Public Sector Undertaking (PSU) bonds  
- Some are tax free

⇒ Corporate bonds & commercial paper (Often customized)

## 4.75 Participants in Debt Market

Mainly institutional investors:

⇒ Banks

⇒ Financial institutions

⇒ Mutual Funds

⇒ Provident Funds

⇒ Insurance companies

⇒ Corporates

Retail investors also allowed by RBI

## 4.76 Credit Rating of Bonds

⇒ Rated by CRISIL, ICRA, CARE

⇒ Higher rating → lower yield → Safer

⇒ Lower rating → Higher yield → riskier

## 4.77 How to acquire debt securities.

⇒ Primary market: subscribe during issue

⇒ Secondary market: buy / sell on

stock exchanges

borrow & short term

(repurchase at higher price)

1.7.8 Can Retail Investors Buy Government Securities?

YES - via RBI's Retail Direct Scheme (2021)

Retail can open Retail Direct Gilt (RDG) Account

Routes of investment:

=> Primary: Non-competitive bidding for government securities & SGB (Sovereign Gold Bond) in auction (lot matching)

=> Secondary: Buy / sell government securities on Negotiated Dealing System -

Order Matching NDS-OM [Odd Lot

(for small quantities) & Request for Quotes in segments [Ask for price quotes and trade with dealers]

EDP

Trade routes except SC  
Standard account

Trade out route to be diverted

- to stock market or bourse

new buyer - self