Basics Of Stock Market

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Investment & Need of Investment

- The money you earn is partly spent and the rest saved for meeting future expenses. Instead of keeping the savings idle you may like to use savings in order to get return on it in the future. This is called Investment.

- **One needs to invest to**
  1. earn return on your idle resources
  2. generate a specified sum of money for a specific goal in life
  3. make a provision for an uncertain future

When to Start Investing

- The sooner one starts investing the better. By investing early you allow your investments more time to grow, increases your income, by accumulating the principal and the interest or dividend earned on it, year after year.
- The three golden rules for all investors are:
  1. Invest early
  2. Invest regularly
  3. Invest for long term and not short term

Where to Invest

- One may invest in:
  1. **Physical assets** like real estate, gold/jewellery, commodities etc
  2. **Financial assets** such as fixed deposits with banks, small saving instruments with post offices, insurance/provident/pension fund etc or securities market related instruments like shares, bonds, debentures etc.

Short & Long Term Options for Investment

- Short Term:
  1. Savings Bank Account
  2. Money Market or Liquid Funds
  3. Fixed Deposit with Banks
- Long Term:
  1. Post Office Savings
  2. Public Provident Fund
  3. Bonds
  4. Mutual Funds

Before investing in a Market

- Before investing, it is always wise to learn the **Basics of Stock Market**. We have compiled articles and tutorials on the **Share Market Basics.** Also included here explanation of **Stock Market Terms** **and jargon** used by people involved in **trading stocks and shares.** Whether it is **Bombay Stock Exchange (BSE), National Stock Exchange (NSE), London Stock Exchange (LSE) or New York Stock Exchange (NYSE)**, trading terms or more or less similar

Why Trade In Stock Market

- **1. You do not need a lot of money to start making money, unlike buying property and paying a monthly mortgage.**
- 2. It requires **very minimal tim**e to trade - unlike building a conventional business
- 3. It's **'fast' cash** and allows for quick liquidation (You can convert it to cash easily, unlike selling a property or a business).
- 4. It's easy to learn how to profit from the stock market.

But You need to have your **basics** clear. Unless you do….you will be wasting your time and loosing money. You need to be **crystal clear** of each and every aspect of Investments, stock options, Stock Trading, Company, Shares, Dividend & Types of Shares, Debentures, Securities, Mutual Funds, IPO, Futures & Options, What does the Share Market consist of? Exchanges, Indices, SEBI , Analysis of Stocks – How to check on what to buy?, Trading Terms (Limit Order, Stop Loss, Put, Call, Booking Profit & Loss, Short & Long), Trading Options – Brokerage Houses etc.

Stock Market System

- **Primary market**
- **stock market** is a secondary market
- trade stock for listed corporations
- Progressive development of stock market

Primary Market

- The primary market provides the channel for sale of new securities. Primary market provides opportunity to issuers of securities; Government as well as corporate to raise resources to meet their requirements of investment and/or discharge some obligation.
- They may issue the securities at face value, or at a discount/premium and these securities may take a variety of forms such as equity, debt etc. They may issue the securities in domestic market and/or international market

Why Companies need to issue shares to Public

- Most companies are usually started privately by their promoter(s). However, the promoters' capital and the borrowings from banks and financial institutions may not be sufficient for setting up or running the business over a long term. So companies invite the public to contribute towards the equity and issue shares to individual investors.
- The way to invite share capital from the public is through a *'Public Issue'. Simply stated, a public issue is an offer* to the public to subscribe to the share capital of a company. Once this is done, the company allots shares to the applicants as per the prescribed rules and regulations laid down by SEBI.

Secondary Market

- Secondary market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the secondary market. Secondary market comprises of equity markets and the debt markets
- Difference between Primary and Secondary Market is
  - ✓ In Primary Market securities are offered to public for subscription for the purpose of raising capital or fund
  - ✓ Secondary Market is an equity trading venue in which already existing/pre-issued securities are traded among investors.

Equity Investment

- When you buy a share of a company you become a shareholder in that company. Shares are also known as Equities. Equities have the potential to increase in value over time. It also provides your portfolio with the growth necessary to reach your long term investment goals. Research studies have proved that the equities have outperformed most other forms of investments in the long term.
- Equities are considered the most challenging and the rewarding, when compared to other investment options.
- Research studies have proved that investments in some shares with a longer tenure of investment have yielded far superior returns than any other investment.
- However, this does not mean all equity investments would guarantee similar high returns. Equities are high risk investments. One needs to study them carefully before investing

Types of investors

- Speculators
- Hedgers
- Arbitragers

Important Jargons

- **BSE Sensitive Index or SENSEX**
- Bull Market
- Bear Market
- Delivery
- Intraday
- Dematerialization
- Long Buy
- Short Selling
- Stop Loss
- Portfolio
- Tick Size
- Averaging
- Booking Profit or Loss
- Crash - Curciuts
- Right Issue
- Stock bonus
- Stock Split

Jargons

SNP CNX NIFTY 50
Nifty CNX 100
Nifty Junior
Future Index
Future Contract
Margin
Premium
Discount
Market lot
Roll over
Options
Call
Put
Long Positions
Short positions
Expiry