BASICS ON SHARES TRADING

1. An analytical study on Investment: How to find the best suitable investment.

Investing is a method of purchasing assets in order to gain profit in the form of reasonably predictable income (dividends, interest, or rentals) and appreciation over the long term. Investment is *The act of committing money or capital to an endeavor with the expectation of obtaining an additional income or* profit. It's actually pretty simple: investing means putting your money to work for you. The wonder of compounding (sometimes called "compound interest") transforms your working money into a state-of-the-art, highly powerful income-generating tool. Compounding is the process of generating earnings on an asset's reinvested earnings. Even though all investors are trying to make money, each one comes from a diverse background and has different needs. Generally speaking, investors have a few factors to consider when looking for the right place to park their money. Safety of capital, current income and capital appreciation are factors that should influence an investment decision and will depend on a person's age, stage/position in life and personal circumstances. As a general rule, the shorter your time horizon, the more conservative you should be.

Any investment depends on the factors: Purpose, Time, Risk Tolerance Capacity of the investor; and for selection of an investment factors to be considered are: Percentage of Risk involved and percentage of return in terms of purchasing power. The purpose for which one goes for investment plays vital role in choosing the product. For example, if the investor wants to invest his savings for his retiring benefit when he is young, he can take more risk as he has the risk tolerance capacity; that means even if he loses this investment he has the capacity to earn this savings in the course of time before retirement; however, on the other hand, if a retired person wants to invest his retired benefits for a specific period for his daughter's marriage, naturally he has to choose the first priority of safety and thereafter only he can prioritise the percentage of return factor. The time factor, that means the period for which your money should stay away from you as an investment before you have to use it for a purpose, is very important. With regard to 'Risk factor' we will see the two extremities: in the first you invest in lottery ticket wherein you know very well that you may not get back your invested money whereas if at all you get the return that will be huge; say for example you purchase a lottery ticket for Rs.10 and you may get a prize of Rs.1,00,000 also. So in this case the return is 10,000 times greater than your original investment of Rs.10. So in the lottery system risk is 99% but return is 1000%. Now we will take another extreme case wherein you invest Rs.1000 in a nationalised bank and get back Rs.1100 at the end of year with 10% interest; in this case the risk is 1% but the return is 10%. Therefore considering these two extreme cases we conclude the golden hypothesis in investment: 'more risk yields more return'. Now we will examine another important hypothesis in investment:' better risk yields better return'. Suppose you invest Rs.10,000 in SBI shares and Rs.10,000 in Reliance shares both being excellent stocks, after three years, SBI would have yielded double your investment whereas, because of bonus shares and right issues, Reliance would have yielded four times of your investment; therefore we can conclude that your choice of better stock has yielded better return.

The rate of return on investments should be greater than the rate of inflation, leaving you with a nice surplus over a period of time. Now we will see what is the meaning of 'return'. Any return is good or bad in relation to your purchasing power. That is: suppose today you invest Rs.16,000 and purchase gold of 16gms for Rs.16000, and after three years your holding of gold then costs Rs.32000, then the return you get out of your investment clubbed with the capital should be worth more than Rs.32,000; then only the investment is a worthy one. That means anything you purchase with the initial investment amount should be less than the quantity of the same thing with the amount of return of the investment at the time of encashment of the investment. i.e purchasing power of your initial investment should be < the purchasing power of your return including invested money, or the appreciation of your investment, on maturity/encashment.

The following are brief descriptions for beginning investors to familiarize themselves with different kinds of investment options:

Bank Deposits

Various schemes for savings and investment are available in banks in the categories of simple interest and compound interest as per the needs of the public but at a lower rate of interest but with highest security.

Government Securities

These securities like N.S.C, Indira Vikas Patra, etc are highly secured but at lower rate of returns when you compare with other returns other than of banks.

Debentures

Standard companies issue debenture bonds to the public at a very rate of interest; and as debenture issues are nothing but borrowings the return of invested money is guaranteed and sometime there will be scope for converting part of, or full of, these debentures into shares of the companies; as such in addition to better return there is a probability of getting capital appreciation also.

Life Insurance

Life Insurance policies are another kind of investment that is fairly popular. It is a way to ensure income for your family when you die. It allows you a sense of security and provides a valuable tax deduction.

Stocks

Stocks are a unique kind of investment because they allow you to take partial ownership in a company. Because of this, the returns are potentially bigger and they have a history of being a wise way to invest your money.

Bonds

A bond is basically a promise note from the government or a private company. You agree to give them a set amount of money as a loan and they keep it for a set number of years with a predetermined amount of interest. This is typically a safe bet and one that is a good investment for a first time investor because there is little risk of losing your money.

Mutual Funds

Mutual funds are a kind of investment that are based on the gains and losses of a shareholder. Basically one person manages the money of several or many investors and invests in a list of various stocks to lessen the effect of any losses that may occur.

Real Estate

Real Estate is a tangible kind of investment. It includes your land and anything permanently attached to your piece of property. This may include your home, rental properties, your company or empty pieces of land. Real estate is typically a smart and can make you a lot of money over time

Chit Funds

You remit certain amount of money for a certain period and get back the fixed and agreed amount of return after the period. This is just opposite to Recurring Deposit system. Every month total amount collected from all the members is auctioned on discount system and the discount amount is distributed to all the members; this share of discount is the return from the Chits and it will definitely be higher than the return from Banks and Post Office.

Brokered Certificates of Deposit (CDs)

CDs are a kind of investment where you deposit money for a set amount of time. The good thing about CDs is that you can take the money out at any time without paying a penalty fee. We all know life isn't predictable, so this is a nice feature to have in your option.

Money Market Funds

A good short-term investment is a Money Market Fund. With this kind of investment you can earn interest as an independent shareholder.

Annuities

If you are interested in tax-deferred income, then annuities may be the right kind of investment for you. This is an agreement between you and the insurer. It works to produce income for you and protect your earning potential.

401K Plans

The easiest and most popular kind of investment is a 401K plan. This is due to the fact that most jobs offer this savings program where the money can be automatically deducted from your payroll check and you never realize it is missing.

Conclusion:

Therefore, the best suitable investment for you is striking balance among purpose, time, risk and return to your requirement and risk tolerance capacity.

When to invest and how much:

Remember that no amount is too small to make a beginning. Whatever amount of money you can spare to begin with is good enough. You can keep increasing the amount you invest over a period of time as you keep growing in confidence and understanding of the investment options available and So instead of just dreaming about those wads of money do something concrete about it and start investing soon as you can with whatever amount of money you can spare. In brief, cultivate the habit of savings irrespective of quantum, after some time transfer the savings to investment and finally at optimum level convert the 'investment for return' to 'investment for apprciation'.

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2. Birth of Shares: How does a business develop into Public Ltd Co.

Suppose you start a business of internet-center with your own capital, then it is called sole-proprietorship concern and you are able to generate a turn over of Rs.3.5 lacs per annum.

Slowly you start running an institute for computer education in the same center and because of your excellent teaching and placement, the demand increases to such an extent for which you don't have sufficient funds to improve the infrastructure. So you approach your friends and make some of them as partners in your business . Therefore, now your business becomes a partnership firm.

Now you step into B.P.O business and it grows very fast with a lot of demand; now you like to widen your capital, infrastructure and man-power to meet the demand and earn huge profit. Now also you approach other friends to join in your business but they are afraid of losing their personal assets also if this business fails, because, in the partnership, any loss in the business can be adjusted with the personal assets of partners if the total assets of the business is not sufficient to clear off the debts. However they are prepared to join in your business provided you go for converting your business concern as private Ltd. Co because any loss of the company can be adjusted to the extent of one's shares and not beyond as far the share-holder's liability is concerned. Here, now, your business concern becomes Pvt.Ltd Co with share-

holders (i.e your friends who have invested in your business).

Thereafter you expand your business into software line and your business opportunities multiply to lacs of dollars; to face these opportunities, your requirement of funds touches Rs.1000 crores. Now you know that you can't raise this much of huge funds either with your friends, or banks. So you approach your banker for the way out to meet these demands and the banker advises you to go for public offer of your shares to raise this much of money without interest to be paid. The reason the public become shareholders is to earn better return and also because of transferability of such shares. Therefore, with the help of your banker you advertise about public offer of your company's shares and because of your good-will in the market, your public issue is over subscribed. Now your concern has become Public Ltd Company.

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3. What is share and what are its advantages

What is share

Share is nothing but the Ownership of the company divided into small parts and each part is called as Share or Stock. A person carrying a share of a company holds that part of ownership in that company. If you are holding shares of a company, that means that you are sharing the ownership of the company to the extent of percentage of your shares holding to the total no. of shares of the company and as well sharing the profit, of loss, of the company to the same extent. Equity is a share in the ownership of a company. It represents a claim on the company's assets and earnings. As you acquire more stock, your ownership stake in the company increases. The terms share, equity and stock mean the same thing and can be used interchangeably.

A share or stock is a document issued by a company, which entitles its holder to be one of the owners of the company. A share is issued by a company or can be purchased from the stock market. By owning a share you can earn a portion and selling shares you get capital gain. So, your return is the dividend plus the capital gain. However, you also run a risk of making a capital loss if you have sold the share at a price below your buying price.

- Owning a stock or a share means you are a partial owner of the company, and you get voting rights in certain company issues
- Over the long run, stocks have historically averaged about 10% annual returns and investments in stocks can generate returns through dividends

It is important that you understand the distinction between a company financing through debt and financing through equity. When you buy a debt investment such as a bond, you are guaranteed the return of your money (the principal) along with promised interest payments. This isn't the case with an equity investment. By becoming an owner, you assume the risk of the company but however being a share-holder your maximum loss will be of your investment in the shares of the company but your personal assets are safe and beyond purview of the company's loss, unlike of sole-proprietorship , or of partnership.

Advantages of shares holding

1. Limited liability:-Another extremely important feature of equity is its limited liability, which means that, as a part-owner of the company, you are not personally liable if the company is not able to pay its debts. In case of holding equity shares, the maximum value you can lose is the value of your investment. Even if a company of which you are a shareholder goes bankrupt, you can never lose your personal assets.

2. Appreciation:-Shares in the secondary market move in tune with demand and supply of the company's shares and generally, the shares of good companies move upward thereby creating appreciation in its value, or because of bonus and rights issues you can multiply the quantity of the company's shares at a very low cost.

3. Liquidity:-As shares are transferable, you can sell the shares on any day thereby such transferability and demand create liquidity for such shares.

4. Profit without Investment:- As you get loan against standard shares easily from Banks, the loan amount may be re-invested in shares thereby, without your investment, you can earn profit that being the difference between the return from such shares and the interest you pay for such loan against shares.

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4. Primary Market (I.P.O/Public Issue) and Secondary Market (Share Market)

(i) Primary Market

Why does a company issue stock? Why would the founders share the profits with thousands of people when they could keep profits to themselves? The reason is that at some point every company needs to raise money. To do this, companies can either borrow it from somebody or raise it by selling part of the company, which is known as issuing stock. The first sale of a stock, which is issued by the private company itself, is called the initial public offering (IPO).

Above we have seen how a small computer center has become a giant software company thereby called for public participation in it by offering its shares to them. In investor's point of view, first you see an advertisement in papers, T.V and magazines about a company calling for public participation by way of applying for its shares at a fixed band-width. This is called Public issue of the company. These share applications will generally be available with brokers and bankers to the issue. You will get an abridged prospectus along with the application and full prospectus will be provided on demand but free of cost. SEBI is contemplating of bringing the procedure of applying for the shares of the public issue electronically.

also. Public issues can be classified into Initial Public offerings and further public offerings. In a public offering, the issuer makes an offer for new investors to enter its shareholding family. The issuer company makes detailed disclosures as per the DIP guidelines in its offer document and offers it for subscription. Initial Public Offering (IPO) is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer’s securities.

When a company floats a public issue or IPO, it prints forms for application to be filled by the investors. Public issues are open for a few days only. As per law, any public issue should be kept open for a minimum of 3days and a maximum of 21 days. For issues, which are underwritten by financial institutions, the offer should be kept open for a minimum of 3 days and a maximum of 21 days. For issues, which are underwritten by all India financial institutions, the offer should be kept open for a maximum of 10 days. Generally, issues are kept open for only 3 to 4 days. The duly complete application from, accompanied by cash, cheque, DD or stock invest should be deposited before the closing date as per the instruction on the from. IPO's by investment companies (closed end funds) usually contain underwriting fees which represent a load to buyers.

Generally, most shares have a face value (i.e. the value as in a balance sheet) of Rs.10 though not always offered to the public at this price. Companies can offer a share with a face value of Rs.10 to the public at a higher price. The difference between the offer price and the face value is called the premium. As per the SEBI guidelines, new companies can offer shares to the public at a premium provided :

1.The promoter company has a 3 years consistent record of profitable working.

2.The promoter takes up at least 50 per cent of the shares in the issue.

3.All parties applying to the issue should be offered the same instrument at the same terms, especially regarding the premium.

4.The prospectus should provide justification for the propose premium. On the other hand, existing companies can make a premium issue without the above restrictions.

Generally nowadays the premium for the public issue will not be fixed quantum but mentioned as band-width with minimum and maximum and you have to choose the premium according to its worth in your point of view and apply for such premium. After the closure of the issue they will decide a particular premium (say cut-off premium) wherefrom to the maximum premium number of shares they allot should be equivalent to the total number of shares they offered to the public and this particular premium will be the premium they collect from all the allottees.
Therefore, if the company is excellent like Reliance Power, you apply for maximum premium and if you are not very particular, but sure of good appreciation after certain period, you may opt for minimum premium and for others you opt for such premium of its worth.

(ii) Secondary Market

Immediately after the public issue, the company, which has floated the shares to the public, registers with the stock-exchanges, otherwise called share market, and thereby the company's shares can be purchased, or sold, in such markets, that is called trading. In our country there are two gigantic share markets viz; Bombay Stock Exchange and National Stock Exchange. These are the two exchanges in which you can carry out your trading thro' internet from anywhere. The public can not sell, or buy, shares in this market directly but thro' the registered share-brokers only. These brokers thro' their computer network with the respective exchange directly buy, or sell, any listed share. It is like your vegetable market in which you can purchase brinjal provided it is brought by some shop-keepers to sell. However common standard vegetables like onion, tomato, lady fingers, etc will be available always. Similarly you can purchase SBI shares provided there is somebody to sell the shares in the market and so also you can sell SBI shares provided somebody in the market is prepared to buy the same. Therefore the whole stock market functions on *demand and supply* principle. This is very important factor in your dealing with your share trading. Hence it will be feasible for you only when you purchase standard shares which always command voluminous transactions everyday because of easy liquidity for you. The only exception can be for such shares (even though not much traded in the market) which you are sure of appreciating very high in the near future.

Therefore if you are interested in dealing with shares, then the first step is to become customer of any registered broker. We like to caution you that unless you are certain of integrity of a broker, don't become member of the brokerage firm whatever less commission, or any other facility, he offers. However our strong suggestion is to go for on-line trading that too with such brokers like: I.C.I.C.I Bank, or Sharekhan, or Reliance Money, etc.

To learn more about how you can earn on the stock market, one has to understand how it works. A person want to buy/sell shares in the share market has to first place his/her order with a broker or can do themselves using online trading systems .When the buy order of the shares is communicated to the exchange [either NSE {National Stock Exchange} or BSE {Bombay Stock Exchange}]. The order stays in the queue of exchange's other orders and gets executed if the price of that share comes to that value. The shares purchased will be sent to the you either in physical or demat format.

SEBI is a Government authority to monitor and control the share market in order to protect the investors. After SEBI is

established, the interest of the share holders in their holdings is very much protected. Nowadays your share transactions thro' your broker have been brought to such an extent of transparency that if you get doubt about any transaction done by your broker on your behalf, you can go to BSE, or NSE, web site and type the transaction code, given by your broker for the particular transaction, in the provided space and you get all the real details of the transaction so that you can cross verify the authenticity of the information given by your broker and the actual transaction taken place in the Exchange.

For your kind information, any transaction in the exchange materializes only after 1+2 days. RSC (Rolling Settlement Cycle) means when you will get your shares in your demat account or in physical form. In a rolling settlement, each trading day(T) is considered as a trading period and trades executed during the trading day(T) are settled on a T+2 basis i.e. trading day plus two working days. That means if you buy SBI shares today, only on the third day the shares will actually be credited in your D.P account; thereby, please note that, you can sell such shares which have not much transactions every day only on the third day of your purchase. In fact, some of the brokers do not allow you to sell your purchased shares until the shares are credited to your D.P account.

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5. How to apply for public issue and how to choose an I.P.O

Suppose you want to apply for a public issue, the application for the issue will be available with your share-broker, or with the banker to the issue. Even though an abridged prospectus will be supplied along with the application, demand and obtain full prospectus which is available free. Study the company's Balance Sheet and Profit & Loss account for the last three years in which look into their % of growth of turnover and profit. Observe about their borrowings and see how they have utilised the funds in the business. Look into the demand for their products, opportunity for its growth and capacity to grow. See the past history of the people governing the company and if the company's future depends upon such people, see whether they will stay with this company for a long time. Thereafter, if you are satisfied then you fill up the form and attach your cheque for the initial amount you have to pay along with the application and handover to the banker to the issue; however, in most cases of brokers they accept the applications from their customers, handover to the banker and return the acknowledgment to the respective customer.

As of nowadays, the offer price is demanded in a band system If the company is excellent like Reliance Power, you apply for maximum premium and if you are not very particular, but sure of good appreciation after certain period, you may opt for minimum premium and for others you opt for such premium of its worth. However, once stockinvest system is re-introduced, you better make use of this system. Basically stock invest system is that wherein the amount you have to pay along with the application need not be paid by cash but by way of banker's guarantee otherwise called stock invest. Suppose you have a deposit with a bank you can utilise the deposit amount for primary market without either breaking the deposit or withdrawing the deposit prematurly and not losing the interest it earns. That means you take a chance for getting the shares allotted without losing your interest earning deposit but however if you are allotted, then you transfer the interest earning deposit to appreciating investment. The stock invest system works like this: suppose you have a deposit of Rs.50,000, and you want to send Rs.15000 to apply for a public issue, now you take a stock invest for Rs.15000 from the bank where you have the deposit . The stock invest is only Bank' guarantee to the company that if you are allotted shares, then the bank will pay the company to the extent of Rs.15,000; thereby the amount of Rs.15,000 will be debited to your account only when there is an allotment to you, otherwise the deposit stands intact yielding the interest without any break.

Moreover, before applying for any IPO , analyse the following factors:

1. Who are the Promoters ? What is their credibility and track record ?

2. What is the company manufacturing or providing services - Product, its potential

3. Does the Company have any Technology tie-up ? if yes , What is the reputation of the collaborators

4. What has been the past performance of the Company offering the IPO ?

5. What is the Project cost, What are the means of financing and profitability projections ?

6. What are the Risk factors involved ?

7. Who has appraised the Project ? In India Projects apprised by IDBI and ICICI have more credibility than small Merchant Bankers

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6. How to enter into Secondary Market?

At the outset let us understand the principle of trading in share market. Share market at one point of time was like a fish market wherein all its members used to gather and transact their share business among themselves with an understanding of settlement of their transactions through the Stock Exchange to which they are members. Therefore if you want to sell, or purchase, shares, invariably you have to approach any broker recognised by stock exchange as its member. This system is a necessity for the sake of settlement issues.

Now you can understand that if you want to enter into Secondary Market, necessarily you have to become a customer of any broker; naturally every broker will have his own terms and conditions. By becoming his customer you have to open a Trading Account with him thereby your money in this account will be used to purchase shares and so also whenever you sell your shares the proceeds can be credited to this account. Trading account is like a Savings Bank account in a bank but the difference is that this account is being maintained by the broker.

Previously shares are distributed by way of share certificates which are hard copies. When you buy any shares, the respective share certificates are used to be handed over to you with a transfer certificate signed by the seller requesting the company to transfer the certificate to your name; and you have to send the share certificate along with the transfer certificate to the company and get it transferred to your name thereafter only you become eligible to get dividend, right issues, bonus issues, etc. Because of this cumbersome procedure many people were not getting the certificates transferred to their names but used to sell the shares and pass on both the certificates to the purchaser thro' the broker; in the process if any body was interested to get it transferred the share to his name, the signatory of the transfer certificate being the nth unknown person, the transferee used to face a lot of technical problems for which his broker was also helpless. After SEBI was established, to tide over these problems, it has converted all the hard copies of share certificates into dematerialised electronic forms. That is how, now, you see all the shares in a separate account instead of being in certificate form, and such account, wherein your shares are being maintained, is called DEMAT account. So you have to open another account viz Demat account before entering into the secondary market.

Demat (short form of Dematerialization) is the process by which an investor can get shares (also called as physical certificates) converted into electronic form maintained in an account with the Depository Participant (DP). Depository is an organization responsible to maintain investor's securities (securities can be shares or any other form of investments) in the electronic form. All shares what you possess will show in your demat account, so you don't have to possess any physical certificates. They are all held electronically in your demat account. As you buy and sell the shares, accordingly your shares will get adjusted in your account. The market regulator, the Securities and Exchange Board of India (SEBI), has made it compulsory to open the demat account if you want to buy and sell shares. So a demat account is a must for trading and investing. When you approach any broker for your trading in shares, he will guide you to open a demat account. The documents required to open demat account are: Xerox copy of your PAN card, two photos and proof of your residence (for which any one of Voter's ID, Passport, Ration card, Driver's license, Photo credit card Employee ID card, IT returns, Electricity/ Landline phone bill is sufficient). Charges to open and maintain demat account vary from one DP to another.

To know the latest charges please visit websites of www.nsdl.co.in and www.cdslindia.com.

So you should have two accounts viz: trading account and DEMAT account with your broker and if your broker happens to be a banker he may treat your savings bank account itself as trading account; wherein trading account deals with money and the demat account deals only with shares. The one advantage with demat account is that there is no stipulation of maintaining minimum shares in the account. On opening of these two accounts you can start trading in shares. Generally you can purchase any no. of shares to the extent of balance available in your trading account and you can sell any share of any quantity to the extent of availability of such shares of such quantity in your demat account.

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7. Secondary Market as Investment field & Gambling arena:

How to distinguish

Some people say that dealing with secondary market is gambling and some other say that it is an investment. Now our doubt is which is true and which is false; but the fact is both are true. In philosophical terms, the dealings in secondary market is like 'MAYA'.; that means; it depends upon how you perceive and handle your transactions. Now we will elaborate on how the same one looks as gambling and as well as investment.
We will take up one hypothetical (imaginary) case for understanding this difference thoroughly. Let us imagine that Reliance is coming out with a public issue of its super market as 'Reliance Fresh' @Rs.150 per share and you are allotted 100 shares @ Rs.150 per share, wherein the original company's value of the share being Rs.100. In two years the company would have declared dividend of 40% each year consistently. Your friend Raman is very smart but would have deposited some money in a bank and on its maturity he would have got Rs.20,000. When he gets 9% interest if he re-deposits in the bank without capital appreciation, his investment in this share at a premium of Rs.50 more seems to be far better than the bank's deposit, as he will get 20% return and added to that, his investment appreciates in the course time by its price going up beyond his invested capital of Rs.200. Therefore he offers to purchase the shares from you @200 which you also gladly oblige. Now I come into picture with an offer of Rs.250 per share to Mr.Raman because of the yield for my investment of Rs.250 , i.e @16%, is still better than bank's deposit with an assured capital appreciation. Thereafter my friend Mahesh offers Rs.300 with an eye on the yield of 13.3% for his investment of Rs.300 per share. Similarly the offer goes upto Rs.400 wherein the yield is almost equivalent to the yield from the investment in the bank, however the people prefer the investment in this share because even though the yield is same there is capital appreciation which is not there in the investment in banks. Here capital appreciation need not be because of rise in the share price in the secondary market, but because of issuance of bonus shares, rights issue by company periodically. Now you observe that the rise in the share price from Rs.200 to Rs.400 is because of calculation of return being advantageous to purchasers; that means till now the share is purchased in the ***investment*** point of view only. Your friend Ramu is observing the rise of the share's price by Rs.50 every day in the market and he is not bothered to find the reasoning behind such rise; rather he is anxious to make quick buck thro' share market. His calculation merely on the rate of rise of the share's price in the market shows that today's rate of Rs.400 will shortly become Rs.600; therefore he purchases the share @Rs.500 to sell it shortly @Rs.600 to make a quick buck of Rs.100 within a short time. He is neither interested to understand the reasonings for such rise nor bothered to find out the real worth of the share, but just goes by market trend. Here starts gambling.

In the above-mentioned hypothetical case, we observe that upto Rs.400, the share was going up with the

people's calculated moves as an investment and their main tool is calculation and their expectation is 'better return' with 'calculated risk'; but however after Rs.400, the share started to move upward only on the basis of people's temptation to make fast buck with an absolute risk. So long the share was moving up with calculated risk for a better return, the buying such share is called investment; whereas when the share started moving up with absolute risk on temptation such buying is called gambling. Therefore the line of division between investment and gambling in share market is whether the approach is based on calculation or based on temptation. Hence we deduce from the above is better to approach shares market with our own calculation based on our own sense rather than temptation.

We will take a hypothetical case to understand how to deal with without temptation but with profit. Suppose you like to deal with the market on intra-day basis because you have come to know that Mysore Cement may go up on that day; therefore you purchase 100 shares of Mysore Cements at the rate of Rs50 per share at the time of opening of the market in the morning and I have also purchased 100 shares of Mysore Cements at the same rate in the morning along with you. You are a sensible man dealing with shares with caution and calculation, whereas I am an over ambitious man dealing with shares with temptation of swiping heavy profits overnight. You calculate that Mysore Cements may go upto Rs57 today and to be on safer side you fix Rs.55 as your target to sell; and when it reaches Rs.55 you sell it without bothering of its upward trend. Seeing the fast upward trend of the scrip, I have not sold my shares inspite of its reaching Rs.57 waiting for its maximum possible reach because of my temptation to capitalise the trend still more and more. But the scrip after touching Rs.62, falls down to Rs.48 in the evening. Due to intra-day purchase I was compelled in the evening to sell the shares. Now you see that you have earned a profit of Rs.500 whereas I have lost Rs.200. You won this game because of approaching with calculations, playing safer side and standing by target without temptation; whereas I have lost inspite of opportunity of making profit because of only one factor viz temptation. Therefore always approach any scrip with your own logical calculations based on authentic information and your own analysis and after purchase of the scrip you fix logical but safer target to sell; when it reaches your target sell it without minding its upwards trend thereby your contentment will not only safeguard your investment but certainly bring the profit also. ***Safe Target is the only means to tide over temptation***. Therefore, in the secondary market, we can conclude that ***temptation is the base for gambling*** and ***sensible safe-target, or purpose, is the basis of investment***.

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8. Picking up shares for Trading

Generally we pick-up shares to sell for profit and choose shares as investment for appreciation; so picking-up shares are for short-term and we choose shares for mid-term and long-term. Now we will see what factors we take into consideration for picking up shares. First of all we pick such shares in tune with our budget; for example if our budget is Rs.1000, then we may pick such small shares appreciating faster, otherwise if our budget is Rs.1,00,000, we may go for big shares yielding better short term results. So one's budget is the primary factor to select shares for faster turnover with higher return.

Next comes whether you deal in intra-day trading, or like to hold the shares for a few days. Suppose you have Rs.5000 budget: if it is intra-day you may even go for a big share say Jindal steel whose volatility in a day is quite large. For example, in this hypothetical case, suppose Jindal Steel's volatility is about Rs.500 in a day, you may purchase just one share at Rs.4700 and sell it in the evening encashing a profit of Rs.500 keeping your liquidity quite intact for the next day. This Jindal Steel doesn't go on raising every day by Rs.500 but goes up by Rs.500 during the day and starts at beginning again on the next day, therefore, in this context, this is the best bet for intra-day trading. Suppose you go for purchasing shares for holding some days, you will not select Jindal Steel but small shares of Rs.30 - Rs.40 whose volatility is of Rs.5 to Rs.7 in a week, or 10 days. Therefore even selecting the scrips depends upon whether you go for intra-day or for

holding for some days.

The third factor you have to take into consideration for picking-up scrips for trading is the percentage of profit from the trend. Of course it is natural that you pick up such shares only which yields more profit within your stipulated time. However the important point we have to consider here is for a different reason. First of all within your budget select such shares which will, as per your analysis and calculations, yield profit within your budgetary period and translate the quantum of profit of each share's yield to percentage of profit. Now it is easier for you to compare the yields of all the shares with one parameter of percentage; now pick the maximum percentage yielding shares for your purchase.

The fourth factor some times playing vital role is any important news about a particular company; however very important point to observe in such news is to see whether such happening will yield better profit for the company, and if so purchase the shares immediately without wasting a moment further because as time passes the share price will start going up like a rocket. As such whoever purchases such shares at the lowest will be the luckiest. Suppose you come to know that ABC company got a huge confirmed order which you know very well improves its profitability, there is no point in delaying in purchasing the shares at the earliest. Once such news starts spreading, the race starts for purchase of the shares of the company and therefore always be first but not last in such races. However here is the caution in such circumstances: be fast in analyzing sensibly, deciding practically and implementing immediately; but NOT to go for hasty, tempting and emotional decision just to be first in the race.

The fifth factor is the swinging volatility of certain shares. Swinging is vibrating between two fixed points with the same rhythm; similarly certain shares swing between two points one at up and another at down periodically. Now you pick up such shares which go up to certain level and falls down to a certain level periodically and note down these two prices within which it swings and the period of each cycle of swinging. In a hypothetical case we assume that Mysore Cements at present swings between Rs.31 and Rs.41 in a fortnight; when it comes to Rs.33 purchase the shares and sell them off when it reaches Rs.38 and if it happens within a fortnight then your profit comes to 30% per month. There are lot of rhythmatically swinging shares in the market and it is your capacity to choose such shares and play with them for high profit.

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9. Choosing shares for investment

We have already seen above that we have to be very choosy in selecting shares for long term investment for better return with enviable appreciation; then what factors we have to take into consideration for selecting such shares!

First and foremost factor is ***strength of the company***. Look into its last 3 years' balance sheet wherein: (i) there should be consistent increase in profitability; (ii) the company's assets should be more than liabilities; (iii) observe how they have utilised the borrowings: i.e for the company's growth, or for the directors' personal growth, or to cover up their financial mismanagement; (iv) how is the demand for its products and how are they able to out beat the competition (v) its strength in terms of its good will

Second factor is the ***strength of the share***. When we buy a share, we actually buy a share of the net profit of the company. How much depends on two things? how much net profit it has made, and how many shares it has. Net profit per share is called earnings per share or EPS, and is what the owner of one share is entitled to out of the total net profit made by the company.
The price per share divided by the earnings per share is the Price Earnings Ratio (PER) and is a measure of how much we pay for each rupee of net profit of the company we buy into when we buy a share. The point we are trying to convey is that the most critical factor that determines PE is future growth. Higher PEs do not always indicate an expensive stock. That's where we use the PEs growth ratio (PEG). This ratio enables us to catch stocks with growth, at

a reasonable price. The lower the PEG, more attractive the stock and vice versa.

The objective of the PEG ratio is to attempt to catch a fast-growing stock at a comparatively cheap price. First the formula for calculating PEG. The PEG is calculated by dividing the PE by the forecasted EPS growth.
Thus, **PEG = PE /EPS growth.** PEG ratio is all about catching higher growth at a reasonable price. A value below 1 is generally the thumb rule to indicate a cheap stock. A more accurate way of using the PEG would be to compare the same over companies within the sector to get a realistic result.

Along with Earnings Per Share (or EPS, as we now know it), the other most talked about ratio is Book Value Per Share. Book Value = Net worth/Number of equity shares; where, Net worth = Equity + Reserves. The Book Value is always evaluated in relation to the current market price. This ratio is known as the P/B, which is Price to Book Value.
Thus, **P/B = Stock Price/Book Value**
So what is the right P/B at which to buy a stock? Unfortunately, there is no right answer. As a thumb rule, however, a ratio lower than 1 is considered attractive. Put simply, it means you are buying the stock for less than its net worth.

Third factor is the potentiality of the company to grow, or in other words ***its future growth***. First of all you see what is the potentiality of the sector to which the company represents to grow in future. Secondly among its competitors observe what is its market share and its plans to improve upon this. Its plans for its future growth can be observed in the quarterly result announcements of companies. Compare the plans of all the companies in one sector announced in a particular quarterly results and choose the best. You analyse yourself which are very good sectors potential to grow faster in future and among the sectors choose the best companies; and invest in such companies. Here we like to give one small piece of advice: please don't keep companies of one sector in your portfolio basket but spread over all the future growth oriented sectors in your investment portfolio.

The fourth factor playing vital role in choosing the shares for purchase on long term basis is ***who is running the actual show of the company***. Here is a solid example to prove the vitality of this point in choosing right share for a very good appreciation of your investment. Mr.X was heading Zee company in the beginning and because of his dynamism and innovative management the company was surging ahead in the market. He left the company for some reason and Zee could not find a suitable substitute like him for a long time because of which it has started sliding down in the market. Left with no option, somehow the promoters could bring back Mr.X to Zees's helm of the affairs; and the moment the news broke about his return to Zee, its share price started zooming up and after his taking over, he proved his worth by starting many channels like Zee news, etc, starting parallel cricket and other innovative marketing methods. Similarly, in an another case-study, in 1996-97, when credit card business was handled by few corporates like Andhra Bank, Amercian Express, etc and when I.C.I.C.I bank, Citi Bank, S.B.I were yet to establish well in this field, one young lady of 25-27 years took over the affairs of credit card of Citi Bank in Bangalore. Then Citi Bank had no branch in Bangalore and they had not established their credit card business at corporate level. This lady took franchise of their credit card business and, all alone, came no.1 in Bangalore outbeating the corporate whales in this field because of her dynamic and innovative approach in the business. That is the reason why we insist here the importance of this point while choosing shares for your investment.

Lastly, ***circumstantial support for a sector*** is the fifth factor contributing to decide to invest in which shares for appreciation and better return. For example if the price of dollar in terms of Indian Rupees starts going up, then most of IT shares also start surging but whereas petrol company shares start falling down because IT Companies dealing with American market will start receiving more Indian Rupees (for the contract would have been in terms of dollars) and its profit will also increase and in the case of petrol oil companies, due to dollar's appreciation they have to pay more in dollars for the same quantity thereby affecting their profitability unless they increase their price also in domestic market atleast to that extent. Similarly R.B.I's directions and policies will affect banks' stock prices and so also Government policies will affect Cement, Sugar, Steel and Construction scrips. Observing the changes in circumstantial supports intensively helps you a lot to make changes in your investment portfolio according to changed scenario and not only it safeguards your investments but also helps to shift to new fast growing potential sectors.

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10. Sources of information for trading in shares to earn better return

If you want to trade in shares regularly, fundamentally you should be touch with latest information of what is happening in the market, in business field, industrial area, economic world, global economics, global markets, political arena, vital industrial and economic statistics and changes in government policies, RBI policies, SEBI directions, petrol and gold prices, etc, etc, etc. Now the question is where from one can get correct, authentic and timely latest information. For updating your knowledge on economics, business and industry, the economic newspapers, like Economics Times and Business Standard will suffice your purpose. Some of the magazines like Profit, The Week Business will provide lot of information in this regard. However if you are interested in knowing the latest information bearing on the volatility of shares and, in general, share market, the best source, as on today, is CNBC TV 18 Channel. Moreover, if you want to know the information in depth about any particular share or about any company whose shares are quoted in the exchanges, the best source is internet. Moneycontrol.com, Sharekhan.com, rediff.com, are some of the sites giving vast information in depth about shares, share market and companies. If you are trading on intra-day, the best site is rediff.com wherein you click on shares and in the opening page you find latest news with regard to shares and it is updated thro'out the stock exchange business hours. So also if you have time constraint to go thro' all these, then the best is the news at 8 A.M in CNBC TV 18 channel in TV which gives an idea about the trend of the day's share market and latest news bearing on the shares' movements on the day. After every quarter ended, in the first week of next quarter you find the estimated result of important companies in moneycontol.com which will be very helpful to earn more than other months that too confidently. Here you can note down which are the companies whose estimated results are very high, say more than 40-50%, and from the result calendar note down the date on which the result will be announced. You purchase such shares say about 5 days ahead of result and sell it on the next day of the result. Then you will realise that the income during this month will be the highest of the three months. So also you can collect share trading tips given by standard trading companies like I.C.I.C.I, Sharekhan, moneycontrol.com, rediff.com, etc, compare these tips and those tips of particular shares mentioned in all the statements can be chosen for your investment, or to make changes in your investment portfolio, on short term basis. The only caution we like to give here: Please don't go by the tips only but apply your mind, common-sense and analysis, and pick up the shares (1) which tally your analysis with theirs; (2) you are convinced of their analysis by reasoning ;and (3) where you trust particular person's, or portal's, recommendations to be certain always on the basis of your experience.

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11. What are NSE and BSE, and What are SENSEX and NIFTY?

There are a lot of exchanges in India dealing with share transactions and these exchanges are formed by an association of people forming a market exclusively to buy and sell shares of which the biggest and largest share market was Bombay Stock Exchange being nick named as BSE. That was the only exchange in India which was transacting almost all companies' shares. But however after National Stock Exchange, being nick named as NSE, was formulated, BSE also went on on-line trading. Previously physical transaction of shares was the only means of trading for which only people in cities were able to trade in shares. In these circumstances, NSE was opened to cater the needs of every person wherever he may be. As NSE operates on on-line trading, anybody, wherever he may be, can trade in shares provided certain conditions are satisfied. Not to lose their business BSE also started on-line trading. NSE and BSE are the only two exchanges in India thro' which most of the share trading takes place.

The Sensex is a stock index that represents changes in values of share prices of a select group of companies over a base

period; i.e the SENSEX, short form of the BSE-Sensitive Index, is a "Market Capitalization-Weighted" index of 30 stocks representing a sample of large, well-established and financially sound companies. It is the oldest index in India and has acquired a unique place in the collective consciousness of investors. The index is widely used to measure the performance of the Indian stock markets. SENSEX is considered to be the pulse of the Indian stock markets as it represents the underlying universe of listed stocks at The Stock Exchange, Mumbai. Further, as the oldest index of the Indian Stock market, it provides time series data over a fairly long period of time.SENSEX is calculated using a "Market Capitalization-Weighted" methodology. As per this methodology, the level of index at any point of time reflects the total market value of 30 component stocks relative to a base period.The calculation of SENSEX involves dividing the total market capitalization of 30 companies in the Index by a number called the Index Divisor.During market hours, prices of the index scrips, at which latest trades are executed, are used by the trading system to calculate SENSEX every 15 seconds and disseminated in real time.The closing SENSEX is computed taking the weighted average of all the trades on SENSEX constituents in the last 15 minutes of trading session. If a SENSEX constituent has not traded in the last 15 minutes, the last traded price is taken for computation of the Index closure. So also the index of National Stock Exchange is called NIFTY.

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12. Types of Trading

(i) **Intra-day Trading & Delivery Trading**:-

You buy certain shares and sell all of them on the same day, then such transactions are called Intra-day Trading. Unique special feature available in intra-day is to sell shares without your holding the shares in your D.P account on the condition that you must purchase back before the market closes on the day and such trading is called 'short sell'. Second extra benefit available in intra-day is your financial capacity to trade in shares increases by 2- 10 times of your balance in Trading account. Number of times more than your available balance for intra day trading varies from broker to broker and the relationship you maintain with the broker. More over brokerage for intra day trading is very less compared to Delivery Trading. Now we will see how to make use of intra day to your maximum advantage and what are the cautions one has to bear in mind while dealing with this type of trading.

First of all before entering into Intra day Trading and before the market opens, you have to do a good home work and fine tune it with such perfection so as to go in with confidence. Preferably better you do intra day trading thro' your on line trading facility. Secondly during the share trading hours, your observation and alertness should be at peak; your analysis, calculations and decision makings should be fast and placing orders should be quick. In psychological point of view, emotional management and sensible thinking are pre-requisites. Practically squaring off at target level and containing temptation to sweep are essential.

The best means of getting latest information for intra-day trading are: (i) rediff.com in internet and (ii) CNBC TV 18 channel in T.V and the ultimate is to combine the both for obtaining latest news and information during the share trading hours. Please constrain yourself only to your analysis and calculated moves in intra-day trading but definitely not just on trends and square off at your target irrespective of its upward trend beyond your target. While placing orders during intra-day trading invariably use the trigger facility to minimise your unexpected loss. Use the extra funds available for intra-day trading very economically and this facility should be made use of ***only*** when you are certain of getting profit from these shares during the intra-day. Don't forget ***at any cost*** to purchase the shares which you have short-sold, because if you forget to square off short-sell on the day, then as per the rules of stock exchange, you may have to bear the highest price of the share in three days from the day of short-selling. Generally the only factor playing its vital role in picking shares for intra-day trading is the worth information/news about any particular scrip in terms of affecting its profit yielding capacity; if its profit is to increase many fold then you can go for purchase and selling; and if its profit yielding capacity is dwindled, then short sell and purchase when its price falls considerably. When you buy a scrip, add the total brokerage and taxes for purchase and sale to its purchase price and this is your cost price. This is minimum price at which you should sell to arrive

at no profit and no loss basis, and to whatever extra amount you sell is your profit. This principle is applicable for delivery trading also.

When you purchase shares and don't sell on the same day, then such trading is called delivery trading for which the brokerage is higher than that of for intra-day trading. Please note that the brokerage, commission and taxes are levied only at the time of purchase and selling but not on periodical basis. Delivery trading is utilised for short-term, mid-term and long-term investments. If your purpose of share trading is for income out of investment in shares, then go for short term investment techniques and if the purpose is for appreciation and multiplication, better you opt long term investment plan. Apply the swing trading and trend trading techniques for short term investment and strength of company and its share; and its habit of issuing rights issue, convertible debenture and bonus shares determine the choice of such shares for long term investment.

The best time for intra-day is during the high volatile day; now the question is how to assess the day's volatility in advance and act accordingly to churn better profit out of the market's volatility. Now go through the factors for shares volatility explained below. In the morning before the market starts assess the range of volatility, or the range of the market's trend; analyse which shares may be affected positively or negatively. In the case of range of the market's trend, observe at what level of your assessed range the market starts and the remaining quantum of the range is your playing ground during the intra day. For example, you assess that the market may go up by 400 points and the market starts with 150 point up, then the remaining 250 points is your playing ground; that means the 30 shares on which Sensex depends will react definitely to the volatility and as such purchase SBI in the morning and sell it off at sensex being at 400 points up. In the case of volatility assess the range of volatility of the day and accordingly purchase and sell the most volatile shares which react to the sensex during the cycles of volatility; don't expect the cycles of volatility more than twice or thrice in a day. Be cautious and play always at safer mode.

(ii) **Swing Trading and Trend Trading:-**

The basic strategy of Swing Trading is to jump into a strongly trending stock after its period of consolidation or correction is complete. Strongly trending stocks often make a quick move after completing its correction which one can profit from. Swing Trading works well for part-time traders — especially those doing it while at work.
Whereas in trend trading you can identify a change of trend in the market as early as possible, take your position, ride the trend and close your position shortly after the trend reverses. Trend Trading will help you take large profits out of the market, without having to watch the market or stocks on a minute-by-minute or even a day-by-day basis. Trends can be measured using TRENDLINES which are explained in detail in the lessons portion.

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13. Factors for Share Movements and Volatility

Factors for share movements are :-

(a) any significant changes in:

- Economic conditions
- Political trend
- World indices
- Demand and supply
- Method of approach to the market
- Thinking of Government and its policies
- Flow in and out of foreign investors' funds

(b) important news bearing on

- the profitability and its financial strength of any specific company

- the growth of any particular sector.

If the positive and negative of some of the above mentioned features are effective on the market simultaneously, then the confusion prevailing in market pulls and pushes the market thereby creating volatility and the intensity of confusion is the parameter for the market's range of volatility.

To give an example of how political trend affects the market we will take Gujarat elections in this year, i.e in 2008. When Modi, leader of capitalist movement in Gujarat, got re-elected with thumbing majority, all the Gujarat state Government's public sector shares started moving upward in anticipation of his plan to privatise the public sector industries. So also any statement of Finance/Commerce minister exposing the line of thinking of government with regard to any sector will affect the share prices of such sector.

There are certain parameters to measure the economic growth/fall and such publication of statistics of the parameters will definitely determine the trend of the share market. They are GDP, Industrial Output, Inflation Rate and unemployment position. Now we will see how these affect the market. The higher being inflation rate the purchasing power goes down thereby the quantum of sales of products in the market also falls down; hence the share market also starts climbing down. Any crash of a very big industry affects economy thereby affects the share market also. We have recently seen the accumulation of recoveries in housing loan section in U.S.A affected its share market and in turn taking this global cue Indian share market fell down; by which one should understand the connection between giant nation's economy and developing countries' share markets. Any slight changes in economy affects directly the share market.

World share markets especially of important countries like U.S.A and Japan will directly influence the trends in our market. This is called global cues. So observe the trends of these markets to assess the volatility, or movement of our shares on the day. Fortunately the share market in States closes at the early hours of Indian Standard Time and Asian markets open up at the early morning of I.S.T; therefore you can observe the trends of world markets before opening of our market thereby you can make your plans of your trading on the day. Generally the closing index of Dow Jones of U.S.A and opening index of Nikkei of Japan give an idea of opening of our Sensex/Nifty. One of the best sources for your plan of action for the day is the news of C.N.B.C TV18 at 8 A.M.

You know very well that the price of any commodity rise, or falls, according to demand and supply of the commodity and so also the shares. For our convenience we will take two types of shares for our consideration for the present discussion. One we will nick name as inner share and the another by name outer share. Let us call all such shares on whose trend the Sensex points are determined as inner shares and all other shares as outer shares. This demand and supply factor plays vital role during intra-day trading. When the Sensex is on up-trend and the demand of an inner share is far greater than its supply, blindly you can purchase such shares for intra-day and if it is in reverse order, either you can sell the shares if you are holding and purchase when it falls considerably. So also if Sensex is in down trend and supply is far greater than demand with regard to inner share, you can go for short sell confidently. Even though outer shares' tendency is to move with the trend of Sensex in general, it will not move correspondingly. If you want to know the trend of a certain share of outer share category, you have to take three factors into consideration. Firstly Sensex trend, secondly the demand and supply factor for the share, and lastly the circumstantial strength of the share. Each factor will have its own pull/push effect on the share and its movement will be the resultant of all these forces. Therefore, calculate the strength (stronger or weaker) of each factor to influence and arrive the resultant force; basis on this resultant force determine the trend of the share and trade accordingly. Here the circumstantial strength depends upon any supporting information/news or the trend of its core sector.

Some time back small caps and mid caps started rising in the market whereas large caps were thrown to down trend. This change occurred because of change in priority of Foreign Investors from large caps to such small and medium caps whose prices are low but actual worth is more. Therefore here we have to understand one thing that main players in the market viz foreign investors and mutual funds change their priorities in order to achieve their goal of high profitability. Therefore the changes in the methods of approach to the market by the main players change the course of direction of shares; so it becomes impertinent for you also to watch keenly the method of approach of the main players. To grasp this change in the direction, the sources are the F&O segment and the stastics of holdings of mutual funds.

In the socialistic pattern of governing in India, even slight economic policy changes affect the market because of government control over the business and industries; in the process having democratic pattern of governing but socialistic pattern of economics sometimes corruption play its own role in getting the government's policies shifted in favour of certain sector, or certain business houses. Studying the public statements of Finance minister and Commerce and industries ministers in the prevailing context exposes their change of mind or change in the pattern of their approach to certain sectors, or indirectly helping certain business houses, or any unusual length of meeting of chief of certain business houses

with ministers also indicate the tendency of such changes; thereby either you can take certain calculated risk of purchase of such shares, or exercise caution of certain shares you are holding. Secondly the controlling agencies of Government like RBI and SEBI will be issuing their policy statements and the respective shares will dance accordingly. In this context, it is pertinent to understand about the method of RBI controlling banks. All the banks are supposed to maintain certain percentage of their deposits in the Government approved securities and certain percentage in their account with RBI; the first one is called SLR and the second one is called CRR. RBI is the deciding authority of such percentages. Therefore watch RBI's enhancement and decrease of such percentages and any enhancement will banks to lose its liquidity thereby their credit portfolio becomes stringent. Therefore bank scrips start down trend in such circumstances.

You know that in the recent years the SENSEX went to peak because of inflow of foreign funds increased multifold whereas when the funds started drying up SENSEX fell down to nadir; now you can understand that major role play in the market is of foreign funds and as such you should be watching constantly any major shift in this inflow or outflow. Any tendency of increase in the inflow clubbed with their method of approach to the market determines your shift in investment to such sectors for high profitability.

Be watching for any important information or news bearing on the profitability of a company. If the news is positive then observe whether such news will have long term effect on the company or is it a short term gain. For example when Tata Motors acquired a foreign company its share price fell down but whereas for a long term Tata Motors was a very good share to purchase because its financial strength will increase in the course of time on account of its acquisition even though for a short term the market felt it to be not a good one. Suppose you get information that L&T bags a confirmed order worth of Rs.1600 crores, the share's price of L&T will start jumping, because bagging business orders especially huge orders is like glucose for the company's business and profitability and as such the market reacts favourably but immediately. The acquisition, take-over and merger of Indian companies by other Indian companies give ample scope for you to make money especially fast bucks. Because such acquisition strengthens the financial status of the to be acquired company, its share price will definitely starts going up to the level of taking over company. Suppose if you get any information of A company acquiring B company, it may happen by way of allotting certain A shares to certain B shares, or compensating B shareholders at a fixed price, or by purchasing B shares in the open share market. Now we will take the first case wherein suppose for 8 shares of B one share of A is being allotted, the moment you get this information compare the prevailing price of shares of A & B. In this hypothetical case, if the price of share of B is Rs.35 and the price of share of A is Rs.360, corner as much shares of A company as your budget allows for you get minimum of Rs.10 profit for each share; in the second case see the difference between the fixed price of compensation and the prevailing price and if it yields good profit you can encash this opportunity with certainty. In the third case, you have to take calculated risk and go for short term gain.

If your analyse based on certain information shows the growth of certain sector, it is natural for the people to go for buying the shares of the sector; nothing is new in this; but our approach in such situations is quite different. When a sector as a whole starts moving up, generally all the shares in the sector will start moving up and after consolidation only strong shares will stand at higher rate but whereas all other small shares of the sector which have moved along with all the shares of the sector will fall down to the level of its own strength. Here it is our suggestion that as soon as you get such information purchase the small shares in the sector and sell them at a calculated target and its percentage of profit will be more than that of gains from big shares. Here the principle which you encash to your advantage being market is always sentimental. Therefore when there is a very positive news for any sector, upward sentiments prevail for all the shares in the sector and once the reality is realized , all the shares will consolidate according to its own improved strength, thereby you should have encashed the sentiments to your maximum advantage before the realization of the reality dawns in the minds.

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14. **On-line Trading:**

Trading done through computer having internet connection is called online share trading. Instead of going to any share broker you can do trading yourself using online share trading method. First of all you need not have to depend on any share broker for buying and selling of shares. Depending on broker may result in delay of buying and selling of shares which may in turn result in huge loss or less profit. If you are doing online share trading then you can execute your trades at any time because you are observing every movement of share market right in front of your computer screen.

Essential of Online Trading -

¨ Online trading account - You have to open an online trading account with any of the bank or financial trading system like

ICICIdirect, Sharekhan,Reliance, 5paisa.com etc.

¨ A computer with internet connection or can do trading in internet cafe.

¨ After successfully opening the online account you will receive the username and password with the help of which you can login in online trading system and trade yourself.

¨ The trading system executive (with whom you opened trading account) will help you initially about how to use the online trading system.

¨ Once you get familiar with the system then you can trade yourself at your home or in the internet cafe.

¨ Nowadays you can get internet enabled on your cell (which is called GPRS) whose speed will be sufficient to do trading and also the charges of GPRS are very nominal.

Advantages of Online Trading

¨ No need to depend on any broker or anybody else to place the order or to square off the order. In short you are the boss of yourself to do trading of shares.

¨ Its reliable, convenient and you can take your own decisions yourself by actual selling or analyzing the market on the computer screen instead of calling broker all the time and getting news about the market.

¨ Its not possible or practical for a broker to update you about each and every news about the market or any news which will influence or affect the share market. Because he may be having many other customers like you and even if he updates you by that time the news have been affected the concerned sector or share. So if you are doing online trading yourself, then you may save yourself from big disaster. You will get news and updates on various websites and also on your online trading system and most of the information will be free of cost. "Always remember share market always get influences (or affected) by the appropriate news. So get updated or be in touch with news all the time. This will benefit you always.

¨ By doing online trading yourself, you can see and judge where market (or your share) is heading by seeing different graphs online yourself, which is not possible if you're trading through broker. Some online trading systems have graphs integrated in their system, so your job is to just add those graphs and check the status of current market (or share) . And depending on your analysis you can take steps towards your successfully trading.

¨ All your transactions and related documents can be seen online and can also be downloaded to your PC without depending on your broker. You can also check the status of your amount on daily basis through you online trading system.

- You can trade in Future and Options also on line.

Factors to observe while trading on line

The main advantages in on-line trading is the stastics and graphs available at finger tips to enable you to take decisions in time. Here we will see what are the statistics available for your trading. First and foremost important statistics available in your page is the demand and supply position of any share at that point of time, secondly the present position of SENSEX and NIFTY and their trend, volumes traded in the share till that moment from the opening of share market on the day, graphs showing how SENSEX, NIFTY and any particular share moved from the opening till this moment in tune with time, how much a share price has moved up, or down, from the previous day's closing, in terms of quantum and as well as in terms of percentage, how much highest price a share has touched in the day so far and how much lowest it had gone upto in the day so far and so on. Even though all these stastics are available in your screen you can take important stastics for your analysis and calculation and take appropriate decision.

Caution

However we caution here that once you place order, it will ask again whether all the data you have filled up for trading are correct and please don't take it granted to be correct press 'yes' immediately. Please go thro' all the points mentioned in your order and after getting satisfied beyond doubt about the data to be correct as per your requirement only click 'yes'; otherwise your filling up data wrongly in urgency may fire back on you. For example you wanted to sell certain shares because its value is at peak at that moment and in a hurry and being in urgency to capitalise the opportunity right at that

moment itself, you click purchase instead of sell and without verifying it second time you confirm the order, now you imagine what will happen; therefore be cautious while placing order.

How can you take advantage of on-line trading

Take advantage of this system for your timely action; make use of stastics for your decision making. Once you decide the target of any share, place the order of selling, or buying, at your target level so that you need not be observing the share price to reach the target to capitalise the profit. While purchasing shares for intra-day, make use of trigger system to your safety, Just 10 minutes before, or while leaving the page, check up your position of any necessity of covering up any short-sales, or any squaring off is to be completed. If any messenger system is available from your share broker make use of it for getting latest news and information updated from time to time. Always download the contract notes of every day and preserve them in your computer. Daily check your DP position and trading account balance and if there is any error bring it to the notice of your broker and get it rectified. All the on-line brokers give clues to their paid customers and make use them to your advantage. See that your portfolio page is updated regularly and check it whether it is being updated automatically. Usually even on-line brokers allow their customers to make use of three times of their trading account balance for intra-day trading. Sharekhan allows its customers to make use of certain percentage of price of certain shares for further purchase of shares over and above your trading account balance and that too this quantum of limit is extended for delivery trading also but however you have to repay the excess amount within 3-6 days without interest; make use of this golden opportunity when you are sure of certain shares behaving according to your calculations and sure of reaching your expected target within 3 days. Moreover, Sharekhan allows its customers to place their orders in advance between 11 P.M and 9 A.M and the order will be carried out during the trading hours, and this is a boon for all the office-goers. When you purchase certain shares to sell them at your target, then register this aspect in the concerned page and on any subsequent day whenever your share touches your target price immediately you will be receiving sms in your mobile about this aspect so that you either sell it immediately or place the selling order with your broker; and this facility is available for purchasing also; note that this facility is available in rediff.com for non on-line traders also and this facility in rediff.com is available free.

Our Recommendations: Of all the on-line service providers as on this day in 2008, no.1 with maximum customers base is I. C.I.C.I bank, the second is Sharekhan and another reliable but upcoming provider is Reliance. Please do not bother for paying a little more brokerage but select the provider whose web-page is stable and faster, maximum facilities and privileges available for your trading, whose integrity is beyond doubt, If you are an office-goer, go to such provider who allows you to place your orders even during non-trading hours but at your convenient time to be executed in the next trading hours.

Drawbacks of on-line Trading and how to over come such draw backs

As there are couples of good advantages there are also some technical disadvantages. As every coin have two sides.

¨ Disconnection from Internet - In online share trading there is the possibility that your internet connection may get slow or get stopped, this may result in disconnection from share market. At such critical times you have to call your executive (from whom you opened your trading account) and place your order or square off your pending orders.

¨ Computer Problem - If your computer stops functioning then this may also result in disconnection from share market at this time.

In such circumstances, you can complete your planned tradings thro' off-line trading. Because of the above mentioned drawbacks, don't keep squaring off the positions till the last minute when by the time you place the orders over phone the market stands closed and due to lack of squaring off especially in the case of short-sell, you may have to pay a very heavy penalty.

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15. **Fundamental & Technical Analysis : helps to measure and determine the future course of prices**

FUNDAMENTAL ANALYSIS seeks to determine future stock price by understanding and measuring the objective "value" of an equity. The study of stock charts, known as TECHNICAL ANALYSIS, believes that the past action of the market itself will determine the future course of prices.

- Using the stock chart is to identify the current trend. A trend reflects the average rate of change in a stock's price over time. Trends exist in all time frames and all markets. Day traders can establish the trend of their stocks to within minutes. Long term investors watch trends that persist for many years.
- Volume measures the participation of the crowd. Stock charts display volume through individual HISTOGRAMS below the price pane. Often these will show green bars for up days and red bars for down days. Investors and traders can measure buying and selling interest by watching how many up or down days in a row occur and how their volume compares with days in which price moves in the opposite direction.
- Pattern analysis gains its power from the tendency of charts to repeat the same bar formations over and over again. These patterns have been categorized over the years as having a bullish or bearish bias.
- Moving averages are one of the oldest and most popular technical analysis tool. This section describes the basic of moving average and interpretation. Nowadays you get moving averages readily available on most of the websites. To brief you moving average is calculated by adding the closing prices of a stock for most recent 15 days and then dividing by 15 the result what you get is the 15 day moving average.
- Support and resistance represent key junctures where the forces of supply and demand meet. In the financial markets, prices are driven by excessive supply (down) and demand (up). Supply is synonymous with bearish, bears and selling. Demand is synonymous with bullish, bulls and buying. As demand increases, prices advance and as supply increases, prices decline. When supply and demand are equal, prices move sideways as bulls and bears slug it out for control. Support and Resistance prices are very important in stock market and in technical analysis.
- A candlestick chart displays stocks open high, low, and closing price. These type of charts are the most popular type of all charts.
- RSI indicator is basically is a price-following indicator used to look for a divergence in which the stock is making a new high, but the RSI is failing to exceed its previous high
- The ideas of Charles Dow, the first editor of the Wall Street Journal, form the basis of technical analysis today, called Dow Theory. Dow created the Industrial Average, of top blue chip stocks, and a second average of top railroad stocks (now the Transport Average). He believed that the behavior of the averages reflected the hopes and fears of the entire market. The behavior patterns that he observed apply to markets throughout the world.
- The Elliott Wave Theory is named after Ralph Nelson Elliott. Inspired by the Dow Theory and by observations found throughout nature, Elliott concluded that the movement of the stock market could be predicted by observing and identifying a repetitive pattern of waves. In fact, Elliott believed that all of man's activities not just the stock market, were influenced by these identifiable series of waves.
- When deciding on a trade or investment, be it short, intermediate or long term, multiple time frame analysis can help clear the noise and offer a balanced view.
- Trendlines are an important tool in technical analysis for both trend identification and confirmation. A trendline helps identify the trend as well as potential areas of support and resistance and Trendlines illustrate the direction of the market movement and provide a primary consideration in any analysis.
- External Relative Strength is the measure of how a security has performed versus all other securities. This is superior to comparing a security to an index since most indexes are weighted by market cap or price.

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16. **Brief Notes on**

(a) **Future & Options**

Future or derivative trading is the process of buying or selling stock future or index future for a certain period of time and squaring off before the expiry date. Expiry period can be of one month, two month

and three month and not more then of three month. Its not compulsion that you have to square off your positions on the expiry date or wait till the expiry period but in fact you can square off at any time even, at the same day, or you can hold as long as you want but remember to square off before expiry date. Most of the times on 3rd month expiry future you may see very less trading volumes. Generally most of the traders/investors trade or invest on current month future or second month future contract and you may see very low volumes on last month means third month expiry .But on Nifty index contract or on other index contract you may see good trading volumes even on 3rd month expiry future also.

You can also buy and sell or sell and buy future contract on the same day of any expiry month. This is called as day trading or intraday in futures.Selling future contract before buying is called short selling. Short selling is allowed in futures trading.In future trading you get margin to buy (but can hold only up to maximum of 3 months), while in stock trading you must have that much of amount in your account to buy.

You can short sell futures- You can sell futures without buying them which is called short selling and later buy within your expiry period, to cover up your positions. This is not possible in stocks. You can't sell stocks before buying them in delivery (you can do in intraday). You can short sell futures and can cover off within your expiry period.

Brokerages offered for future trading are less as compared to stock delivery trading. Due to margin facility in future trading you may earn huge profit by investing fewer amounts but at the contrary side if your trade goes wrong then you may have to suffer huge loss.You can't do future trading on all stocks. You can only do on listed stocks on Nifty and Jr. Nifty.In future trading you can do short selling and buy (cover) later when price comes down from your selling price you can short sell stock future as well as index future. But again same restriction will apply and that is of expiry period.

(b) Trading in Commodities

Commodity trading is nothing but trading in commodity spot and derivatives (futures). If you are keen on taking a buy or sell position based on the future performance of agricultural commodities or commodities like gold, silver, metals, or crude, then you could do so by trading in commodity derivatives.

Commodity derivatives are traded on the National Commodity and Derivative Exchange (NCDEX) and the Multi-Commodity Exchange (MCX). Gold, silver, agri-commodities including grains, pulses, spices, oils and oilseeds, mentha oil, metals and crude are some of the commodities that these exchanges deal in.

Trading in commodities futures is quite similar to equity futures trading. You could take a long position (where you buy a contract) or a short position (where you sell it). Simply speaking, like in equity and other markets, if you think prices are on their way up, you take a long position and when prices are headed south you opt for a short position.The Forward Markets Commission is the regulatory body for the commodity market in India. It is the equivalent of the Securities and Exchange Board of India (Sebi), which protects the interests of investors in securities.All commodities produced in the agriculture, mineral and fossil sectors have been sanctioned for futures trading.Commodity trading is done in the form of futures and that throws up a huge potential for profit and loss as it involves predictions of the future and hence uncertainty and risk. Risk factors in commodity trading are similar to futures trading in equity markets.A major difference is that the information availability on supply and demand cycles in commodity markets is not as robust and controlled as the equity market.

The commodity market is driven by demand and supply factors and inventory, when it comes to perishable commodities such as agricultural products and high demand products such as crude oil. Like any market, the demand-supply equation influences the prices.Variables like weather, social changes, government policies and global factors influence the balance.

In order to trade futures contracts, you have to deposit margins in cash with us. There are two types of margins

namely, initial margin and mark to market margin

1. Initial margin: Initial margin is set by the exchange on basis of volatility in the particular commodity and is a percentage of the contract.

2. Mark to market margin: At the end of the day, the contract is marked to market, meaning your account is credited or debited based on the profit / loss made during the session.

Where do I need to go to trade in commodity futures?
You have three options - the National Commodity and Derivative Exchange, the Multi Commodity Exchange of India Ltd and the National Multi Commodity Exchange of India Ltd. All three have electronic trading and settlement systems and a national presence.
How do I choose my broker?
Several already-established equity brokers have sought membership with NCDEX and MCX. The likes of Refco Sify Securities, SSKI (Sharekhan) and ICICIcommtrade (ICICIdirect), ISJ Comdesk (ISJ Securities) and Sunidhi Consultancy are already offering commodity futures services. Some of them also offer trading through Internet just like the way they offer equities. You can also get a list of more members from the respective exchanges and decide upon the broker you want to choose from.
What is the minimum investment needed?
You can have an amount as low as Rs 5,000. All you need is money for margins payable upfront to exchanges through brokers. The margins range from 5-10 per cent of the value of the commodity contract. While you can start off trading at Rs 5,000 with ISJ Commtrade other brokers have different packages for clients.
For trading in bullion, that is, gold and silver, the minimum amount required is Rs 650 and Rs 950 for on the current price of approximately Rs 65,00 for gold for one trading unit (10 gm) and about Rs 9,500 for silver (one kg).
The prices and trading lots in agricultural commodities vary from exchange to exchange (in kg, quintals or tonnes), but again the minimum funds required to begin will be approximately Rs 5,000.

(c) Forex

A few years ago, foreign exchange trading was limited to banks and other large financial institutions. Now in this electronic age, any person can perform online trading with a personal computer and the Internet. Almost all banks, hedge funds, pensions, and mutual funds are involved in foreign exchange trading. Money can earned regardless if a currency is gaining or losing its value.

You don't have to be a technical analyst and economics expert to trade in forex. I know at least a dozen chartered accountants who have lost money in stock market. All you need to learn is some money management, risk management and emotional management skills.In stocks you may short sell ...and buy back on the same day before the market closing and may make some profits or loss. you will not be allowed to carry forward your trade for next day. (it is possible in some countries or with some brokers) but in forex you can sell euros against dollars (u need not have euros) and close the deal (buy euro against dollar) after 15 days or a month and take your profits. So whichever side market moves you can make money. You need not worry if euro crash or yen crash or any other currency crashes.
In forex currencies are bought in lots which is normally USD 100,000. Few American companies recently introduced mini forex where you can buy small lots of USD 10,000. As a beginner I suggest you to go for mini forex trading. With a deposit of USD 5,000 the broker will allow you to buy currencies worth USD 500,000.

Lets concentrate only on major currencies.
4 major currency pairs are
euro/usd
usd/yen

pound/usd
usd/swiss frank

currencies are always quoted in pairs. buying euro/dollar means buying euro and selling dollar. selling dollar/yen means seling dollar against yen. if dollar/yen goes up it is dollar which becomes stronger against yen. if euro/dollar goes down, it is euro which is becoming weaker.

The End