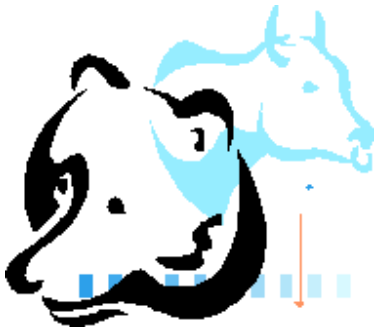
Beginner's Guide to the Stock Market



Note:- All the blue coloured words are the links to web-pages in internet

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

INVESTING IN STOCKS

Many of us would like to try our luck in the Stock markets. Yes, Why Not ? Trading stocks is one of the most lucrative methods of making money.

Here's Why :

1. You do not need a lot of money to start making money, unlike buying property and paying a monthly mortgage.

2. It requires **very minimal tim**e to trade - unlike building a conventional business. 3.. It's **'fast' cash** and allows for quick liquidation (You can convert it to cash easily, unlike selling a property or a business).

4. It's easy to learn how to profit from the stock market.

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

– Brokerage Houses etc.

Invest Safely through Systematic Investment Plans

SIP is provided by Mutual Funds to ensure that the investment goal is reached, and thus to compensate for a potential deficit if the systematic investment plan is interrupted due to premature death. It is a service option that allows investors to buy mutual fund shares on a regular schedule, usually through bank account deductions. Th nomenclature of this mode of investment can be different with some mutual fund houses; for example Reliance Mutual Fund calls it Recurring Investment Plan

Please be clear that a systematic investment plan is not a tool that helps improve your investment returns.

The primary objective of a SIP is to enable investors to **clearly define an investment goal**, and then to help them reach it through **systematic investment** in select equity-oriented mutual fund schemes that have a track record of consistent good performance.Most of the mutual funds offer this facility. The real value lies in the portfolio of the fund. Almost all schemes have the facility of steady investment plan.

Systematic investment adds value through rupee cost averaging and the power of compounding. The **NAVs (net asset value)** of these funds can vary widely, but, through rupee cost averaging, an SIP can make this volatility work for you. Many investors tend to think that monthly income plan and systematic investment plan are one and the same. The minimum monthly investment for a systematic investment plan is Rs 1,000. If you are in the 30-40 year age group, you should probably keep to an allocation of 30-40 per cent to equity investments. It is managed by a team of investment professionals and other service providers with advantages of professionals management, portfolio diversification, reducing risk, reduction of trading cost, convience and flexibility liquidity, access to information.

In simple words Systematic investment plan, is a simple, time-honored strategy designed to help investors accumulate wealth in a systematic manner over the long-term. Systematic Investment Plan is the most effective way of investing in market especially in a volatile market. SIP is a way to invest in a regular and disciplined manner while taking care of volatility. It is yet another investment technique which helps in ***mitigation of risk in terms of the entry point in an equity fund***.

For individuals or families just getting started, based upon the above mentioned investment analysis, proper investment allocation is determined and asystematic investment plan is established through one of the many mutual fund families offered by various Mutual Funds in India - Principal Income Fund, Monthly Income Plan, Child Benefit Fund , Balanced Fund, Index Fund, Growth Fund, Equity Fund and Tax Savings Fund.

The best way to enter a mutual fund is through a Systematic Investment Plan. But to get the benefit of an SIP, think of **minimum three-year time frame** when you won't touch your

money. Small but regular investments go a long way in creating wealth over time.

DIFFERENT KIND OF INVESTMENTS

These days, you can't retire without using the **returns from investments**. You can't count on your social security checks to cover your expenses when you retire. It's barely enough for people who are receiving it now to have food, shelter and utilities. That doesn't account for any care you may need or in the even that you need to take advantage of such funds much earlier in life. It is important to have your own financial plan. There are many **kinds of investments** you can make that will make your life much easier down the road.

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

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.

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.

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.

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.

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

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WHAT EXACTLY ARE INVESTMENTS ?

udging by the fact that you've taken the trouble to navigate to this page my guess is that you don't need much convincing about the **wisdom of investing**. However, I hope that your quest for knowledge/information about the art/science of investing ends here. Read on. Knowledge is power. It is common knowledge that **money has to be invested wisely**. If you are a novice at investing, terms such as stocks, bonds, futures, options, Open interest, yield, P/E ratio may sound Greek and Latin. Relax. It takes years to understand the **art of investing**. You're not alone in the quest to crack the jargon. To start with, take your **investment decisions** with as many facts as you can assimilate. But, understand that you can never know everything. Learning to live with the anxiety of the unknown is part of investing. Being enthusiastic about getting started is the first step, though daunting at the first instance. That's why my **investment course** begins with a dose of encouragement: With enough time and a little discipline, you are all but guaranteed to make the right moves in the market. Patience and the willingness to invest your savings across a portfolio of securities tailored to suit your age and risk profile will propel your revenues and cushion you against any major losses. Investing is not about putting all your money into the "Next big thing," hoping to make a killing. **Investing isn't gambling or speculation**; it's about taking reasonable risks to reap steady rewards.

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.

Why should you invest?

Simply put, you should invest so that your money grows and shields you against rising inflation. 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. Whether your money is invested in stocks, bonds, mutual funds or certificates of deposit (CD), the end result is to create wealth for retirement, marriage, college fees, vacations, better standard of living or to just pass on the money to the

next generation or maybe have some fun in your life and do things you had always dreamed of doing with a little extra cash in your pocket. Also, it's exciting to review your investment returns and to see how they are accumulating at a faster rate than your salary.

When to Invest?

The sooner the better. By **investing into the market** right away you allow your investments more time to grow, whereby the concept of compounding interest swells your income by accumulating your earnings and dividends. Considering the unpredictability of the markets, research and history indicates these three **golden rules for all investors**

1. Invest early

2. Invest regularly

3. Invest for long term and not short term

While it's tempting to wait for the "**best time" to invest**, especially in a rising market, remember that the risk of waiting may be much greater than the potential rewards of participating. Trust in the power of compounding. Compounding is growth via reinvestment of returns earned on your savings. Compounding has a snowballing effect because you earn income not only on the original investment but also on the reinvestment of dividend/ interest accumulated over the years. The power of compounding is one of the most compelling reasons for investing as soon as possible. The earlier you start investing and continue to do so consistently the more money you will make. The longer you leave your money invested and the higher the interest rates, the faster your money will grow. That's why stocks are the **best long-term investment tool**. The general upward momentum of the economy mitigates the stock market volatility and the risk of losses. That's the reasoning behind investing for long term rather than short term.

How much to invest?

There is no statutory amount that an investor needs to invest in order to generate adequate returns from his savings. The amount that you invest will eventually depend on factors such as:

- 1 Your risk profile
- 2. Your Time horizon
- 3. Savings made

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.

PRELIMINARY EXPLANATORY NOTES

How does one execute an order?
Select a broker of your choice and enter into a broker-client agreement and fill in the client registration form. Place your order with your broker preferably in writing. Get a trade confirmation slip on the day the trade is executed and ask for the contract note at the end of the trade date.

Why does one need a broker?
As per SEBI (Securities and Exchange Board of India.) regulations, only registered members can operate in the stock market. One can trade by executing a deal only through a registered broker of a recognised Stock Exchange or through a SEBI-registered sub-broker.

What is a contract note?
A contract note describes the rate, date, time at which the trade was transacted and the brokerage rate. A contract note issued in the prescribed format establishes a legally enforceable relationship between the client and the member in respect of trades stated in the contract note. These are made in duplicate and the member and the client both keep a copy each. A client should receive the contract note within 24 hours of the executed trade. Corporate Benefits/Action

What is a book-closure/record date?
Book closure and record date help a company determine exactly the shareholders of a company as on a given date.
Book closure refers to the closing of register of the names or investors in the records of a company. Companies announce book closure dates from time to time. The benefits of dividends, bonus issues, rights issue accruing to investors whose name appears on the company's records as on a given date, is known as the record date.
An investor might purchase a share-cum-dividend, cum rights or cum bonus and may therefore expect to receive these benefits as the new shareholder. In order to receive this, the share has to be transferred in the investor's name, or he would stand deprived of the benefits. The buyer of such a share will be a loser. It is important for a buyer of a share to ensure that shares purchased at cum benefits prices are transferred before book-closure. It must be ensured that the price paid for the shares is ex-benefit and not cum benefit.

What is the difference between book closure and record date?
In case of a record date, the company does not close its register of security holders. Record date is the cut off date for determining the number of registered members who are eligible for the corporate benefits. In case of book closure, shares cannot be sold on an Exchange bearing a date on the transfer deed earlier than the book closure. This does not hold good for the record date.

What is a no-delivery period?
Whenever a company announces a book closure or record date, the Exchange sets up a no-delivery (ND) period for that security. During this period only trading is permitted in the

security. However, these trades are settled only after the no-delivery period is over. This is done to ensure that investor's entitlement for the corporate benefit is clearly determined.

What is an ex-dividend date?
The date on or after which a security begins trading without the dividend (cash or stock) included in the contract price.

What is an ex-date?
The first day of the no-delivery period is the ex-date. If there is any corporate benefits such as rights, bonus, dividend announced for which book closure/record date is fixed, the buyer of the shares on or after the ex-date will not be eligible for the benefits.

What is a Bonus Issue?
While investing in shares the motive is not only capital gains but also a proportionate share of surplus generated from the operations once all other stakeholders have been paid. But the distribution of this surplus to shareholders seldom happens. Instead, this is transferred to the reserves and surplus account. If the reserves and surplus amount becomes too large, the company may transfer some amount from the reserves account to the share capital account by a mere book entry. This is done by increasing the number of shares outstanding and every shareholder is given bonus shares in a ratio called the bonus ratio and such an issue is called bonus issue. If the bonus ratio is 1:2, it means that for every two shares held, the shareholder is entitled to one extra share. So if a shareholder holds two shares, post bonus he will hold three.

What is a Split?
A Split is book entry wherein the face value of the share is altered to create a greater number of shares outstanding without calling for fresh capital or altering the share capital account. For example, if a company announces a two-way split, it means that a share of the face value of Rs 10 is split into two shares of face value of Rs 5 each and a person holding one share now holds two shares.

What is a Buy Back?
As the name suggests, it is a process by which a company can buy back its shares from shareholders. A company may buy back its shares in various ways: from existing shareholders on a proportionate basis; through a tender offer from open market; through a book-building process; from the Stock Exchange; or from odd lot holders.A company cannot buy back through negotiated deals on or off the Stock Exchange, through spot transactions or through any private arrangement. Clearing and Settlement

What is a settlement cycle?
The accounting period for the securities traded on the Exchange. On the NSE, the cycle begins on Wednesday and ends on the following Tuesday, and on the BSE the cycle commences on Monday and ends on Friday.At the end of this period, the obligations of each broker are calculated and the brokers settle their respective obligations as per the rules, bye-laws and regulations of the Clearing Corporation.If a transaction is entered on the first day of the settlement, the same will be settled on the eighth working day excluding the day of transaction. However, if the same is done on the last day of the settlement, it will be settled on the fourth working day excluding the day of transaction.

What is a rolling settlement?
The rolling settlement ensures that each day's trade is settled by keeping a fixed gap of a specified number of working days between a trade and its settlement. At present, this gap is five working days after the trading day. The waiting period is uniform for all trades. When does one deliver the shares and pay the money to broker?As a seller, in order to ensure smooth settlement you should deliver the shares to your broker immediately after getting the contract note for sale but in any case before the pay-in day. Simliarly, as a buyer, one should pay immediately on the receipt of the contract note for purchase but in any case before the pay-in day.

What is short selling?
Short selling is a legitimate trading strategy. It is a sale of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short sellers take the risk that they will be able to buy the stock at a more favourable price than the price at which they "sold short."

What is an auction?
An auction is conducted for those securities that members fail to deliver/short deliver during pay-in. Three factors primarily give rise to an auction: short deliveries, un-rectified bad deliveries, un-rectified company objections

Is there a separate market for auctions?
The buy/sell auction for a capital market security is managed through the auction market. As opposed to the normal market where trade matching is an on-going process, the trade matching process for auction starts after the auction period is over.

What happens if the shares are not bought in the auction?
If the shares are not bought at the auction i.e. if the shares are not offered for sale, the Exchange squares up the transaction as per SEBI guidelines. The transaction is squared up at the highest price from the relevant trading period till the auction day or at 20 per cent above the last available Closing price whichever is higher. The pay-in and pay-out of funds for auction square up is held along with the pay-out for the relevant auction.

What is bad delivery?
SEBI has formulated uniform guidelines for good and bad delivery of documents. Bad delivery may pertain to a transfer deed being torn, mutilated, overwritten, defaced, or if there are spelling mistakes in the name of the company or the transfer. Bad delivery exists only when shares are transferred physically. In "Demat" bad delivery does not exist.
What are company objections?
A list documenting reasons by a company for not transferring a share in the name of an investor is called company objections. Rejection occurs due to a signature difference, or fake shares, or forgery, or if there is a court injunction preventing the transfer of the shares.

What should one do with company objections?
The broker must immediately be notified. Company objection cases should be reported within 12 months from the date of issue of the memo for the original quantity of share under objection.

Who has to replace the shares in case of company objections?

The member who has sold the shares first on the Exchange is responsible for replacing the shares within 21 days of the Exchange being informed. Company objection cases that are not rectified or replaced are normally auctioned.

How does transfer of physical shares take place?
After a sale, the share certificate along with a proper transfer deed duly stamped and complete in all respects is sent to the company for transfer in the name of the buyer. Once the transfer is registered in the share transfer register maintained by the company, the process of transfer is complete.

Equities

What is equity?
Funds brought into a business by its shareholders is called equity. It is a measure of a stake of a person or group of persons starting a business.

What does investing in equity mean?
When you buy a company's equity, you are in effect financing it, and being compensated with a stake in the business. You become part-owner of the company, entitled to dividends and other benefits that the company may announce, but without any guarantee of a return on your investments.

What is fundamental analysis?
The analysis of factual information like financial figures, balance sheet, and other information publicly available is known as fundamental analysis. This information is used to derive a fair price of the share of the company. The faithful fundamentalists believe that the market incorporates all facts relating to the financial performance of the company. But a systematic analysis will ensure a more accurate valuation of the price. Fundamental analysts use tools such as ratio analysis (P/E, MV/BV) and discounted cash flow analysis in order to arrive at the fair value of a company and hence its share.

What are financial ratios?

A ratio is a comparison of two figures. They are culled from the financial statements of a company. These help in assessing the financial health of a company. It could be a ratio between an item from a balance sheet versus another item on the balance sheet. Or it could be a ratio between one figure of the balance sheet with a figure from Profit and Loss account or it could be comparison of one year's figure with a figure from the previous year.For example Return on Equity = Net profit (A Profit and a Loss figure) divided by Net Worth (a balance sheet figure) in percentage terms.

What are the various kinds of financial ratios?There are many financial ratios. Some of the better known include:
Liquidity Ratios: Liquidity ratio measures the ability of a firm to meet its current obligations. Liquidity ratios by establishing a relationship between cash and other current assets to current obligations give measure of liquidity.e.g. Current ratio [CR] = Current Assets/ Current liabilities.A high CR ratio (>2.5) indicates that a company can meets its short term liabilities.
Leverage Ratios: Leverage ratio indicates the proportion of debt and equity in financing the

firm's assets. They indicate the funds provided by owners and lenders.e.g -----Debt-equity ratio (D-E ratio) total long term debt/net worth.A high D-E ratio indicates that the company's credit profile is bad.
Activity Ratios: Activity ratios are employed to evaluate the efficiency with which firms manage and run their assets. They are also called turnover ratios.e.g-- Sales Turnover ratio = sales/ total assets .A Sales Turnover ratio indicates how much business a company generates for every additional rupee invested.
Profitability Ratios: These ratios indicate the level of profitability of the business with relation to the inputs or capital employed. Some better-known profit ratios include operating profit margin (OPM). Operating profit margin is a measure of the company's efficiency, either in isolation or in comparison to its peers.

What is EPS, P/E, BV and MV/BV?

Earning Per Share (EPS): EPS represents the portion of a company's profit allocated to each outstanding share of common stock. Net income (reported or estimated) for a period of time is divided by the total number of shares outstanding during that period. It is one of the measures of the profitability of common shareholder's investments. It is given by profit after tax (PAT) divided by number of common shares outstanding.

Price Earning Multiple (P/E): Price earning multiple is ratio between market value per share and earning per share.
Book Value (BV): (of a common share) The company's Net worth (which is paid-up capital + reserves & surplus) divided by number of shares outstanding.
Market value to book value ratio (MV/BV ratio): It is the ratio between the market price of a security and Book Value of the security.

What is technical analysis?

Technical analysis is the study of historic price movements of securities and trading volumes. Technical analysts believe that prices of the securities are determined largely by forces of demand and supply. Share prices move in patterns which are easily identifiable. Crucial insights into these patterns can be obtained by keeping track of price charts, leading to predictions that a stock price may move up or down. The belief is that by knowing the past, future prices can predicted.

What is Grey Market?

A Grey market on a stock is an unofficial market in shares before they have been officially listed and traded on the BSE / NSE.

If the government is going to privatise one of its Utilities such as BHARAT Gas it will offer to sell shares to the institutions and general public. Anyone is able to apply for as many shares as they want, but they will often only get a percentage of their requirements.

The shares will be offered at a set price, say Rs.200, but depending on how the market judges the success of the offer the financial spread betting companies will normally make a market before the shares are officially traded on the NSE/BSE. Incidentally, although grey markets

are unofficial they are perfectly legal.

Grey markets are not just available on government privatization issues but most new issues as long as there is good public interest.

How it Works?

1. For example, if a store owner is an unauthorized dealer of a certain high-end electronics brand, the product is considered to be sold in the grey market. If the product is illegal, it would be selling on the "black market".

2. The grey market is an over-the-counter market where dealers may execute orders for preferred customers as well as provide support for a new issue before it is actually issued. This activity allows underwriters and the issuer to determine demand and price the securities accordingly before the IPO.

What is a Share ?

In finance a **share** is a unit of account for **various financial instruments** including stocks, mutual funds, limited partnerships, and REIT's. In British English, the usage of the word share alone to refer solely to stocks is so common that it almost replaces the word stock itself.

In simple Words, 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.

A **company's stock price** reflects what investors think about the stock, not necessarily what the company is "worth." For example, companies that are growing quickly often trade at a higher price than the company might currently be "worth." Stock prices are also affected by all forms of company and market news. Publicly traded companies are required to report quarterly on their financial status and earnings. Market forces and general investor opinions can also affect share price.

Quick Facts on Stocks and Shares

- 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 However, stocks offer no
  guarantee of any returns and can lose value, even in the long run
- Investments in stocks can generate returns through dividends, even if the price

How does one trade in shares ?

Every transaction in the **stock exchange** is carried out through licensed members called brokers.

To trade in shares, you have to approach a broker However, since most **stock exchange brokers** deal in very high volumes, they generally do not entertain small investors. These **brokers have a network of sub-brokers** who provide them with orders.

The general investors should identify a sub-broker for regular trading in shares and palce his order for purchase and sale through the sub-broker. The sub/broker will transmit the order to his broker who will then execute it .

What are active Shares ?

Shares in which there are frequent and day-to-day dealings, as distinguished from partly active shares in which dealings are not so frequent. Most **shares of leading companies** would be active, particularly those which are sensitive to economic and political events and are, therefore, subject to sudden price movements. Some market analysts would define *active shares as those which are bought and sold at least three times a week*. Easy to **buy or sell.**

PRIMARY & SECONDARY MARKET

RIMARY MARKET
Market for new issues of securities, as distinguished from the **Secondary Market**, where previously issued securities are bought and sold.

A market is primary if the proceeds of sales go to the issuer of the securities sold.

This is part of the financial market where enterprises issue their new shares and bonds. It is characterised by being the only moment when the enterprise receives money in exchange for selling its financial assets.

SECONDARY MARKET
The market where securities are traded after they are initially offered in the primary market. Most trading is done in the secondary market.

To explain further, it is Trading in previously issued financial instruments. An organized market for used securities. Examples are the New York Stock Exchange (NYSE), Bombay Stock Exchange (BSE),National Stock Exchange NSE, bond markets, over-the-counter markets, residential mortgage loans, governmental guaranteed loans etc.

WHAT IS A PREMIUM ISSUE ?

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 propectus should provide justification for the propose premium. On the other hand, exisiting companies can make a **premium issue** without the above restrictions.

A company's aim is to **raise money** and simultaneously serve the equity capital. As far as accounting is concerned, **premium is credited** to reserves and surplus and it does not increase the equity. Therefore, a company which raises Rs.100 crores by way of shares at say Rs.90 **premium per share** increases its equity by only Rs.10 crores, which is easier to service with an investment of Rs.100 crores.

Thus the companies seek to make **premium issues**. As well shall see later, a **premium issue** can increase the book value without decreasing the EPS. In a buoyant stock market when good shares trade at very high prices, companies realize that it's easy to command a **high premium**.

IPO – Initial Public Offering

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.**

IPO is **New shares** Offered to the public in the Primary Market .The first time the company is traded on the stock exchange. A prospectus is issued to read about its risk before investing. **IPO** is A company's first sale of stock to the public. Securities offered in an **IPO** are often, but not always, those of young, small companies seeking outside equity capital and a public market for their stock. Investors purchasing stock in IPOs generally must be prepared to accept very

large risks for the possibility of large gains. Sometimes, Just before the **IPO** is launched, Existing share Holders get a very liberal bonus issues as a reward for their faith in risking money when the project was new

How to apply to a public issue ?

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.

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

How to make payments for IPOs:

The payment terms of any IPO or Public issue is fixed by the company keeping in view its fund requirements and the statutory regulations. In general, companies stipulate that either the entire money should be paid along with the application or 50 percent of the entire amount

be paid along with the application and rest on allotment. However, if the funds requirements is staggered, the company may ask for the money in calls, that is, the company demands for the money after allotment as and when the cash flow demands. As per the statutory requirements, for public issue large than Rs. 250 crore, the money is to be collected as under:

25 per cent on application

25 per cent on allotment

50 per cent in two or more calls

Understanding IPO Grading

IPO grading **is a unique concept involving an independent agency that is free from bias and with the available tools for assessing the investment attractiveness of an equity security. IPO grading is a service aimed at facilitating the assessment of equity issues offered to the public, says SEBI. IPO grading can act as an additional decision-making tool for them. The idea is that IPO grading will help the investor better appreciate the meaning of the disclosures in the issue documents, collapsing all of the above information into a single digit. Thus, IPO grading could be seen as an added investment guidance tool seeking to hide the ignorance of the above factors and still help the investors make an informed decision.** ***Grading of IPOs in terms of their fundamental quality will enable investors steer clear of unsound offers.*** **IPO grading in general would be a relative assessment of the fundamentals of the equity security by credit rating agencies registered with SEBI.**

But IPO grading is totally unheard of anywhere else and is a First-From-India initiative. The grading, to be done by the SEBI-registered credit rating agencies, would be applicable to all IPOs for which offer documents are filed after April 30, SEBI said in a circular. **SEBI does not play any role in the assessment made by the grading agency**. The grading is intended to be an independent and unbiased opinion of that agency. The company needs to first contact one of the grading agencies and mandate it for the grading exercise. Though this process will ideally require 2-3 weeks for completion, it may be a good idea for companies to initiate the grading process about 6-8 weeks before the targeted IPO date to provide sufficient time for any contingencies. IPO grading is a service aimed at facilitating the assessment of equity issues offered to the public, says SEBI.

IPO grading is the grade assigned by a Credit Rating Agency registered with SEBI, to the initial public offering (IPO) of equity shares or any other security which may be converted into or exchanged with equity shares at a later date.

The grade represents a relative assessment of the fundamentals of that issue in relation to the other listed equity securities in India. Such grading is generally assigned on a five-point point scale with a higher score indicating stronger fundamentals and vice versa as below.

IPO grade 1: Poor fundamentals
IPO grade 2: Below-average fundamentals
IPO grade 3: Average fundamentals
IPO grade 4: Above-average fundamentals
IPO grade 5: Strong fundamentals

IPO grading has been introduced as an endeavor to make additional information available for the investors in order to facilitate their assessment of equity issues offered through an IPO.

IPO Grading is not a recommendation to invest
Even if a Company is Graded 5 (i.e. with strong fundamentals), IPO grading is not a recommendation to invest in the graded instrument. It does not a comment on the price of the graded security or its suitability for a particular investor. It does not comment on issue price, likely price on listing or movement in price post listing.

What is a Demat Account

Though the company is under obligation to offer the securities in both physical and **demat mode**, you have the choice to receive the securities in either mode.

If you wish to have securities in **demat mode**, you need to indicate the name of the depository and also of the **depository participant** with whom you have depository account in your application.

It is, however **desirable** that you hold securities in **demat form** as physical securities carry the risk of being fake, forged or stolen.

Just as you have to open an account with a bank if you want to save your money, make cheque payments etc, Nowadays, you need to open a **demat account if you want to buy or sell stocks**.

So it is just like a bank account where actual money is replaced by **shares**. You have to approach the **DPs** (remember, they are like bank branches), to open your **demat account**. Let's say your portfolio of shares looks like this: 150 of Infosys, 50 of Wipro, 200 of HLL and 100 of ACC. All these will show in your **demat account**. So you don't have to possess any physical certificates showing that you own these shares. **They are all held electronically in your account**. As you **buy and sell the shares**, they are adjusted in your account. Just like a **bank passbook or statement**, the DP will provide you with periodic statements of holdings and transactions.

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STOCK OPTIONS - WHAT ARE THEY ?

A stock option is a specific type of option with a stock as the underlying instrument (the security that the value of the option is based on). Thus it is a contract to buy (known as a "call" contract) or sell (known as a "put" contract) shares of stock, at a predetermined or calculable (from a formula in the contract) price.

It is Having the *Rights to purchase a corporation's stock* at a specified price.

Infact There are two definitions of stock options.

1. The right to purchase or sell a **stock** at a specified price within a stated period. **Options** are a popular investment medium, offering an opportunity to hedge positions in other securities, to speculate on stocks with relatively little investment, and to capitalize on changes in the market value of options contracts themselves through a variety of options strategies.

2. A widely used form of employee incentive and compensation.In some Companies, **Stock options** constitute part of remuneration.

Employee stock options are stock options for the company's own stock that are often offered to upper-level employees as part of the executive compensation package. An employee stock option is identical to a call option on the company's stock, with some extra restrictions.

Performance Stock Options are Options that vest if pre-determined performance measures are achieved. The performance goal (revenue growth, stock-price increases...) must be reached for the options to be exercisable or for the vesting to be accelerated

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TRADING VS. INVESTING

Many people confuse trading with investing. They are not the same.

The biggest difference between them is the length of time you hold onto the assets. An **investo**r is more interested in the **long-term appreciation** of his assets, counting on that historical rise in **market equity**.

He's not generally concerned about **short-term fluctuations** in prices, because he'll ride them out over the long haul.

An **investor** relies mostly on **Fundamental Analysis**, which is the analytical method of predicting long-term prospects of a particular asset. Most investors adopt a **"buy and hold"** approach to assets, which simply means they buy shares of some company and hold onto them for a long time. This approach can be **dangerous, even devastating**, in an extremely volatile market such as today's BSE or NSE Indexs Show.

Let's consider someone who bought shares of XYZ Company at their peak value of around Rs.650 per share at the beginning of the year 2000. Two years later, those shares are worth Rs.100 each. If that investor had spent Rs. 65,000/-, his net loss would be Rs.55000/- ! I don't know about you, but losing Fifty Five Thousand Rupees would be a relatively big loss for me.

Many investors suffer such losses regularly, hoping that in five or ten or fifteen years the market will rebound, and they'll recoup their losses and achieve an overall gain.

What most **investors** need to remember is this: investing is not about weathering storms with your "beloved" company – it's about making money.

Traders, on the other hand, are attempting to profit on just those **short-term price fluctuations**. The amount of time an **active trader** holds onto an asset is very short: in many cases minutes, or sometimes seconds. If you can catch just two index points on an average day, you can make a comfortable living as an Trader.

To help make their decisions, Traders rely on **Technical Analysis**, a form of marketing analysis that attempts to predict short-term price fluctuations.

WHAT IS A STOCK BROKER ?

A **stock broker** is a person or a firm that trades on its clients behalf, you tell them what you want to invest in and they will issue the buy or sell order. Some **stock brokers** also give out financial advice that you a charged for.

It wasn't too long ago and investing was very expensive because you had to go through a full service broker which would give you advice on what to do and would charge you a hefty fee for it. Now there are a plethora of discount **stock brokers** such as Scottrade http://www.

scottrade.com now you can trade stocks for a low fee such as $7 total.

I can think of three different types of stock brokers.

1. **Full Service Broker** - A full-service broker can provide a bunch of services such as investment research advice, tax planning and retirement planning.

2. **Discount Broker** – A discount broker let's you buy and sell stocks at a low rate but doesn't provide any investment advice.

3. **Direct-Access Broker**- A direct access broker lets you trade directly with the electronic communication networks (ECN's) so you can trade faster. Active traders such as day traders tend to use Direct Access Brokers

So as you can tell there a few options for a stock broker and you really need to pick which one suits you needs.

ONLINE STOCK TRADING

Online Stock Trading **is a recent way of buying and selling stocks. Now you can buy and sell any stock over the Internet for a low price and you don't need to call up a broker.**

You can buy any stock and sell any stock and it doesn't take much to get started.

All you need is a **brokerage account**. A broker that I use is Scottrade http://www.scottrade.com/ and you can start an account with them for $500 and their commissions are only $7, so they are not expensive at all.

Once you have setup a brokerage account you then need to choose an investment method and then research different companies and then buy stock in the ones that you feel will go up because they are good sound companies.

So as you can see there are several benefits to **online stock trading** but let's recap.

With o**nline stock trading** all you need is $500 to open a brokerage account, the brokerage commissions are low at Scottrade they're only $7 and you can buy and sell your stocks from your home computer anytime that the stock market is open.

Well now that you know that you can do **online stock trading** with a minimal investment you should get started today and then start learning about the **stock market** and choose the **stocks** you want to invest in.

STOCK MARKET TIPS

The **stock markets** are at all time highs and just like the last time around when the market was at its previous high every one thinks that nothing can go wrong and there is just one way where the market can go which is UP. Nothing could be farther from the truth and this will be clear from the way the market behaves in the next few months. Here are a **few tips** that would hopefully save you from losing a lot of cash in the current frenzy.

Time and again **investors** have burnt their fingers in the markets and here are **some tips** to you so that you do not end up burning your fingers in this market.

The **number one tip** at this point would be to sell if you have stocks and not to buy them if you have cash. The golden principle in the markets is "Buy when everyone else sells and sell when everyone else buys". Simple enough right? Not really.

Why? Because of peer pressure pure and simple. When everyone else around you seems to be having a ball at the markets you would feel like a fool if you didn't participate now.

OK so you can't resist buying at this time then at least do yourself a favor and stay away from unknown **Penny Stock** and **hot tips** that your barber gave you. True that the stock has tripled in the last fifteen days but that was before people like your barber started buying the stock. Chances are that the Promoter of the company have started buying into the stock and have spread rumors like acquisition or a big export order to fool investors and sell out to them at a later date.

Another tip that would serve useful is to value a stock based on its future growth and not its past performance. For instance many **investors** say that I will not buy stocks of X company because it has doubled in the last year. Well it may have doubled in the last year but that should not be the thing you should be telling yourself. Rather you should ask yourself why has this doubled in the last year and can it do so again? There should be a solid answer to your question like the launch of a new product or reduction in the prices of raw material. And indeed if the answer is in the positive then by all means go ahead and buy that stock regardless of what has happened in the last year.

Another tip would be to remember what you are buying. Quite simply investors often forget that when buying a stock they are simply buying ownership in the companies. Most of you would know that nothing spectacular would happen in the company that you work for, in a month, they are not going to double their revenues and certainly not double your salary every month. Then why expect anything different from the companies that you are investing in. Why expect the prices to double in a month or two. Give time to your investments; don't reduce it to a gamble. Only when you invest in fundamentally sound companies and then give the investments sufficient time to grow will you see some healthy returns on your investments. Ideally a minimum horizon of one year is a good time.

Hope **these tips** will prove helpful and you will make a lot more in the **stock markets** than you have already been making. Happy **Investing**!

HOW STOCK MARKET WORKS ?

In order to understand what stocks are and **how stock markets work**, we need to dive into history--specifically, the history of what has come to be known as the corporation, or sometimes the limited liability company (LLC). Corporations in one form or another have been around ever since one guy convinced a few others to pool their resources for mutual benefit.

The first corporate charters were created in Britain as early as the sixteenth century, but these were generally what we might think of today as a public corporation owned by the government, like the postal service.

Privately owned corporations came into being gradually during the early 19th century in the United States , United Kingdom and western Europe as the governments of those countries started allowing anyone to create corporations.

In order for a corporation to do business, it needs to get money from somewhere. Typically, one or more people contribute an initial investment to get the company off the ground. These entrepreneurs may commit some of their own money, but if they don't have enough, they will need to persuade other people, such as venture capital investors or banks, to invest in their business.

They can do this in two ways: by issuing bonds, which are basically a way of selling debt (or taking out a loan, depending on your perspective), or by issuing stock, that is, shares in the ownership of the company.

Long ago stock owners realized that it would be convenient if there were a central place they could go to trade stock with one another, and the public stock exchange was born. Eventually, today's stock markets grew out of these public places.

Stocks

A corporation is generally entitled to create as many shares as it pleases. **Each share is a small piece of ownership**. The more **shares** you own, the more of the company you own, and the more control you have over the company's operations. Companies sometimes issue different classes of shares, which have different privileges associated with them.

So a corporation creates some **shares**, and sells them to an investor for an agreed upon price, the corporation now has money. In return, the investor has a degree of ownership in the corporation, and can exercise some control over it. The corporation can continue to issue new shares, as long as it can persuade people to buy them. If the company makes a profit, it may decide to plow the money back into the business or use some of it to pay dividends on the shares.

Public Markets

How each stock market works is dependent on its internal organization and government regulation. The **NYSE** **(New York Stock Exchange)** is a non-profit corporation, while the **NASDAQ (National Association of Securities Dealers Automated Quotation)** and the TSE **(Toronto Stock Exchange)** are for-profit businesses, earning money by providing trading services.

Most companies that go **public** have been around for at least a little while. Going public gives the company an opportunity for a potentially huge **capital infusion**, since millions of investors can now easily purchase shares. It also exposes the corporation to stricter regulatory control by government regulators.

When a corporation decides to go public, after filing the necessary paperwork with the government and with the **exchange** it has chosen, it makes an initial public offering (IPO). The company will decide how many shares to issue on the public market and the price it wants to sell them for. When all the shares in the **IPO** are sold, the company can use the proceeds to ***invest in the business***.

You Buy and Price Falls, You Sell and Price Rises : Solution

One say's "I bought "XYZ Company" at Rs.2200 and immediately after I bought the stock price dropped to Rs.2000." I feel sad. Another comes with a different version "I sold "XYZ Company" at Rs.2000 and it went up to Rs.2400 same evening" I made an imaginary loss of Rs.400 per share.

Solution:

You can buy more shares @ Rs.2000 and reduce your overall buying cost. This has to be done only if believe in the fundamentals,management and the future prospects of the company.

To do this you need to keep money ready.whatever money you have and want to invest,split it into two parts. Then keep 50% cash aside, only invest with other 50%.So if need to buy more of any stock when the price falls you have ready cash.

Also now if you have 200 shares of XYZ Company 100 @ Rs.2200 and 100 @ Rs.2000.Then the price goes up to Rs.2400. Sell only 100 of the shares.Then if the price further shot up, you have some shares to sell And participate in the rally to make money.

Next, You sold the share and the price went up. The solution to this is never sell all the shares at one time. Sell only 50% of your shares.So if he price goes up later you still have the other 50% to sell and make profit.

The golden Rule is to **first do your own analysis of the stock before investing and buy on tips**.

Also invest only in companies which declare dividends every year. To be sure that you

are not investing in loss making companies.

Every Market expert advise to do your stock analysis before investing in the stock market. But nobody tells you how.

Well in my next article I will write about how to do stock analysis using various tools such as financial ratios and by checking the track records of the companies you plan to invest in.

P.S: If you are not Indian then replace the Rs. into your own local currency to understand the article

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STOCK MARKET MYTHS

1. You can tell if a **Stock is cheap** or expensive by the **Price to Earnings Ratio**.

False: **PE ratios** are easy to calculate, that is why they are listed in newspapers etc. But you cannot compare PE's on companies from different industries, as the variables those companies and industries have are different. Even comparing within an industry, PE's don't tell you about many financial fundamentals and nothing about a stock's value.

2. To make Money in the **Stock Market**, you must assume High Risks.

False: Tips to Lower your Risk:
· Do not put more than 10% of your money into any one stock
· Do not own more than 2-3 stocks in any industry
· Buy your stocks over time, not all at once
· Buy stocks with consistent and predictable earnings growth
· Buy stocks with growth rates greater than the total of inflation and interest rates
· Use stop-loss orders to limit your risk

3. **Buy Stocks on the Way Down and Sell on the Way Up**.

False: People believe that a falling stock is cheap and a rising stock is too expensive. But on the way down, you have no idea how much further it may fall. If a stock is rising, especially if it has broken previous highs, there are no unhappy owners who want to dump it. If the stock is fairly valued, it should continue to rise.

4. **You can Hedge Inflation with Stocks**.

False: When interest rates rise, people start to pull money out of the market and into bonds, so that pushes prices down. Plus the cost of business goes up, so corporate earnings go down, along with the stock prices.

5. **Young People can afford to take High Risk**.

False: The only thing true about this is that young people have time on their side if they lose all

their money. But young people have little disposable income to risk losing. If they follow the tips above, they can make money over many years. Young people have the time to be patient.

What is a Bull Market

There are two classic market types used to characterize the general direction of the market. Bull markets are when the market is generally rising, typically the result of a strong economy. A **bull market** is typified by generally rising stock prices, high economic growth, and strong investor confidence in the economy. **Bear markets** are the opposite. A bear market is typified by falling stock prices, bad economic news, and low investor confidence in the economy.
A **bull market** is a financial market where prices of instruments (e.g., **stocks**) are, on average, trending higher. The **bull market** tends to be associated with r**ising investor confidence** and expectations of **further capital gains**.
A market in which prices are rising. A market participant who believes prices will move higher is called a **"bull"**. A news item is considered **bullish** if it is expected to result in higher prices.
An advancing trend in stock prices that usually occurs for a time period of months or years.
Bull markets are generally characterized by **high trading volume**.
Simply put, **bull markets** are movements in the stock market in which prices are rising and the consensus is that prices will continue moving upward. During this time, economic production is high, jobs are plentiful and inflation is low. **Bear markets** are the opposite--stock prices are falling, and the view is that they will continue falling. The economy will slow down, coupled with a rise in unemployment and inflation.
A key to **successful investing** during a **bull market** is to take advantage of the rising prices. For most, this means **buying securities** early, watching them rise in value and then selling them when they reach a high. However, as simple as it sounds, this practice involves timing the market. Since no one knows exactly when the market will begin its climb or reach its peak, virtually no one can time the market perfectly. Investors often attempt to buy securities as they demonstrate a strong and steady rise and sell them as the market begins a strong move downward.
Portfolios with larger percentages of stocks can work well when the market is moving upward. Investors who believe in watching the market will buy and sell accordingly to change their portfolios.Speculators and risk-takers can fare relatively well in bull markets. They believe they can make profits from rising prices, so they buy stocks, options, futures and currencies they believe will gain value. Growth is what most bull investors seek.

What is a Bear Market?

The opposite of a **bull market is a bear market** when prices are falling in a financial market for a prolonged period of time. A bear market tends to be accompanied by widespread pessimism. A bear market is slang for when stock prices have decreased for an extended period of time. If an investor is "bearish" they are referred to as a bear because they believe a particular company, industry, sector, or market in general is going to go down.

What is Technical Analysis ? How is it different from Fundamental Analysis ?

Technical Analysis is a method of evaluating future security prices and market directions based on statistical analysis of variables such as trading volume, price changes, etc., to identify patterns.

A stock market term - The attempt to look for numerical trends in a random function. The **stock market** used to be filled with **technical analysts** deciding what to buy and sell, until it was decided that their success rate is no better than chance. Now technical stock analysis is virtually non-existent. The Readers Submitted Examples page has more on this topic.

Research and examination of the market and securities as it relates to their supply and demand in the marketplace. The technician uses charts and computer programs to identify and project price trends. The analysis includes studying price movements and trading volumes to determine patterns such as Head and Shoulder Formations and W Formations. Other indicators include support and resistance levels, and moving averages. In contrast to fundamental analysis, technical analysis does not consider a corporation's financial data.

Technical analysts study trading histories to identify price trends in particular **stocks, mutual funds, commodities, or options** in **specific market sectors** or in the overall **financial markets**. They use their findings to predict probable, often short-term, trading patterns in the investments that they study. The speed (and advocates would say the accuracy) with which the analysts do their work depends on the development of increasingly sophisticated computer programs.

Technical Analysis supposes markets have memory.If so, past prices, or the current price momentum, can give an idea of the future price evolution. **Technical Analysis** is a tool to detect if a trend (and thus the investor's behavior) will persist or break. It gives some results but can be deceptive as it relies mostly on graphic signals that are often intertwined, unclear or belated. It might become a source of representiveness heuristic (spotting patterns where there are none)

Technical analysis has become increasingly popular over the past several years, as more and more people believe that the **historical performance of a stock** is a strong indication of future performance. The use of past performance should come as no surprise. People using fundamental analysis have always looked at the past performance of companies by comparing fiscal data from previous quarters and years to determine future growth. The difference lies in the **technical analyst's** belief that securities move according to very predictable trends and patterns. These trends continue until something happens to change the trend, and until this change occurs, price levels are predictable.

There are many instances of investors successfully trading a security using only their knowledge

of the security's chart, without even understanding what the company does. However, although **technical analysis is a terrific tool**, most agree it is much more effective when used in **combination with fundamental analysis**.

Fundamental Analysis

Fundamental analysis looks at a share's market price in light of the company's underlying business proposition and financial situation. It involves making both quantitative and qualitative judgements about a company. Fundamental analysis can be contrasted with 'technical analysis', which seeks to make judgements about the performance of a share based solely on its historic price behavior and without reference to the underlying business, the sector it's in, or the economy as a whole. This is done by tracking and charting the ***companies stock price, volume of shares traded day to day, both on the company itself and also on its competitors***. In this way investors hope to build up a picture of future price movements.

Saving Vs. Investing

Traditionally, saving has been viewed as quite different from investing. In most savings alternatives, the initial amount of capital or cash remains constant, earning guaranteed rates of interest.

The capital value of investments can go up or down. Returns are not guaranteed. However, creation of money market funds and deregulation of the banking industry have resulted in a variety of savings options that earn variable rates of return.

Savings provide funds for emergencies and for making specific purchases in the relatively near future (generally within two years). The primary goal is to store funds and keep them safe. This is why savings are generally placed in interest-bearing accounts that are safe (such as those insured or guaranteed by the federal government) and liquid (those in the form of cash or easily changed into cash on short notice with minimal or no loss). However, these generally have low yields. Because of the opportunities for earning a higher return with a relatively small pool of funds, some financial experts suggest that savers consider slightly higher risk (but liquid) alternatives for at least part of their savings.

Saved money is insurance. It is insurance against risk, against losing your job, against having a major unexpected repair bill or medical expense in the family. It is the backbone of you and your family's financial well-being. Saved money grants you financial security. And the more you save, the more financial secure and independent you will be.

The goal of investing is generally to increase net worth and work toward long-term goals. Investing involves risk. Risk of your stocks losing money, or even going bankrupt (Enron, MCI,

the airlines, etc. etc.). Risk of interest rates rising, and bond prices falling. Risks of your broker swindled you, or coerced you though his sales pitch to buy speculative investments. Risks of the economy. Risks of a particular industry. Risk of losing your principal. Risk of losing it all, and then some (such as with margin calls).

What are Dividends and When they're Issued ?

If you've ever owned stocks or held certain other types of investments, you might already be familiar with the concept of **dividends**.
Even those people who have made investments that paid **dividends** may still be a little confused as to exactly **what dividends are**, however... after all, just because a person has received a dividend payment doesn't mean that they fully appreciate where the payment is coming from and what its purpose is.

If you have ever found yourself wondering exactly **what dividends are** and why they're issued, then the information below might just be what you've been looking for.

Defining the Dividend

Dividends are payments made by companies to their stockholders in order to share a portion of the profits from a particular quarter or year. The amount that any particular stockholder receives is dependent upon how many shares of stock they own and how much the total amount being divided up among the stockholders amounts to. This means that after a particularly profitable quarter a company might set aside a lump sum to be divided up amongst all of their stockholders, though each individual share might be worth only a very small amount potentially fractions of a cent, depending upon the total number of shares issued and the total amount being divided. Individuals who own large amounts of stock receive much more from the dividends than those who own only a little, but the total per-share amount is usually the same.

When Dividends Are Paid

How often **dividends** are paid can vary from one company to the next, but in general they are paid whenever the company reports a profit. Since most companies are required to report their profits or losses quarterly, this means that most of them have the potential to pay dividends up to four times each year. Some companies pay dividends more often than this, however, and others may pay only once per year. The more time there is between dividend payments can indicate financial and profit problems within a company, but if the company simply chooses to pay all of their dividends at once it may also lead to higher per-share payments on those **dividends**.

Why Dividends Are Paid

Dividends are paid by companies as a method of sharing their profitable times with the stockholders that have faith in the company, as well as a way of luring other investors into purchasing stock in the company that is paying the dividends. The more a particular company pays in dividend payments, the more likely it is to sell additional common stock... after all, if the company is well-known for high dividend payments then more people will want to get in on the action. This can actually lead to increases in stock price and additional profit for the company which can result in even more dividend payments.

In order to get the most out of the dividends that you receive on your investments, it is generally recommended that you reinvest the dividends into the companies that pay them. While this may seem as though you're simply giving them their money back, you're receiving additional shares of the company's stock in exchange for the dividend. This will increase future dividend payments (since they're based upon how much stock that you own), and can set you up to make a lot more money than the **actual dividend payment** was for since increases in stock prices will affect the newly-purchased stock as well.

The Importance of a Trading Plan

Trying to win in the stock market without a trading plan is like trying to build a house without blueprints - costly mistakes are inevitable.

Why do you need a Trading Plan?

1 - During trading hours, emotions will turn smart people into idiots. Therefore, you have to avoid having to make decisions during those hours. For every action you take during trading hours, the reason should not be greed or fear. The reason should be because it is in the plan. With a good plan, your task becomes one of patience and discipline.

2 - Consistent results require consistent actions - consistent actions can only be achieved through a detailed plan.

What should be in your trading plan?

1 - Your strategy to enter and exit trades

You have to describe the conditions that have to be met before you enter a trade. You also have to describe the conditions under which you will close a position. These conditions may include technical analysis, fundamental analysis, or a combination of both. They may also include market conditions, public sentiment, etc...

2 - Your Money management rules to keep losses small - the goal of money management is to ensure your survival by avoiding risks that could take you out of business. Your money management rules should include the following:

- Maximum amount at risk for each trade.
- Maximum amount at risk for all your opened positions.
- Maximum daily and weekly amount lost before you stop trading

3 - Your daily routine - after the market closes, before it opens, etc...

4 - Activities you carry out during the weekend.

5 - I also like to include reminders that I read every day

I will follow a trading plan to guide my trading - therefore my job will be one of patience and discipline.

- I will always keep my trading plan simple.
- I will take actions according to my trading plan, not because of greed, fear, or hope.
- I will not deceive myself when I deviate from my trading plan. Instead I will admit the error and correct it.

I will have a winning attitude.

- Take responsibility for all your actions – don't blame the market or world events.
- Trade to trade well and for the love of trading, not to trade often and not for the money.
- Don't be influenced by the opinions of others.
- Never think that taking money from the market is easy.
- Don't try to guess the future – trading is a game of probabilities.
- Use your head and stay calm – don't get excited or depressed.
- Handle trading as a serious intellectual pursuit.
- Don't count how much money you have made or lost while you are in a trade - focus on trading well.

A trading plan will not guarantee you success in the stock market but not having one will pretty much guarantee failure.

The Seven Mistakes All Novice Traders Make and How to Correct Them

We learnt the following the hard way! If any of these things applies to you, don't worry

– there is an easy solution!

MISTAKE ONE

Lack of Knowledge and No Plan

It amazes us that some people expect to trade the stock market successfully without any effort. Yet if they want to take up golf, for example, they will happily take some lessons or at least read a book before heading out onto the course.

The stock market is not the place for the ill informed. But learning what you need is straightforward – you just need someone to show you the way.

The opposite extreme of this is those traders who spend their life looking for the Holy Grail of trading! Been there, done that!

The truth is, there is no Holy Grail. But the good news is that you don't need it. Our trading system is highly successful, easy to learn and low risk.

MISTAKE TWO

Unrealistic Expectations

Many novice traders expect to make a gazillion dollars by next Thursday. Or they start to write out their resignation letter before they have even placed their first trade!

Now, don't get us wrong. The stock market can be a great way to replace your current income and for creating wealth but it does require time. Not a lot, but some.

So don't tell your boss where to put his job, just yet!

Other beginners think that trading can be 100% accurate all the time. Of course this is unrealistic. But the best thing is that with our methods you only need to get 50-60% of your trades "right" to be successful and highly profitable.

MISTAKE THREE

Listening to Others

When traders first start out they often feel like they know nothing and that everyone else has the answers. So they listen to all the news reports and so called "experts" and get totally confused.

And they take "tips" from their buddy, who got it from some cab driver...

We will show you how you can get to know everything you need to know and so never have to listen to anyone else, ever again!

MISTAKE FOUR

Getting in the Way

By this we mean letting your ego or your emotions get in the way of doing what you know you need to do.

When you first start to trade it is very difficult to control your emotions. Fear and greed can be overwhelming. Lack of discipline; lack of patience and over confidence are just some of the other problems that we all face.

It is critical you understand how to control this side of trading. There is also one other key that almost no one seems to talk about. But more on this another time!

MISTAKE FIVE

Poor Money Management

It never ceases to amaze us how many traders don't understand the critical nature of money management and the related area of risk management.

This is a critical aspect of trading. If you don't get this right you not only won't be successful, you won't survive!

Fortunately, it is not complex to address and the simple steps we can show you will ensure that you don't "blow up" and that you get to keep your profits.

MISTAKE SIX

Only Trading Market in One Direction

Most new traders only learn how to trade a rising market. And very few traders know really good strategies for trading in a falling market.

If you don't learn to trade "both" sides of the market, you are drastically limiting the number of trades you can take. And this limits the amount of money you can make.

We can show you a simple strategy that allows you to profit when stocks fall.

MISTAKE SEVEN

Overtrading

Most traders new to trading feel they have to be in the market all the time to make any real money. And they see trading opportunities when they're not even there (we've been there too).

We can show you simple techniques that ensure you only "pull the trigger" when you should. And how trading less can actually make you more!

Fundamental and Technical analysis in Indian Share Market

The fundamental and technical analysis are widely used for share traders but use of these analysis differs from traders to traders.

First of all lets see what these analysis means -

a) Fundamental Analysis -

The name itself indicates that this analysis is totally based on companies' fundamentals. Fundamental analysis is used for long term analysis and long term returns. Following are the few fundamental terms used to forecast and analyze the companies' future growth and based on this analysis transaction of shares will be done.

¨ Companies expansion or planning in coming future.
¨ Management processes and planning
¨ Meeting of Board of directors
¨ Declaration of yearly financial statements
¨ Study of past performance of the company.
¨ Study of quarterly, half yearly and annual reports.
¨ Companies involvement in foreign investment/collaboration, political or economic involvements, etc.

Depending on these factors and many others, fundamental analysts prepares certain share market and share trading related terms which will be used to forcast the company growth and prospects. The terms like

¨ Whether the share prices are overvalued or under valued,
¨ Working capital ratio,
¨ Return on equity ratio,
¨ Debt equity ratio etc.

Based on these terms and other fundamentals, the analysts predict the movement of share prices that is either bullish or bearish in coming future.

Basically fundamental analysis is meant for long term investments and not for day trading or short term investment. So traders planning to invest for long term in share market then they must go for fundamental analysis.

Always good fundamental companies give good results and returns for share holders in long term.

b) Technical Analysis -

As fundamental analysis made for long term investments, likewise technical analysis is made for day traders and short term traders. Technical analysis is nothing but study of charts, support and resistance levels,

technical indicators and other parameters which are useful to analyze the share price movements in short term or in day trading. There are several factors and terms in Technical analysis which will be discussed in detail in further topics.

Information and guide on Online Share trading

What is Online share Trading ?

Trading with the help of computer having internet connection and online trading account is called Online Share Trading. Basically people use online share trading who want to trade themselves.

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.com, 5paisa.com, Sharekhan.com etc. Their will be nominal annual charges. These charges vary from bank to bank but should not be more than Rs.1000 annually.

¨ 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) (graphs will be discussed later). And depending on your analysis you can take steps towards
your successfully trading. (How to analyze graphs will be mentioned later).

¨ 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.

Disadvantages of Online Trading

¨ In online trading system you may face problem of disconnection to internet due to which you will not be able to login
to your online trading system and hence you can't do trading yourself. At such critical times you have to call trading
system executive and do trading or square off your transactions.

¨ If may face other problems such as electricity cut-off, PC problem etc during online trading then immediately you
have to contact your trading system executive and place orders or do trading.

Day trading techniques

uy near open price

If possible try to buy shares below open price, or at open price. Don't buy shares if price is gone very high then open price, wait for the price to come down near open price and then buy that stock.

Check buying volumes

Before buying check out the buying and selling quantity (volumes). If buying volume started increasing then the stock may go up.

Check derivative status

If possible try to check out the derivative of the stock which you want to buy. If derivative of that particular stock is going up with increasing buying volumes then you can immediately grab (buy) that share/stock.
Most of the time it is seen that if the derivative goes up, then its

stock or share also goes up.

Wait for the target price to buy

For example, if buy is given at 150.5 then don't buy below this price, only buy at 150.5 price or slightly higher then price. Because the given buy price may be the resistance price, if it breaks then share price goes up or else may not go up above 150.5. So plan to buy at given targeted price, don't buy below target price.

Strictly maintain Stop Loss

Strictly maintain the given stop losses. This will help you to prevent from huge loss. Suppose, for moment the share/stock what you bought falls drastically down, then you may end up with huge loss. So always maintain given stop loss.
"Stop Loss will reduce your loss".

Down wait for huge profit in single share/stock

If you are getting some profit and if you notice that is not further moving up (it's called consolidation) then you have to sell your share/stock and come out of that trade.
In this manner, you can earn small profit instead of loss then you can do another trade and again earn small profit. Likewise if you keep earning couple of small profits in a single day then all your small profits will add up to huge profit amount in a single day.
"Get satisfied in small profit and do multiple trades"

Online Share Trading Tips

Online Share Trading India

In Online share trading the trading is done by using computer and internet connection. In other words 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. In this method you must have a computer and internet connection or else you can make use of internet cafe. Nowadays due to internet facility lots of things have become easier as compared to earlier days. So making use of the great internet facility you can start your own online share trading.

What is offline share trading - Trading done through share broker is called offline share trading method. Just to brief you about offline trading.If you need any more advice about

offline share trading then please drop a line to support@daytradingshares.com and we will get back to you within 24 hours

As this section is only dedicated to online share trading so let's proceed.

So till now you would have been understood about online share trading.

Now let's go to next chapter.

Back to Top

Online share trading services in India

There are three primary things required to start online share trading.

Demat account (Trading account), a computer and internet connection or else you can go to internet cafe.

¨ **Online Demat Account** -

You have to open online trading account that is also called as demat account.(If you want to know more about demat account then please go to **Basics of share market Indian** and check in share market and its analysis section.There are number of share broker agents with whom you can open your trading account. Following are the some of the names of broker agent where you can contact them and open your trading account. www.icicidirect.com, www.sharekhan.com. www.5paisa.com , www.indiabulls.com etc. these are just few agents you will find more.

Points to remember while opening your trading account

- Enquire about brokerage rates and taxes you have to pay for your trading account.
- You have to open the trading account with the agent who is offering you the lowest brokerage rates.
- Different brokerage rates are available for different trading methods like delivery trading and intraday (day trading) trading.
- Before opening your account try to insist the agent to get demo of there online trading software or terminal and check your reliability and Speed.
- Also confirm about there charges and any hidden charges if you have to pay.

Please properly verify above points and then decide with whom you would like to open the trading account.

Now you have your on online trading account, let's go for another most important requirement needed for you to start your online trading account.

¨ **Computer** -

Second most important requirement is computer. Nowadays you get very good computer in very affordable price. You may also go for second hand (used) computer but its better to go for new one as they are available for very less prices.

Precaution - Get the computer configuration details and price and compare with other shops and then finalize your deal.Because the price of computer varies due to configuration so get proper configuration details.

NOTE - If you can't afford to buy a computer, then you can go to Internet café and do your trading. This method is also absolutely fine.

¨ **Internet Connection** -

Third requirement is your internet connection. Nowadays you get internet broadband connection very fast and very importantly at very less price. Following are the companies which provide broad band internet connection.

Tata broadband, Sify broad band, Reliance Broad band etc.
Precaution - Get proper price range and speed of the internet connection they are going to provide you. The price depends on internet speed and data they provide to you. So get proper confirmation and then go for that company's connection

Another option -
Alternate option for Internet Broad band connection is GPRS connection. GPRS connection is the internet connection has to be activated on your cell phone (mobile phone) and then the cell phone has to be connected to your computer. The GPRS connection is bit cheaper as compared to broad band connection but you may get less speed as compared to broad band connection. The choice is yours.
On the second part the Airtel, Tata Indicom Reliance, Idea etc these all and many other provides GPRS connection and they will help you to set up your mobile phone with your computer for internet access.
Above three are the primary requirements for starting your own online share trading.

NOTE - If in case if you don't want to purchase a computer and don't want to get internet connection then you can go and trade in internet cafe. This is also absolutely possible and fine.

After getting your prime requirement for starting your online share trading now its time to start your share trading.
Let's go to next chapter.

Things to know before starting your online share trading

Please make a note of following things before starting your online share trading.

¨ **Must be aware of Share Market** - You must be well aware about share trading, knowledge of share market and shares, fully aware of your online trading software or terminal.

¨ **Refer our website fully** - To have basic idea about different types of share trading and other share market related information.

¨ **Keep yourself updated** - It always very important to keep updated yourself about latest news about share market and companies etc. it really helps you in share trading.

"Share market always reacts to appropriate news"

For latest market news, latest stock updates on day to day basis and also latest share market updates which may affect your shares, then please **Go here**

Resources - To keep updated yourself you have to read financial newspaper like business standard, economic times etc. On the internet you can access/open financial related websites like www.businessstandard.com , www.economictimes.com , www.capitalmarket.com etc. On these websites you will get all news related to share market, government news, company's announcements etc which will affect the share market.
Share market daily open at 9:5 am and closes at 3:30 pm, Saturday and Sunday are holidays for share market.
If you open the financial websites before market opens then you will get the idea about today's share market movement, either it is bullish (going up) or bearish (coming down), (want

to know other terms then please check our website) other information like movement of other Asian markets and USA market which has huge impact on our Indian share market. Asian markets start early then our Indian market.

Action Plan - Now you have to plan your action as you are ready will all the information required for share market. Now your action plan is to select shares which are I news or select shares from sector which is in news.

Sector like IT, cement, Petrochemical etc. If there is news on any particular companies/shares or on any sector then definitely there will be movement, if the news is appropriate.

During market hours also you have to keep alert about news. Always trade or select shares/companies which are involved in news. This is one of the easiest methods of tracking shares and doing trading on them.

Also it is also always better that do some study and research before starting your trading.

For example note down today's top gainers, top losers, and volume toppers etc and tomorrow keep a close watch on them this is also one method of selecting shares and trading on them.

One more very important point is you should be always aware about news like when company is declaring its dividend, companies merger plans, demerger plans, quarter results, major acquisitions, collaborations etc .

This type of news will definitely makes great movement on related company shares.

Learn Online Share Trading

There are very important benefits (advantages) of online share trading over offline share trading.

¨ **No need to depend on broker** -

First up 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.

¨ **All updates on your computer screen** -

As you have internet connection with you will get all updates of government news, companies' announcements, and corporate declaration etc during market hours. It's not so practically for your broker to provide you all the updates and news. So its very important point that you get all news, especially those news which affects share market right in front of your computer screen.

"Share Market always reacts to appropriate news"

¨ **Independent for your trades** -

On the other part you will get all information of your traders on your computer screen. You can view yourself your profits and losses done and depending on your current situation you can plan your further trades. In

other words

you are totally independent for your trades from your broker. You are boss of your self.

Problems online share trading

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 also you have contact your executive.

¨ **Other Problem** - Other problems like electricity disconnection. Solution for this is inverter or batter backup. Above all technical problems which may exist at any time and they are beyond our control means not in control.

Online share trading tips

¨ **Do not over trade** - Do not put all your money in share market.

¨ **Do not put all your money in single share or single sector** - Put or divide your money in multiple shares or sectors. This may reduce the risk of heavy loss.

¨ **Do not panic or fear** - Think twice before making your trade/plan and once done stick to it, don't panic or fear.

¨ **Accept Loss** - If you trade is going against you and if you are not sure about your trade then immediately accept the loss and come out of your trade. It will save you from heavy loss.

¨ **Right Opportunity** - Do not fall in trade early, wait for right opportunity and then trade. It's very important.

"Wait, Watch and then trade" you will get success.

¨ **Everyday is not trading day** - Do not force yourself to do trading everyday. It's wrong. If you are not sure about the market movement for that day then it always wise decision to be away from market and not to trade.

¨ **Keep you greediness away** - Most of the people loose in share market due to greediness. Get satisfied I whatever profit you get and come out of that trade and wait for next opportunity. Don't wait to take huge for that single trade.

Trading in Futures Derivatives (F&O)

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Futures derivatives trading

Future trading can be done on stocks as well as on Indices like IT index, Auto index, Pharma index etc

Stock future trading -
Let's first understand what the meaning of futures trading is. In simple language one future contract is group of stocks (one lot) which has to be bought with certain expiry period and has to be sold (squared off) within that expiry period.
Suppose if you buy futures of Wipro of one month expiry then you have to sell it within that one month period.
Important - Future contract get expires at every last Thursday of every month.

If you buy October month expiry future contract then you have to sell it within last Thursday of October month. Likewise you can buy two months and three months expiry period future contract.
You can buy maximum of three month expiry period.
For example - suppose this is month of October then you have to buy till maximum month of December expiry and you have to sell it within last Thursday of December month. You can sell anytime between these periods.
Lot size (group of stocks in one future contract) varies from future to future contract.
For example Reliance Industries future lot size has 150 quantities of shares while a Tata Consultancy service has 250 shares.
In the same manner all futures have different lot sizes decided by SEBI (Securities Exchange Board of India).

The margin (in other words price of one lot size) varies on daily basis based on its stocks closing price.
Future trading can be done on selected stocks listed under Nifty and Jr. Nifty and not on all stocks.
The price of future contract is determined by its underlying stock.
Important - You can't buy future contract of expiry period of not more than 3 months.

Indices future trading

As you can do future trading on stocks likewise you can do trading on different indices like Nifty index, IT index, Auto index, Pharma index etc.

Successful trading in futures

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.

Major Advantages of Futures Trading over Stock Trading

1) Margin is available -

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.

For example - If you plan to buy stock XYZ at Rs. 100 and quantity 1000 shares then you have to pay 1 lakh rupees (RS 100 x1000 qty). But if you plan to buy XYZ future contract and that contract lot size has 1000 quantity of shares then instead of paying 1 lakh rupees you have to pay just 20% to 30% of whole amount which comes to 20 thousand to 30 thousand rupees.

In short in future trading you have to pay just 20% to 30% of the whole amount what you pay if you buy stock of that price. But limitation for this is your expiry period. Means if you bought future of one month expiry then you have to square off within that one month likewise you can buy maximum of three months expiry.

2) Possible to do short selling -

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.

For example - If expiry period of your future contract is of 1 month then you have time frame of one month to cover off your order like wise if your future expiry period is of two months then you have time frame of two months and this continues till three months and not more then three months.

In short selling of futures also you get margin as you get in buying of futures.

3) Brokerages are low -

Brokerages offered for future trading are less as compared to stock delivery trading.

Disadvantages of Future Trading over Stock Trading

1) Limitation on holding -

If you buy or sell a future contract then you have limitation of time frame to square off your position before expiry date.

For example - If you buy or sell future contract of one month expiry period then you have to square off your position before your expiry date of that month, so in this example you got one month period. So likewise if you go

for two month expiry period then you get 2 months and if you go for three month expiry then you will get 3 month expiry period to square off your position.

2) Level of Risk -

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.

3) Limitation on stocks -

You can't do future trading on all stocks. You can only do on listed stocks on Nifty and Jr. Nifty.

Important points to Remember while doing future trading

1) First up all you have to decide whether you want to buy stock derivatives or index derivative. After this you have to select the expiry period. Once you buy certain expiry period then you have to sell (cover off) your order before that period.
Its no need to wait till the expiry period, you can even square off on the same day (if you are getting profit) or anytime whenever you feel to book profit, no compulsion to cover off your order on the last day of expiry.
2) Check out for Futures current market price.
3) Futures Lot Size (number of shares in that particular Lot).
4) Futures Lot price (this is the amount you must have in your account to buy one lot of future) also called as margin amount.
5) Selection of expiry period - you want to trade on expiry of one month, two month or last 3rd month.
6) No need to wait till expiry period can book profit wherever applicable.

Method of Short Selling

Short selling (selling before buying in future trading)
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.

More points will be added very shortly. Tips on futures trading will be added to our tips page very soon.....Keep Watching

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Daily Tips to Watch

The shares may rise or fall due to numerous reasons, some of them are mentioned below. If you at least keep a watch on following factors. You can save yourself been big loss (if shares are falling) or earn good amount (if shares are rising).

A) News

Share market always reacts for appropriate news. Always read financial news like Business Standard and Economics Times etc. or else watch financial news channels.

What is appropriate news?

News - Like merger announcement, this news will impact more if the Merger is related to foreign company, positive news - shares may rise. Demerger announcement will have negative impact - negative news - shares may fall. Merger and Demerger announcement may have major impact on Indian Share Market.

Acquisition (takeover) Announcement - Takeover of some part (or whole) of companies, especially those having larger capacity/turnover or foreign company's. This news will have major impact on that particular share - very positive news - shares may rise, don't miss this opportunity. Buy shares of such companies. Takeover may have positive impact on Indian Shares.

Expansion Plan - Announcement like major expansion plan of a company or entering into other sectors or opening new plants, branches, turnover increase announcement, new product launch etc. Above announcement will have a positive impact on a share market - share may rise.

Political News - News like elections in the country or in any particular state, news of any major change in
political upfront or in any change in rules will also have major impact on Indian share market. Political news
related to any particular State will have major impact on companies located in that state for example major
Sugar Companies are located at Uttar Pradesh like Balrampur Chinni, Triveni Engg, Bajaj Hindustan etc.
so any major political news especially related to any sector will have major impact on shares of that sector.

B) Impact of Other Asian Market

Most of the time it has been observed and studied that Indian Market (Nifty/Sensex) follows other Asian markets and USA markets.

Asian markets like China - Shanghai's market, Japan - Nikkei market, Hong Kong - Hang Sung market.

Above all Asian markets "open" early than Indian market. Most of the time Indian market will follow this Asian markets. If these Asian markets open in positive and lead to positive direction than the Indian markets will react
in the same manner and vice-versa provided that there is no major news in India.

USA market - USA markets like NASDAQ and DOW will also have major impact on Indian market. So, in short

in the morning around 9.30 am (Indian market opens at 9.30 am) get all news above USA markets (which opens and closes in our night time which is their day time) and Asian markets and plan yours day trading.

C) Quarterly Results - (Very important)

Quarterly results declared by all Indian Companies will have major impact on that company and hence their shares in Indian share market. Every company declares its quarterly results. If any company declares extra-ordinary results that will definitely affects its shares.

Most of all share traders concentrate on much profit and target sales that company had made. If company achieved good profit than they declare dividend, bonus shares etc. This will make positive impact on shares of that company.

D) Fundamental News

Fundamental news means companies own news. Companies own news means future turnover announcements, any change in director body, future releases etc. If the company has good fundamentals likeboard of directors, companies expansion plans, future acquisition etc then its worth to invest in such companies for long term.

Individual share - If the share is over bought, then some profit taking will takes place (price may come down) and if share is over sold then you may see some buying (price may go up) of those shares with large volumes, than you can plan your trades accordingly.

E) Inflation Rate - (Very important)

Inflation rate is wholesale prices of consumer goods. This rate is declared by Government for every week at

Friday (weekend) 12.00 pm. The inflation rate indicates what the wholesale price was for that week. If it is low

As compared to previous week, then it is positive news and you may see share prices going up and if the rate

is higher as compared to previous week, then it is negative and this may affect share prices negatively and

share prices may come down.

So keep a watch. Inflation rate declare by Indian Government at every Friday 12.00 pm and trade accordingly.

"Indian share market reacts to inflation rate".

F) Future/Derivative Expiry - (Very important)

Future/Derivatives has expiry period of one month. Derivatives get expired on last Thursday of a month. Future/Derivative gets expired means you have to sell your future/derivatives which you caring for whole month and buy for next month. Due to this expiry period share traders sell there derivatives, due to which shares prices may come down.

If you watch the share market carefully this selling movement starts before one or two days of expiry. So be cautious and plan your trade accordingly.

During this expiry period you may see shares prices coming down then you can plan your buying and selling in next month when prices go up.

G) Where to Keep Watch - (for day traders)

Keep a close watch on shares which comes under top gainers, top losers and which are touching all time high. What can be done in after market hours (when market closes at 3.30 pm) you can make a list of all those
shares then plan your trade.
"Touching all time high is positive news."

Investment in delivery based trading

Delivery based trading means buying shares and holding them for certain period of time is called delivery based trading.
The shares you bought will be in your demat account.
Once you take delivery of shares you can hold them as long as you want. To take delivery of shares, you must have sufficient funds in your account. You don't get any margin to buy shares in delivery.
If you have Rs.5000 means you can buy shares worth of Rs.5000 and not more than this.

Tips for shares investment in delivery based trading

Please study following points, carefully, and get best returns in short period of time.
Basically, Delivery based trading can be minimum one week, one month or couple of months.
How long to hold your scrip's/shares will depend on other technical indicators and averages.

How to select best scrip's

There are thousands of shares/stocks, which one is best for delivery trading and which one will give maximum profit in short period of time. Please have a look following selection criteria points.
Points to remember for fundamental screening,

1. Sector - 50% of stocks rise and fall is directly related to the strengths and weakness of its industry group.
2. Never lose more than 1-2% of your total amount on any one trade.
3. Promoters holding more than 40% indicate safety for retail investors. (Promoters - who run the company).

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4. FII holding minimum 20 and maximum 25 is safe for retailer, not much volatility.
   More FII investment = more volatility.
5. Liquidity - buying and selling of shares minimum 1L/day

¨ **Consistent earnings**

Generating profit consistently year after year or quarter after quarter

¨ **EPS**

Earning per share is calculated by taking a company's net earning and dividing by the numbers of outstanding

shares of the stock the company has.

Note - Last year's EPS would be actual, while current year and forward year EPS would be estimates.

¨ **P/E Ratio**

EPS is a great way to compare earnings across companies, but it doesn't tell you anything about how the market values the stock. That's why fundamental analysts use the P/E ratio, to figure out how much the market is willing to pay for a company's earnings.

P/E Ratio = Price of the share/EPS

Higher the PE ratio, more people are convinced to pay high for that share expecting higher growth in coming future.

¨ **Dividend yield**

It is calculated by taking the amount of dividends paid per share over the course of a year and dividing by the stocks price.

Its percentage return a company pays out to its share holder in the form of dividends. The higher the better.

¨ **Price/Book ratio**

The higher the ratio the higher price the market is willing to pay for the company above its assets. Its more useful to value investor than growth investor.

¨ **Price/Sales ratio**

As with earning a book value, you can find out how much the market is valuing a company by comparing the company's price to its annual sales.

Low Price/Sales ratios (below one) are usually thought to be the better investment since their sales are priced cheaply.

P/S ratios are usually used only for unprofitable companies, since such companies don't have a P/E ratio.

¨ **Returns on Equity (ROE)**

It is used as a general indication of the company's efficiency, in other words, how much profit it is able to generate given the resources provided by its stockholders.

Investors usually look for companies with ROE that are high and growing.

¨ **Debt to equity ratio**

This should not be more than 1, and less than 1 indicates company has very less debt. This is very important during market down trend as company has to pay lots of interest ratio beside low profitability. So its good sign, if company

has less debt and that is debt equity ratio.

Investment tips in Delivery based trading

Remember following points to increase your profit and reduce losses,

¨ **Buy shares of different companies**

Don't ever try to put all your money in single share. Try to get shares of multiple companies and if possible from different sectors.

You will always get benefited by investing in companies of different sectors, because we never know which sector will have good news and which sector will have bad news.

"Market always reacts for news."

¨ **Be Patient**

When you buy shares, they may go down. In share market its general practice that shares go up and down.

If they go down than don't panic and sell your shares

Most of the investors/traders wait till their shares come to their buying level and then sell, but generally they forget that is the actual buying level of shares and from this level onwards the share price will start moving upwards.

Corporate investment for long term trading

¨ Taking delivery of shares during Q1, Q2, Q3 and Q4 results is very common among investors/traders who knew the historical performance and current market situation of those particular companies or sector, so study historical yearly profits and sales ratios of top companies and buy shares of those companies.

Some weeks before, their quarterly results and after declaring their huge growth in quarterly results, obviously share price will shoot up then you may sell your shares and make handsome profit in very few weeks.

¨ If you hold bit longer, then you may also get benefited of dividend. If companies make outstanding profit then they may declare dividend.

For more guidance or advice on trading on news e-mail us at support@daytradingshares.com

Technical indicators for Delivery based trading

It's very important to make use of technical indicators in Delivery based trading.

As this topic is very vast, we will try to brief about important indicators to use. If you need any extra free support/guidance then drop an e-mail to support@daytradingshares.com

You can use following indicators for entry and exit signal, over bought and over sold levels etc.

¨ MACD
¨ RSI
¨ Moving Averages

Returns on investment in Indian companies

There are very important benefits of Delivery based trading

¨ **Hold as long as you want**

If you buy shares and if it goes down, then you can hold them and sell them only when your shares go above your buy price.

¨ **Loan**

Nowadays some banks and some financial firms provide loans on your shares. So you can utilize your shares in your bad times.

¨ **Dividend (very important)**

If companies make good profit, then they may declare dividend per share. If you hold shares of such companies then you may get dividend per share.

¨ **Good returns**

Nowadays if you keep your money in banks then you get maximum 9% or 9.5% per year. If you invest in shares of good growing companies then you can earn minimum 15% returns per year. Some companies give 30 to 40% returns per year.

Best share market returns are based on delivery based trading for long term.

¨ **Bonus share**

If company makes extra ordinary profit then company may declare bonus shares. Bonus share like 1:1 means if you have one share then you may get another free.

So if you have delivery of such shares then you are liable for such bonus shares.

Money making opportunities for long term

It become very important to decide for delivery based trading that how long to hold shares of a company------right?

Please watch on following two important points,

¨ Watch Q1, Q2, Q3, Q4 results of a company and check whether company is declaring/ posting consistent profit or sales, its very important for a company to declare quarterly results in good profit percentage

in order to prove its
consistent growth in the market.

¨ Declaration of future plans, expansions, acquisitions, mergers etc. Any good such plans can boost companies
profit, so you may plan to hold such shares. Such plans are very important.

Financial planning for your share returns

It's another important point to consider, if you hold more than one share then it is always advisable to prepare technical document for all your shares.
You can prepare excel or word sheet on your computer or you can write in your notebook.

Points to involve / write with date

¨ All quarterly results - Including profits and sales ratio and other financial ratios
¨ Declaration of bonus or dividend.
¨ Declaration of acquisition, expansions etc
¨ Weekly volume, close price, PE ratio, any company news etc.

In this manner you will come to knew what is happening about your share and you can decide when to sell or till what
period to hold. This system is called portfolio maintaining.
Even you can keep a close watch on share which you are planning to buy and if you get proper signal or feel
comfortable with its quarterly results or news/future plans, then you can jump and buy that share.

Find Fundamental Good Stocks

Fundamental analysis is the process of looking at a company's basic or fundamental financial level. This type of analysis examines important terms of a companies to determine its financial health and gives you an idea of the value its stock.
Many investors use fundamental analysis alone or in combination with other technical tools to evaluate stocks for investment purposes. The idea behind this is to determine the current worth and, more importantly, how the market values the stock in coming future.

The following points are based on important tools of fundamental analysis and what they tell you. Even if you don't plan to do in-depth fundamental analysis yourself, it will help you to follow stocks more closely which will give you good returns in future/long term investments.

Earnings

It's all about earnings. When you come to the bottom line, that's what investors want to know. How much money are the companies making and how much is it going to make in the future.

Importance of Earnings - Earnings are profits. Quarterly or yearly companies increasing earnings generally makes its stocks price to move up and in some cases a pay out of regular dividend. This is Bullish sign and indicates that the companies in growth phase.

When the companies declare low earnings then the market may see bearishness in the stock which may affect the stock price in negative manner.
Every quarter, companies report its earnings. There are 4 quarters.
Quarter 1 - (April to June and earnings will be declared in July)
Quarter 2 - (July to Sept and earnings will be declared in Oct)
Quarter 3 - (Oct to Dec and earnings will be declared in Jan)
Quarter 4/final - Also called as financial year end - (Jan to Mar and earnings will be declared in April)
Now by this time you may be come to know how earnings are important for a stock price to move up or down. But depending only on earnings one should not make investment or trading decision.
To make decision more risk free you should look into more tools as mentioned below so that your investment decision becomes more solid and you should get excellent returns in future.
Conclusion - Keep a close watch on quarterly earnings and trade accordingly.

Make use of following tools to find excellent growth stocks
Following are the most popular and important tools to find excellent growth stocks which focuses on earning, growth, and value of the company's.
To make you understand more easily we have explained in very simple steps.

Following are 10 simple steps.

1) Earning per share - EPS
2) Price to Earnings Ratio - PE
3) Projected Earning Growth - PEG
4) Price to Sales Ratio - PS
5) Price to Book Ratio - PB
6) Dividend Yield
7) Return on Equity
8) Debit ratio
9) Company's announcements
10) Profit after Tax - PAT

(Note - No need for you to do any calculation or to calculate any ratios, you will get all ratios easily available.-

Note - Any single tool should not be used to make your investment or trading decision nor will they provide you any buy
or sell recommendation. All tools should be used to find growth and value stocks.
After making use of above all tools you will get excellent stocks which will give you excellent returns in mid term to long term.
You will find all these ratios in any financial website.

Understanding Earning Per Share - EPS

EPS plays major role in investment decision.
EPS is calculated by taking the net earnings of the companies and dividing it by the outstanding shares.
(Nowadays you will get this ready made, no need for you to do calculation.)

That is EPS = Net Earnings / Outstanding Shares
For example - If Company A had earnings of RS 1000 crores and 100 shares outstanding, then its EPS becomes 10 (RS 1000 / 100 = 10). Second example - If Company B had earnings of RS 1000 crores and 500 shares outstanding, then its EPS becomes 2 (RS 1000 / 500 = 50).

So which companies stock do you want to buy?
It's not advisable to make your investment decisions based on only single tool analysis.

Conclusion - You should look for high EPS stock/company. The higher the better.
Note - You should compare the EPS from one company to another, which are in the same industry/sector and **not** from one company from Auto sector and another company from IT sector.
But it doesn't tell you what the market thinks of it. For that information, we need to look at some more ratios as following.
Before we move on, you should note that there are three types of EPS numbers:

- Trailing EPS - Last year's EPS which is considered as actual and for ongoing current year.
- Current EPS - Which is still under projections and going to come on financial year end
- Forward EPS - Which is again under projections and going to come on next financial year end

EPS is the base for calculating PE ratio.

Understanding Price to Earnings Ratio - PE ratio

PE ratio is again one of the most important ratio on which most of the traders and investors keep watch.
Important - The PE ratio tells you whether the stock's price is high or low relative to its earnings.
The high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. but, the P/E ratio doesn't tell us the whole story of the company.
It's more useful to compare the P/E ratios of one company to other companies in the same sector/industry and not in other industry.

The PE ratio is calculated by taking the share price and dividing it by the companies EPS.
That is PE = Stock Price / EPS
For example
A company with a share price of RS 40 and an EPS of 8 would have a PE ratio of 5 (RS 40 / 8 = 5).
Importance - The PE ratio gives you an idea of what the market is willing to pay for the companies earning. The higher the P/E the more the market is willing to pay for the companies earning. Some investors say that a high P/E ratio means the stock is over priced on

the other side it also indicates the market has high hopes for such company's future growth and due to which market is ready to pay high price.
On the other side, a low P/E of high growth stocks may indicate that the market has ignored these stocks which are also known as value stocks. Many investors try finding low P/E ratios stocks of high value growth companies and make investments in such stocks which may prove real diamonds in future.

Which P/E ratio to choose?

If you believe that the companies has good long term prospects and good growth then one should not hesitate to invest in high P/E ratio stocks and if you are looking for value stocks which prove real diamonds in future then you can go with low PE stocks provided that companies has good growth and expansions plans.
At all if you would like to do PE ratio comparison then it has to be done in same sectors/ industry stocks and not like one stock from banking sector and other stock from pharmacy sector.
So now you would have come to know how to choose stocks based on PE ratio.

Understanding the Projected Earning Growth - PEG

Because the market is usually more concerned about the future than the present, it is always looking for companies projected plans, financial ratios, and other future announcements. The use of PEG ratio will help you look at future earnings growth of the company.

PEG is a widely used indicator of a stock's potential value.
Similar to the P/E ratio, a lower PEG means that the stock is more undervalued.

You calculate the PEG by taking the P/E and dividing it by the projected growth in earnings.
That is PEG = P/E / (projected growth in earnings)
For example, a stock with a P/E of 30 and projected earning growth for next year is 15% then that stock would have a PEG of **2** (30 / 15 = 2).
In above example what does the "**2**" mean?

Lower the PEG ratio the less you pay for each unit in future earning growth. So the conclusion is you can invest in high P/E stocks but the projected earning growth should be high so that companies can provide good returns.
Looking at the opposite situation; a low P/E stock with low or no projected earnings growth is not going to give you returns in future. Because its PE is low means investors are not ready to pay high and its PEG is also low because companies do not have any good future growth or expansion plans.
So investment in such stocks could prove less or no returns.

A few important things to remember about PEG:

- It is about year-to-year earnings *growth*

- It relies on projections, which may not always be accurate

Understanding Price to Sales Ratio

is it that companies having no earnings are bad investments? Not necessarily, because such companies may be new and trying to grow and expand but you should approach such companies with precaution.
The Price to Sales (P/S) ratio looks at the current stock price relative to the total sales per share.

You can calculate the P/S by dividing the market cap of the company by the total revenues of the company.
You can also calculate the P/S by dividing the current stock price by the sales per share.
That is
P/S = Market Cap / Revenues
or
P/S = Stock Price / Sales Price per Share

Conclusion - To find under valued stocks you can look for low P/S ratios.
The lower the P/S ratio the better is the value of the company.

Understanding Price to Book Ratio - PB ratio

Basically PB ratio is mostly utilized by value investors to find real wealth when they are at their lower prices. So investing in stocks having low PB ratio is to identify potential candidates for future growth.

A lower P/B ratio could mean that the stock is undervalued
Book value - It is the total value of the company's assets that share holders would receive if a company closed down.
Like the PE, the lower the PB, the better the value of the stock for future growth.
Some of the investors become quite wealthy by holding stocks for the long term of such companies whose growth is based on their businesses instead of market and one day when every one notices this stock the value investor's pockets are full of profit.

PB ratio is calculated as
PB ratio = Share Price / Book Value Per Share.

Understanding Dividend Yield

If you are a value investor or looking for dividend income then you should look for Dividend Yield figure of the stock.
This measurement tells you what percentage return a companies pays out to shareholders in the form of dividends. Older, well-established companies tend to payout a higher percentage then

do younger companies and their dividend history can be more consistent.

You calculate the Dividend Yield by taking the annual dividend per share and divide by the stock's price.

That is

Dividend Yield = annual dividend per share / stock's price per share

For example, if a company's annual dividend is RS 1.50 and the stock trades at RS 25, the Dividend Yield is 6%. (RS 1.50 / RS 25 = 0.06).

Understanding Return on Equity - ROE

Return on Equity (ROE) is one measure of how efficiently a company uses its assets to produce earnings. The healthy companies may produce an ROE in the 13% to 15% range. To get better view Compare Company's in the same industry/sector.

ROE - It is calculated by dividing Net Income by Book Value.

Note - While ROE is a useful measure, it does have some flaws that can give you a false picture, so never rely on it alone. For example, if a company carries a large debt and raises funds through borrowing rather than issuing stock it will reduce its book value. A lower book value means you're dividing by a smaller number so the ROE is artificially higher.

There are other situations such as stock buy backs that reduce book value, which will produce a higher ROE without improving profits.

It may also be more meaningful to look at the ROE over a period of the past five years, rather than one year.

Debit Ratio

This is one the very important ratio as this tells you how much company relies on debit to finance its assets.

The higher the ratio the more risk for company to manage. So look for company's having low debit ratio.

Generally look for ratio less then 1.

If company has fewer debits then company can make more profit instead paying for its debits like interests rates, loans etc.

Company's announcements

Always keep a close watch on stocks you are interested to buy or you already bought for any mergers, take over's, acquisitions, stake sells, new product launch etc. This would make the major impact on company. It's very important point. So if you would like to have all these details and news very easily then you can keep visiting this site's home page www.daytradingshares.com and watch latest news BOX which updates every 30 minutes.

Final and last - very important

Check out company's PAT (profit after tax) of every quarterly if you are short term to mid term trader and if you are long term investor then check out its yearly PAT. It should be in consistent growth.

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hare market trading tips

Don't Overtrade

First and very important is not to Overtrade - Never put all your money/savings in share market.

Best Investment in different sectors

Do not invest your money in single share/company invest in multiple shares/companies and again not in same sector. Invest in different sectors this will save you from big loss if that sector or company goes in down trend.

Wait, watch and trade

Do not jump in market early. Wait, watch and trade. Make sure and confirm all your strategies like resistance and support levels and then plan to trade/invest in share market.

Study tips carefully

Do not react to tips given by anyone -
First observe that stock, check the volume, where they are increasing or decreasing and then decide your trade.
Do not buy or sell blindly based on share tips.

Always go with Market trend

Don't short sell, if the market is going up and don't buy if the market is falling down.

Try to minimize your Loss and increase profit

Get ready to accept loss if you do wrong trade -
Come out of your trade if you have entered in wrong time by accepting loss, instead of waiting and running into huge loss.

Don't Panic

Don't make early trades and even don't square off your trade early -

Even if you see the scrip has moved up drastically, don't buy, confirm the volumes of buying and selling and then decide

your trade. Don't square off /exit from your trade early if you see scrip/share has come down bit from top. If it is

coming down from top means it is cooling, if you see more buyer than seller then you should hold your position. You

must know which share has what momentum, means if the share price is Rs.120 then you can expect upside from Rs.1 to 5 and not Rs.50 to 100. If the scrip is going up, it will go in ladder fashion, it will go up and it will come down bit and it will again continue its upward journey.

Invest in Share market for long term market

Share market returns are long term returns.

If you planning for short term, then you should keep updated yourself about your stock and share market. Some day traders also do quite well earning on day to day basis. If you don't know proper day trading, then you should not do its big risk and same thing applies for short term trading. Invest in shares having good fundamental background and wait for long term, you will get good returns as compared to any other investment methods.

Wait for opportunity

If you are not sure about market movement then watch and wait for opportunity, don't trade forcefully. Some times market move in range bound means market move up-down in very small range at that time it becomes very difficult to judge the market direction. Its always better to wait instead of losing money.

Don't expect too much - day traders

Don't expect too much - Be happy in whatever profit you get, don't try to grab too much from market. Be realistic, and don't expect too much.

Online investment advice for high returns

Lack of Knowledge is very risky and very dangerous, so don't do trading or investing without having proper knowledge.

Read books, refer websites and get prepared before you plan for share market trading or investing.

Technical Analysis and Charting

TECHNICAL ANALYSIS

This technical analysis will be very useful for those who are new to technical analysis in share market.
The following points will explain how to make use of different types of indicators, support level, resistance level etc.
If proper technical analysis is done then the investment strategies will improve drastically.
This article has all basic terms of technical analysis but this will give you better idea of the share market but

if you are interested to know more about technical analysis then drop an email to us at **support@daytradingshares.com** and we will provide free guidance.

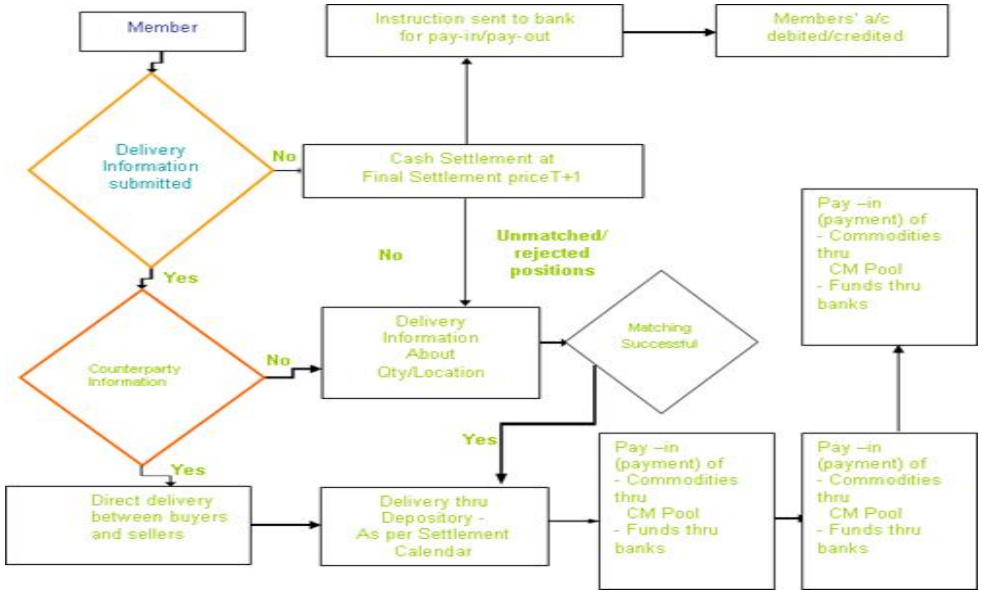
The Foundation of technical analysis is the chart.

Charts

Mainly there are 2 types of charts
Line Chart and Candlestick Chart

Line charts

A chart shown below is the Line chart is the simplest type of chart.
As shown in the chart the single line represents the stocks closing price on each day. Dates are displayed along the bottom of the chart and prices are displayed on the side(s).
Line charts are typically displayed using stocks closing prices.



Candlestick charts

A candlestick chart displays stocks open high, low, and closing price.
These type of charts are the most popular type of all charts.
As shown below the top of each vertical bar represents the highest price of the stock and the bottom of the bar represents the lowest price of the stock it reached on that day. A closing price (last price) is displayed on the right side of the bar.
The red bar indicates that stock has closed lower then its open price and white bar indicates that the stock has closed above its open price. At the bottom you can see time frame.

Support and Resistance

Support and Resistance prices are very important in stock market and in technical analysis.

Support - The support level is considered when the stock is falling down. The support is the level at which the stock price gets support when the stock is falling down, and if the support breaks then that stock may witness further down movement.

Resistance - The Resistance is taken into picture when stock price is moving up. The resistance level is the price at which stock price get stoppage and if this stoppage/resistance breaks then further upside is expected in that stock price.

Generally, stocks comes to support and resistance points and get constant before further movement and further movement either down side or upside depends on buyers expectation and other technical aspects. The breaking of support and resistance levels can also be triggered by fundamental changes, and that is up to investor expectations (fundamental changes like changes in profits, expansion, takeover, management etc).

Supply and demand

There is nothing strange about support and resistance levels. It is just supply and demand.
The supply is the number of shares that sellers are willing to supply (sell) at a given price.
The demand is the number of shares that buyers are willing to buy at a given price.
The investor expectations keeps on changing and so do the prices of stocks.
A breakout above a resistance level is evidence of an upward move as more buyers (demand) are willing to buy at higher prices. Similarly, the failure of a support level indicates that more supply (seller) is available and ready to sell at lower levels.
The Basic foundation of technical analysis tools is in the concept of supply and demand. So Charts provide us the best view and analysis of these levels in action.

Traders Regret (unhappy) Level

After the break out of a support/resistance level, it is common for stock traders to think on the new price levels, whether this price is suitable or not which results in further upward or downward movement. So in other words we can call this as traders regret. So due to this the price may come back to support/ resistance level.

In such scenarios one of the two things can happen. Either the stock prices will move back to their previous level OR investors/traders will accept the new price and the stock price will keep moving up in the direction of breakout

How to understand what is going to happen and when?

A breakout generally happens with the support of huge volumes. If the price breaks through the support/resistance level with a large increase in volume and the traders regret period is on relatively low volume then this indicates that the new price up lift will keep ongoing.

Conversely, if the breakout is on moderate volume and the traders regret period is on increased volume then this indicates that very few investor expectations have changed and hence return to the original price. Changes in price are the result of changes in investor expectations of the stocks future price.

Trends

In the earlier chapter, we saw how support and resistance levels can be penetrated by a change in investor expectations which results in shifts of the supply/demand and hence change in stock price. This type of a change is always based on News.

In this TRENDS section, we will see what is trend and how it influences stock prices.

A trend represents a consistent change in prices. A trend is different from support/resistance levels. Trends represent change, whereas support/resistance levels represent barriers to change.

Upper Trend = A rising trend is defined as stock prices keep touching higher prices. A rising trend can be thought of as a rising support level and the bulls are in controls which are pushing the stock prices higher and higher.

Falling trend = It is defined as stock prices keep touching lower prices. A falling trend can be thought of as a falling resistance level and bears are in controls which are pushing the stock prices lower and lower.

The break out takes place when investor's expectations change in support with increase in volumes. As in support/resistance, in trend lines also Volumes plays a major role in continuing the trend or in break out of the trend.

Moving Averages

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.

How to trade on moving average

Suppose If the stock price is above its 25 day moving average, it means that investor's current expectations (the current price of the stock) are higher than their average expectations over the last 25 days, and that investors are becoming increasingly bullish on this stock and result is that the stock price may go up.

Conversely, if today's price is below then its 25 day moving average, it shows that current expectations are below average expectations over the last 25 days and this may bring stock price lower.
The moving average is used to observe changes in prices. Investors typically buy when a stock price rises above its moving average and sell when the price falls below its moving average.

Indicators

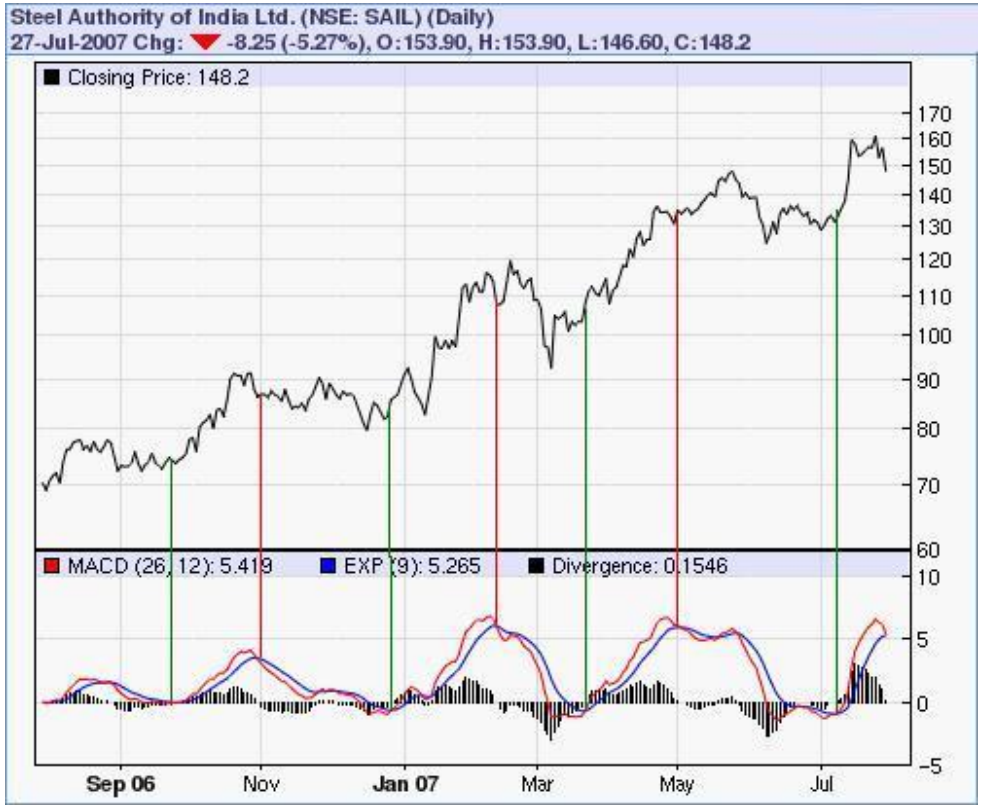
Indicators are used to predict or analyze future changes in stock price.
There are hundreds of indicators but in this section we will discussed the indicators which are most widely used and important ones.

MACD

This is one of the widely used indicator. MACD stands for Moving Average Convergence Divergence.
This indicator is based on moving averages _
Nowadays MACD is readily available on any web sites. No need to sit and calculate. But just to understand let us brief about it._
The MACD is calculated by subtracting a 26-day moving average (long term) of a security's price from a 12-day moving average (short term) of its price. The result is that MACD is an indicator that goes above and below zero.

How to trade on MACD indicator?

Have a look on following chart of MACD -
Red line is short term moving average and blue line is long term moving average.
When the short term moving average crosses above the long term moving average (as shown in following chart) in the **upward direction**, it means investor expectations are becoming bullish and there may be rise in stock price. As it is shown in following chart with green lines how price increases.
When the short term moving average crosses below the long term moving average (as shown in following chart) in the **downward direction**, it means investor expectations are becoming bearish and there may be decrease in stock price. As it shown in following chart with red lines lines how orice decreases.



Relative Strength Index (RSI)

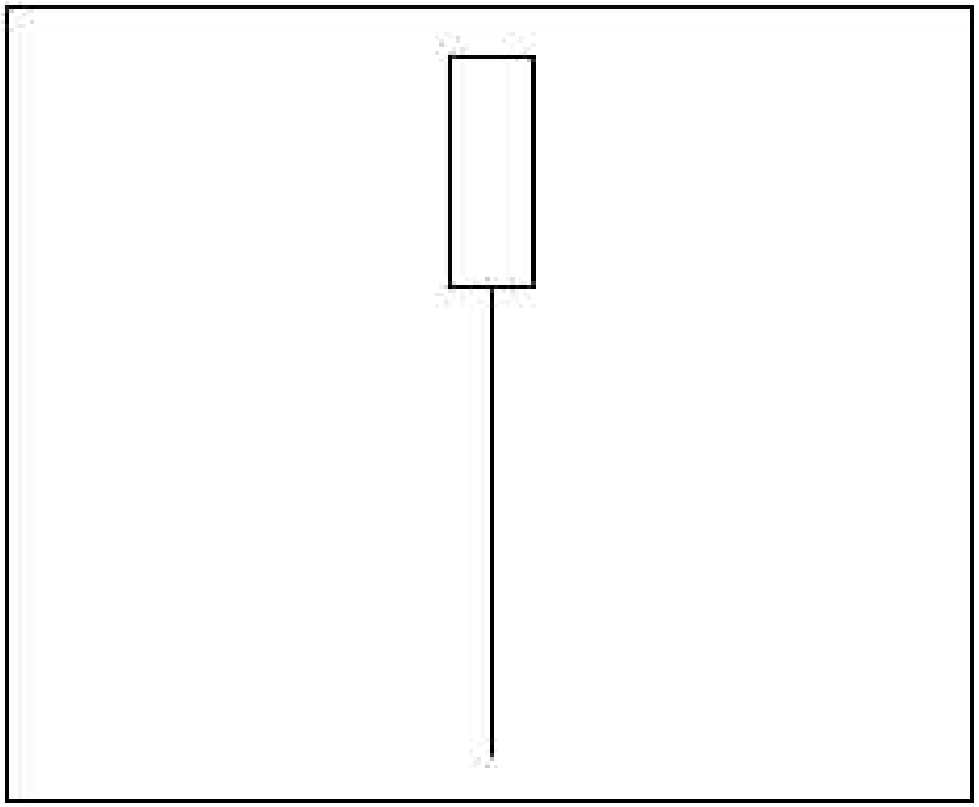
The RSI is another one of the most used and well-known leading momentum indicators in technical analysis. The main use of RSI is used to find whether the stock is overbought or oversold. The RSI indicator is plotted in a range of between 0 and 100. If RSI is reached above 70 then it is considered that stock is overbought and if it reaches below 30 then it is considered that the stock is oversold.

The bullish signal

How to trade on RSI Indicator

Basically the RSI 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. This divergence is an indication of an impending reversal. When the RSI then turns down and starts falling.

To put more light, have a look on following chart.



The Logic Behind Technical Analysis

Let me first say that I do not now engage in technical analysis; nor, have I ever engaged in **technical analysis**. I do not believe doing so would be a productive use of my time.

Having said that, I do not claim technical analysis has no predictive value. In fact, I suspect it does have some predictive value. The Efficient Market Hypothesis is flawed. It is based upon the (unwritten) premise that data determines market prices. As Graham so clearly put it in **"Security Analysis":**

"...the influence of what we call analytical factors over the market price is both partial and indirect – partial, because it frequently competes with purely speculative factors which influence the price in the opposite direction; and indirect, because it acts through the intermediary of people's sentiments and decisions. In other words, the market is not a weighing machine, on which the value of each issue is recorded by an exact and impersonal mechanism, in accordance with its specific qualities. Rather should we say that the market is a voting machine, whereon countless individuals register choices which are the product partly of reason and partly of emotion."

I've seen a lot of people cite this quote, without bothering to notice what's really being said. Graham had a very broad mind, much broader than say someone like Buffett. That's both a blessing and a curse. At several points in Security Analysis (and to a lesser extent in his other works), Graham can not help but explore an interesting topic more deeply than is strictly necessary for his primary purpose. In this case, Graham could have said what many have since interpreted him as saying: in the short run, stock prices often get out of whack; in the long run, they are governed by the intrinsic value of the underlying business. Of course, Graham didn't say that. Instead he chose to describe the stock market in a way that should have been of great interest to economists as well as investors.

Data affects prices indirectly. The market is a lot like a fun house mirror. The resulting reflection is caused in part by the original data, but that does not mean the reflection is an accurate representation of the original data. To take this metaphor a step further, the Efficient Market Hypothesis is based on the idea that the original image acts on the mirror to create the reflection. It does not recognize the unpleasant truth that one can interpret the same process in a very different way. One could say it is the mirror that acts on the original image to create the reflection. In fact, that is often how we interpret the process. We say an object is reflected in a mirror. We rarely use the active "an object reflects in a mirror".

For some reason, when we talk about the market we like to use inappropriate metaphors. We talk about wealth being destroyed when prices fall. Yet, no one talks of wealth being destroyed when the price of some product falls. When the market rises, we talk about buyers, as if there wasn't a seller on the other side of the trade. Above all else, we talk about "the market" not as a mere aggregation of trades, but as some sort of object all its own.

The Efficient Market Hypothesis does not recognize the true importance of interpretation. Saying that data (publicly available information) acts on market prices omits the key step. After all, the same data is available to every blackjack player. Casinos just don't like the way a card counter interprets that data.

The Efficient Market Hypothesis is not the only argument against **technical analysis**. There is also empirical evidence that questions the utility of technical analysis. However, empirical evidence alone is not sufficient to prove technical analysis has no predictive power. If most knuckleball pitchers had limited success, the knuckleball might be an inherently ineffective pitch, or there might be a better way to throw it. The same is true of technical analysis.

The adjective "random" is a very strange word. Although it is rarely the definition given, the most appropriate definition for random would have to be "having no discernible pattern". The word discernible can not be omitted. If it is, we will take too high a view of science and statistics. There's a great introduction to economics written by Carl Menger which begins:

"All things are subject to the law of cause and effect. This great principle knows no exception, and we would search in vain in the realm of experience for an example to the contrary. Human progress has no tendency to cast it in doubt, but rather the effect of confirming it and of always further widening knowledge of the scope of its validity."

All things are subject to the law of cause and effect; therefore, nothing is truly random. A caused event must have a pattern − though that pattern needn't be discernible. Even if one argued there is such a thing as an uncaused event, who would argue that stock price movements are uncaused? We know that they are caused by buying and selling. Stock prices are the effects of purposeful human actions. Several sciences study the causes of purposeful human action; so, it would be hard to argue any human action is uncaused. Furthermore, each of our own internal mental experiences suggests that our purposeful actions have very definite causes. We also know that the actions of some market participants are based in part on price movements. Many investors will admit as much. They may be lying. But, there is plenty of evidence to suggest they aren't.

If the actions of investors cause price movements, and past price movements are a partial cause of the actions of investors, then past price movements must partially cause future price movements.

Technical analysis is logically valid. Not only is it possible that some form of technical analysis might have predictive power; I would argue it necessarily follows from the above assumptions that some form of technical analysis must have predictive power.

So, why don't I use technical analysis? I believe **fundamental analysis** is a far more powerful too. In fact, I believe fundamental analysis is so much more powerful that one ought not to spend any time on technical analysis that could instead be spent on fundamental analysis. I also believe there is more than enough fundamental analysis to keep an investor occupied; so, he shouldn't devote any time to technical analysis. Personally, I feel I am much better suited to fundamental analysis than I am to technical analysis. Of course, there is no reason why this argument should hold any weight with you. I also believe there is sufficient empirical evidence to support the idea that fundamental analysis is a far more powerful tool than technical analysis.

Even though I believe there must be some form of **technical analysis** that does have predictive power, the mental model of investing which I have constructed does not allow for such a form of technical analysis. In other words: logically, there must be an effective form of technical analysis, but practically, I pretend there isn't.

Why? Because I believe that's the most useful model. One should adopt the most useful model not the most honest model. I'm willing to pretend technical analysis does not work, even though I know some form of it must work.

Really, this isn't all that strange. In science, I'm willing to pretend there are random events, even though I know there must not be random events. In math, I'm willing to pretend zero is a number, even though I know it must not be a number. A model with random events is useful. In most circumstances, a refusal to allow for random events would be harmful rather than helpful. The model with random events is simpler and more workable. The situation is much the same with zero. It isn't a number. To include zero as a number, you would have to put aside the principles of arithmetic. So, we don't do that. In school, you were taught that zero is a number, but that there are certain things you must never do with zero. You accepted that, because it was a simple, workable model.

I propose you do much the same in the case of technical analysis. You should recognize the logical validity of **technical analysis**, but create a mental model of investing in which technical analysis has no utility whatsoever.

Benefits of share buy back

What is Share Buy back?

Share buy back is nothing but taking (purchase) shares back from market.

How companies buy back there shares?

- Generally companies buy back shares at a premium to the current market price.
- They can buy from share holders at a fixed price on a proportionate basis and they can even buy back open market.

Why companies plan to buy back shares?

Following any one reason may apply,

a) To arrest/stop the fall in stock price.

b) In some situation company may want to bring down the public holding and increase promoters holding.

c) If the company sees there is no better opportunity to deploy its cash reserves then it may decide to buy back its shares.

d) The buy back may improve companies return ratios.

How share holders get benefited?

1. Buy back at good premium, may increase the stock price in share market.
2. As buy back of shares reduces outstanding shares, the EPS (EPS is calculated by dividing net profit by outstanding shares) may look good. The ROA (Return on Asset) and ROE (Return on Equity) may improve by fall in outstanding shares and assets (in this scenario, excess cash).

Make use of stock splits

What is Stock Split?

Stock split is the process of splitting shares with high face value into shares of a lower face value. It's like getting an Rs.20 note changed for two Rs.10 notes. The value changes of neither note nor splitted stock.

Effect of stock split

A stock split increases the number of shares in a public company. The price is adjusted such that the

market capitalization of the company almost remains same.

Why stock split is done?

1) Companies usually split their stock when they think the price of their stock exceeds the amount smaller investors would be willing to pay. "It is aimed at making the stock more affordable and liquid from retail investors' point of view."
2) Generally, there are more buyers and sellers of shares trading at Rs.100 than say, Rs.400, as retail shareholders may find low-price stocks to be better bargains. Stock splits are usually initiated after a huge run-up in the share. This run-up may be linked to the performance of the stock.
3) The company may declare such splits in different ratios like 2-for-1, 3-for-1, 3-for-2, or like 4-for-1. Some companies may go to the extent of declaring a 10 for 1 split, as power services company GVK Power did recently.
   For example, XYZ Company is trading at Rs.250 and you hold 100 shares. Hence, the total value of your holding is Rs.25, 000 (250x100).
4) If this company declares a 2-for-1 stock split, your 100 shares become 200 and the share price is adjusted to Rs.125.
   The value of your investment still remains the same (this time, 125x200). And if the company had 10 lakh outstanding shares before the split, it will now have 20 lakh outstanding shares after this split, keeping the market cap unchanged.
5) Sometimes, companies may choose to club stock split issue with bonus shares. Bangalore based jewellery manufacturer Rajesh Exports recently declared a 2-for-1 stock split along with a bonus offer of two shares for each share held.
6) This means that each share becomes two, post-split. Now, for these two shares, shareholders will get four additional shares as bonus. Thus, one share translates into six after stock split and bonus issue.
   "To ensure increased liquidity for existing shareholders and easy entry point for new shareholders, the decision was made to split the share."

Benefit to shareholders after stock split and bonus issue.

Due to stock split, the high priced stocks will be available at lower rates. The retailer or small investors can easily afford to buy stocks of low price. There is also a probability that after stock split; the stock price may go up as more investors may rush to buy stocks at lower rates.

When to buy stock split stock?

a) If you wish to get benefited from stock split then you have to buy those stocks before record date.
b) A company announces record date.
c) If you buy those stocks before record date then you will be eligible for stock split.
d) If you are not interested to buy stock after stock split where the stocks are available at lower rates.

Cut your Income Tax Beyond 80C

Basically most of the people are not aware of all income tax exemption options.
This article is written to put more light on all income tax exemption ways.
Following table give you more idea about income tax exemption plans,
Please Note - You can write to us to know the companies offering below products

Section	Product to Invest	Amount to Invest	Other Details
80C	NSC, notified bank deposits and post office time deposits, EPF and PPF, ELSS, life insurance plans,deferred pension plans.	Cannot exceed Rs.1 lakh	Mandatory requirements - Payment has to be made before 31 March 2008. Who can avail the deduction - Individuals and HUF (both resident and non-resident).
80CCC	Pension plans of life insurers.	Limit of Section 80C (upto to Rs.1 lakh)	Mandatory requirements - Payment has to be made before 31 March 2008. Who can avail the deduction - Individuals

80D	Medical insurance policies taken for self, spouse, dependent parents or children,or any member of HUF.	Upto Rs.15,000; senior citizens can claim up to Rs.20,000	Mandatory requirements - Premium should be paid through a cheque out of income chargeable to tax Who can avail the deduction - Individuals and HUF.
80DD	Expenses on the medical treatment of a dependent who is a person with a disability.	Upto Rs.50,000, or upto Rs.75,000 if the dependent is a person with severe disability.	Mandatory requirements - Certification by a medical authority Who can avail the deduction - Resident individual or HUF.

Section	Product to Invest	Amount to Invest	Other Details
80DDB	Expenses on the medical treatment of a specified disease (cancer,AIDS,neurological diseases,chronic renal failure and more)	Rs.40,000 (if the person treated upon is less than 65 years of age),or Rs 60,000 (if the age of the person treated is 65 years or more)	Mandatory requirements - Certificate in Form No.10-I to be submitted along with the income tax is available if the amount is actually paid for treatment. Who can avail the deduction - Resident individual or HUF.
80E	Payment of interest on loan taken for higher studies.	Deduction available on the total interest portion of education loan,the principal repayment gets no tax advantage	Mandatory requirements - Decuction is available in the year in which repayment starts and only for eight immediately succeeding assessment years. Who can avail the deduction - Individual.
80G	Donations to certain funds and charitable institutions.	50 or 100 per cent deduction on the entire donated amount,or 50 or 100 per cent deduction subject to 10 per cent of gross total income.	Mandatory requirements - Not applicable

80GG	Rent paid for residental purpose	Excess of actual rent paid over 10 per cent of GTI,or 25 per cent of GTI,or Rs.2,000 per month,whichever is the lowest.	Mandatory requirements - Should not be getting house rent allowance. Actual rent paid is in excess of 10% of the total income Who can avail the deduction - Self-employed or salaried.
80U	Expenses incurred on self, if disabled	Rs.50,000 for a person with disability,Rs.75,000 for a person with severe disability (disability of over 80 per cent)	Mandatory requirements - Certification by a medical authority to be furnished along with the income tax return form. Who can avail the deduction - Resident individuals.

Income Tax Rates for Year 2008-09

For Males

For Year 2008-2009

Taxable Annual Income Slab (In Rs.)	**Tax Rate (In %)**
Upto Rs. 1,50,000/-	Nil
Rs. 1,50,001/- to Rs. 3,00,000/-	10%
Rs. 3,00,001/- to Rs. 5,00,000/-	20%
Above Rs. 5,00,000/-	30%

For Females

For Year 2008-2009

Taxable Annual Income Slab (In Rs.)	**Tax Rate (In %)**
Upto Rs. 1,80,000/-	Nil
Rs. 1,80,001/- to Rs. 3,00,000/-	10%
Rs. 3,00,001/- to Rs. 5,00,000/-	20%
Above Rs. 5,00,000/-	30%

For Senior Citizen

For Year 2008-2009

Taxable Annual Income Slab (In Rs.)	**Tax Rate (In %)**
Upto Rs. 2,25,000/-	Nil

Rs. 2,25,001/- to Rs. 3,00,000/-	10%
Rs. 3,00,001/- to Rs. 5,00,000/-	20%
Above Rs. 5,00,000/-	30%

*A surcharge of 10 per cent of the total tax liability is applicable where the total income exceeds Rs 1,000,000.

Note : -

- Education cess is applicable @ 3 per cent on income tax, inclusive of surcharge if there is any.
- A marginal relief may be provided to ensure that the additional IT payable, including surcharge, on excess of income over Rs 1,000,000 is limited to an amount by which the income is more than this mentioned amount.

How to calculate tax

Example : Let us take a case where the female assessee's income is Rs. 3,50,000.

- According to the Income Tax Slab, the first 1,80,000 is not taxable.
- The next Rs. 1,20,000 (3,00,000 - 1,80,000) is taxable @10%. (10% of Rs. 1,20,000 = Rs. 12,000).
- The remaining Rs. 50,000 is taxable @20%. i.e. 3,50,000 - (1,80,000+1,20,000) (20% of Rs. 50,000 = Rs. 10,000).
- Therefore, the net Income Tax Payable is Rs. 12,000 + Rs. 10,000 = Rs. 22,000

What is difference between Stocks and Futures

In some ways they are similar, but only minutely so. So let's consider some of the major differences between the two.

Most individuals have likely traded stocks at one time or another. Usually, it is to buy in order to 'own' a percentage of a particular company or to liquidate such partial ownership. They pick up a phone to call a broker or go online to purchase or sell. The order is facilitated through an 'exchange', such as the New York Stock Exchange for example.

Buying and selling Futures is similar in this respect. You can call a broker or go online to buy or sell Futures contracts. The order is then facilitated througha commodity exchange, such as the Chicago Merchatile Exchange for example. Yet while buying a stock gives you part ownership in a company or portfolio of companies (as in a fund), buying a Futures contract does not give you ownership of a commodity or product. Rather, you are simply entering into a contract to purchase the underlying commodity at a certain price at a future time, noted by the contract. For example, buying one May Wheat at 3.00 simply creates a contract between you and the seller (whom you need not know as this is taken care of via the exchange) that come May you will take delivery of 5000 bushels of Wheat at $3 per bushel, regardless of what the price of Wheat at market happens to be come May. As a speculator simply trading to make a profit

from trading itself and with no interest in actually taking delivery of product, you will simply sell your contract prior to delivery at the going market price and the difference between your buy price and sell price is either your profit or loss.

When you buy a stock, you are part owner of a company. When you buy a **Futures contract**, you simply are **entering a contrac**t. With **stocks**, you will pay for the stock at the time of your purchase plus broker commissions. When buying a **futures contract**, you are simply entering the buy side of a contract and no monies is paid other than commissions to your broker.

Stock exchanges and **commodity exchanges** are both membership organizations established to act as middlemen between the buys and sells of all types of traders, from business entities to the individual small trader. The stock exchange act to bring capital from investors to the businesses that need that capital. They facilitate the transfer of property rights (ownership in the various companies offering stock).The commodity exchange act to bring people willing to assume risk for the opportunity to make a substantial amount of money for taking such risk. This helps transfer the price risk associated with ownership of various commodities, such as Soybeans, or a service, like interest rates, from producers.

To buy stocks, you only need enough money in your account to purchase the stock outright plus commissions. Once you make the purchase, the money is removed immediately to make the purchase. With trading futures, since you are not actually purchasing anything but simply entering a contract to do so at a later time (which you will exit prior to avoid delivery), the broker will require a certain amount of margin (good faith deposit to cover any possible losses) in what is called a 'margin account'. Each commodity has a different minimum margin requirement depending on several factors. Your broker may use the exchange calculated margin or require a different margin of their own. If the value of the commodity were to decrease and you are on the buy side of the contract, then your contract has lost value and your broker will notify you if your unrealized losses exceeds have gone beyond your minimum margin requirement. This is called a 'margin call'. Naturally you would want to have more capital than simply the margin amount when trading futures to avoid these broker calls. The broker has the right (and likely will) liquidate your position if you are getting too close to not having enough to cover the losses in order to protect themselves.

With buying stocks outright, there is no potential for a margin call. You simply own the stock outright. So perhaps you may be wondering why anyone would bother buying futures contracts rather than stocks. The major answer is: **LEVERAGE.**

Leverage gives the trader the ability to control a large amount of money (or commodity worth a lot of money) with very little money. For example, if Live Cattle futures requires a minimum margin of $800 to trade a single contract, and a single contract represents 40,000 lbs at the current market price of say 75, you would be controlling $30,000 worth for a leverage of over 35:1. This is appealing to many traders and justifies the risk. What is that risk? Just as leverage can work in your favor, it can work against you at the very same ratio. Known as a 'two-edged sword'.

You can increase the leverage of trading stocks if you trade with a margin account. This usually allows you to purchase stocks on margin at the usual rate of 50%. So for every dollar you have you can purchase $2 worth of stock. The leverage is 2:1. How this works is that the broker is actually 'lending' you the other 50%. Of course by purchasing stock with margin you can lose more than you have due to the leverage. And in this case you can end up getting a 'margin call' from your broker if your stock losses too much value. But trading stocks comes no where close to the kind of leverage you get trading Futures.

When you look at these two trading vehicles, the bottom line comes to MARGIN and LEVERAGE.

A Guide to High-Yield, High-Risk Stocks

The classic image of the stock market is that of a place where fortunes are made and lost throughout the course of the day, and where those who take the biggest risks are rewarded by a hefty payout when all is said and done. Of course, this is the movie version of the market... no matter how thrilling the day-to-day dramas of investment trading become, they'll never compete with the images of the stock market that have been created for the silver screen.

here is a small grain of truth to those images from the movies, however... those individuals who choose to deal in high-risk stocks can make a lot of money if they handle the risks correctly. If they don't, however, then there's a good chance that they could lose their entire investment.

Below you'll find more information on the world of high-risk (and high-yield) investments, including ways to help insure yourself against major losses when dealing with higher levels of investment risk.

Defining High-Risk Investments

The first thing that needs to be covered when talking about investing in high-yield, high-risk stocks is exactly what is meant by the terms "high-risk" and "high-yield." The risk of the investment is usually due to the very fickle nature of that particular stock... though it may be growing in value rather quickly, it's obvious that the growth is going to stop soon and a very rapid and severe descent is going to begin.

The yield of the investment, on the other hand, refers to the money that could potentially be made by buying stocks early on in the increase in price, and then selling just before the value starts to plummet. Fortunes have been both made and lost (sometimes in the same day) with high-risk trading; the key is knowing exactly when to start buying or selling.

How to Trade High-Risk Stocks

When trading **high-risk stocks**, it's almost essential that you have access to your brokerage account and that you'll be able to buy or sell shares as soon as the price begins to fluctuate in one direction or the other. This can be done online, via the telephone, or in person if you don't use an online brokerage firm.

You can also usually set up hold orders which will start buying the stock when the price reaches a certain level (up to the amount that you've specified) and that will begin selling shares as soon as the price drops below a certain point. Many online brokers allow these types of hold orders,

and they can allow you to go about your regular day without having to watch the market ticker the entire time.

Guarding Against Loss
Of course, even with hold orders or a dedicated broker you can still end up losing money when dealing with high-risk stocks... that's how they earned their name. In order to minimize this potential for loss it's important to have a well-diversified stock portfolio to fall back on.

If your **high-risk investments** begin to fall in price too quickly and you end up losing money by the time the shares have been sold, the relatively stable value of some of your core portfolio stocks and indexes will help to even out your losses.

The fall of the **higher-risk stocks** might even stimulate some other portions of the market, causing an increase in other stocks in your portfolio. This will help take some of the sting out of your loss, and may end up giving you a greater long-term gain than you might have had from your short-term investment that went sour.

Forecasting the Stock Market

Every day I see in the financial section of newspapers how to forecast what the market will do in 6 months, 12 months, several years. "Ten stocks that will double in the next 6 months." Right! I have trouble trying to forecast what it will do tomorrow. Do not trust any who claims he knows what the future will be for the market.

Of course, your broker will send you gobs of slick material about various companies that predict they will double or triple in the next 12 months. On the **New York Stock Exchange** there will be about one half of one per cent (0.5%) of companies that will double this year. Are you smart enough to pick those winners? I'm not and I am considered a professional trader. And I am sure your broker isn't either. He just wants to make a commission and is probably promoting a stock his brokerage company wants to push.

Every investor wants to know the future and will send money to some "expert" who will send him news about a company that only (?) he knows. And pigs can fly. One thing about the market. It is almost impossible to keep a secret and everyone knows everything about other companies. As soon as some "analyst" finds a cogent fact that can influence a stock price he will share that "secret" with a few close friends. Within minutes the "secret" is known by hundreds of thousands and is immediately reflected in the price of the stock.

If you do get sucked into one of these money traps by some smooth-talking salesman or newspaper verbiage I strongly suggest you immediately plan your exit strategy. Without an exit plan you can easily lose a large amount of your "investment". This is not an investment; it is a gamble and should be treated as such. The first thought of any professional trader is 'if I am wrong how much am I willing to lose'? Maybe 2%, 5%, certainly no more than 10%. Pros understand that small losses are OK, but never take a big loss.

From 1982 to 2000 it seemed everyone was a financial genius. How many of those folks kept

those big winnings from 2000? Almost none. Most lost 40% to 60% of their money. Brokers said, "Hang in there. You are in for the long haul". Unfortunately he did not tell you that Modern Portfolio Theory is based on a 40 year time line.

Yes, but understand you don't need to predict anything. **Don't forecast**. What you can easily learn is follow the major trend. You bought in 1982 and you sold out in 2000. The trend can be found in many ways with the simplest being posted every day in Investors Business Daily newspaper under the IBD Mutual Fund Index. When the Index price is above the 200-day moving average you own equities and when it is below you are in cash or bonds. Nothing complicated,

Don't try to forecast the market. Let the market trend tell you._

Profit from a Falling Stock

There are several ways to profit from a falling stock, but for tonight we are going to discuss the two most basic principals, shorting stock versus buying "put" options.

f you have been with us for any length of time you know I have written many times about how to "short" a stock. Basically you are simply selling a stock now, taking in the cash for the sale, and "buying back" or covering the sale at a cheaper price. so if you "short" ABC at 60 dollars and you sold 1000 shares, you took in 60,000 dollars. Now if ABC falls to 50, and you "Cover" you are buying it back cheaper. In this case you will spend 50,000 dollars. The difference between where you sold and what you spent, 10 G's is your profit.

That really is as easy and as basic as it gets friends. Don't let all the talking heads throw you a curve ball, shorting is easy and its really no more risky than going long as long as you use stops to protect yourself. Since the market goes up and down, if you only play the long side, you are missing a lot of profit potential.

But there are problems with this approach. First you need a margin account to do it, all short sales are through margin. Second, it eats up a lot of your buying power because when you go short, you are holding that position with margin that will tie up your money.

The other play is a put option. Here again Wall Street has tried to buffalo the average investor into thinking options are for the big boys. What nonsense! Anyone can and should use call and put options as a trading strategy. The risk is limited, and the returns can be phenomenal because of the leveraging inherent in options. With a put option, you are placing a bet that the stock is going to fall. Win the bet and you will win big time. Lose the bet and just like Vegas, your loss is limited to how much you bet.

If the market is going to run up for a few weeks and then spiral back down, which way should you play? That is impossible to say, we don't know your style, your risk tolerance, your bank account balance etc. but for us it's an easy call, put options win out over shorting in a scenario like that.

By using put options we can use a relatively small amount of money to be in several "plays" and each of them could return several hundred percent returns. Look at it like this. If you short ABC at 100 and it falls to 60 fantastic! You made 40 points and 40%. But if you buy put options for 1.75 and they go to 10.00, what is the percentage there? Over 500%. And look at the cost. It's next to nothing, to get such a shot at big returns.

For our money, when the time is right, buying puts against the Dow Jones Industrials, the NASDAQ 100 and the Composite and select individual stocks that carry high P/E's will be the way to go as we feel those will be taken to the woodshed for a spanking.

Stock Trading Psychology

Many of today's highly successful traders will tell you that the general key to success in trading is to be able to comfortably take a loss. It is general knowledge among experts in the trading psychology **field and among traders that the market is not predictable and it is safe to say that it never will be. In the world of trading, it is expected to take a loss; even those who are highly skilled traders know that it is inevitable. With that said, let us have a look at things you as a trader should be aware of, how you can take a loss effectively and use it towards the greater good of your trading world.**

Trading psychology tells us that when a trader loses he begins to become somewhat of a perfectionist in his dealing. Many traders think that in trading, a good day will always be one that is profitable. Trading psychology experts tells us this is not true. A trader should define a good day as one where they have extensively researched and planned with discipline and focus, and have followed through to the entire extent of the plan. Yes, when a trader has mastered the art of accepting losses and working through them with a well thought out plan then good days will become profitable in time.

Because the art of trading in an unpredictable market fluctuates so greatly from one day to the next, experts in trading psychology believe that it is important that you concentrate on what you can control, instead of things that are beyond your control. Looking into the short-term you cannot expect to be able to control the profits of your trading. With that said, look at what you do you have ability to control.

You do have the ability to control the difference between good and bad days. You are able to control this factor by extensively researching the strategies you implement within your trading experiences. By learning to research your chosen strategies, thus controlling the amount of good and bad trading days you experience, you will, in the long-term begin to generate profits, which is the ultimate goal of every trader.

Trading psychology experts tell us that it is important to become realistic in trading instead of becoming a perfectionist. Perfectionist traders, relate a loss with failure, and will become obsessed with the failure, focusing only upon it. Realistic traders understand the unpredictability of the market and taking a loss is simply part of the art. The main key you

must remember in trading psychology to be able to effectively limit your losses, instead of becoming obsessed with them. A common thing seen within the trading psychology world is that traders who are obsessed with their losses often have a hard time bouncing back from them, thus losing in the end.

Experts in **trading psychology** have organized three basic strategies you can use to effectively stop losses. These strategies are:

*** Price Based * Time Based * Indicator Based**

Stops that are **priced based** are generally used when the other two have not functioned. To make this work you will need to make hypothesis's about the trade and identify a low point in that particular market. Then you will set your trade entries near your points, thus making sure that losses will not be overly excessive if the hypothesis fails.

Time Based stops constitutes making use of your time. Designate a holding period you allow to capture a certain number of points. If you have no achieved your desired profit within that time limit, you should stop the trade. If effectively used you should stop even if the price stop limit has not been achieved.

The **Indicator based stop** makes use of market indicators. As a trader, you should be aware of these indicators and utilize them extensively within your trading experiences. Look at indicators such as, volume, advances, declines, and new highs and lows.

Experts in trading psychology say that setting stops and rehearsing them mentally is a good psychological tool to use and will help ensure that you follow through.

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5 great lessons on buying stocks

Lesson 1

The moment the prices of scrips drop, say, by 5-10 per cent, we get worried. In that anxiety, we want to sell and get out.

Let's say the Reliance [Get Quote] share you bought last week is down 10 per cent. So what? Will Reliance business close down? Or will Mukesh Ambani run away with your money? No.

The movement in stock prices has no impact on the business. Reliance will continue to make profits and grow. Mukesh Ambani will continue to build world-class projects. If that is the case, Reliance shares will see new heights in future. Why bother about these falls, which likely will only be temporary?

The problem is, we buy stocks, not businesses. The Tatas and Birlas have been around for over

100 years. Hundreds of successful companies have run for decades and continue to grow irrespective of the stock market volatilities.

Yes, some businesses succeed, some fail. There are ups and downs. That is the inherent nature of a business. But, in the long run, they will make profits and grow. That is where management counts. Good managements run profitable operations.

Second, that's why we diversify. Even if we lose money in a few stocks, we will still make lots of money in others.

Moral: Buy businesses, not stocks.

Lesson 2

Recently, I read that if you had invested Rs 100,000 in Infosys [Get Quote] at the time of IPO, it would be worth about Rs 64 lakh (Rs 6.4 million) now. But how many people made that kind of money? None, I guess, except the employees and a lucky few who bought the shares but forgot about it.

Answer honestly: wouldn't you have sold the shares when it doubled or tripled or became a ten-bagger? How many of us would have had the patience to hold on?

The problem is, we watch stock prices, not businesses. If people had kept track of the business, they would have seen the company had the potential to grow at 30-40 per cent per annum. Then they would have never sold their shares.

I know many people who got out at 10,000 Sensex levels, thinking the markets will correct and they will re-enter at lower levels. They are now ruing their decision. The problem: they were so obsessed tracking the Sensex that they didn't see strong economic and business growth.

Moral: Watch business growth, not rise in stock prices.

Lesson 3

The moment people buy a stock, they expect it to double soon. They see the stock ticker 10 times a day. They call their broker a couple of times daily to find out what is happening.

I have one question for such people. Can you set up a steel plant in one day? Can you build a power plant over the weekend? Can you start a mobile company and expect to have 1 million customers on Day 1? No.

Businesses take time to set up, acquire customers and generate profits. Only when the

companies increase their profits will the share price also increase.

Therefore, having bought a good business and good management, give it time to prosper. If you don't have the patience, you might as well go to a casino or call-up Shah Rukh Khan at KBC.

Moral: The stock market is a serious long-term business, not a make-money-overnight casino.

Lesson 4

Another interesting aspect is the stories we hear in local trains, buses, parties, offices, of how so-and-so doubled/ tripled his money.

We end up feeling like fools not to invest in the market. At the first opportunity, we buy a few stocks without proper research and understanding.

I am not saying they are lying. But I would like to ask them about their other investments too. More often than not, for every successful investment, they would have made five other poor investments and lost money. They won't tell you about those.

The point is, when our investment is motivated by others' half-truths, we never have the patience and discipline required for successful equity investing.

Moral: Don't be fooled by others' so-called success stories.

Lesson 5

As I mentioned earlier, people sold looking at the Sensex levels and lost out on the huge potential profits. There are many waiting for the Sensex to fall to the 'right' levels to enter the market.

There are two points here. I highlighted one earlier: watch the economy not the Sensex.

Second, timing. Given that humans can switch from irrational exuberance to extreme pessimism and back in a matter of days, I believe even God will find it difficult to time the markets.

Moreover, I bet not even 1 per cent of you will enter the markets if they started crashing from tomorrow. The Dalal Street [Get Quote] was totally deserted during the historic crash of May 2006, which was actually a great time to buy.

So I suggest let's get over this fixation with timing the markets. Let us look at business potential and invest with a long-term perspective.

Moral: Time in the market is more important than timing the market.

Discipline and patience - that is the mantra to creating wealth on the stock markets. Unfortunately, both are in short supply. If you have them, you make your riches. If not, you could be in trouble.

TRADING TIPS

Find Out Good Quality Shares

¨ Find out stocks with the latest P/E (price to earning) ratio of less than 10.
¨ Filter the companies with net sales of less than Rs.100 Crore in latest financial year.
¨ To find out real growth stocks, filter out all companies whose 3 years average sales and PAT (profit after tax) figures are less than 15%.
¨ Further to get more refined stocks, filter out stocks having debt to equity ratio more than 1.5 and return on capital employed (ROCE) less than 15%.
¨ Drop out all stocks having Interest

Coverage Ratio of less than four times over the past 3 financial years. This ratio indicates how company is capable to pay its debits.
¨ Companies required having strong cash flows in order to make it to list. So taking into consideration this point you can further filter all those companies whose 3 years average net cash flow from operating activities was less than 50% of reported cash profit.
After applying these 6 filter parameters you may be arrived at couple of stocks which are under valued in share market, but its fundamental and growth momentum requires very strong.

Share market trading tips

¨ **Don't Overtrade**
First and very important is not to Overtrade - Never put all your money/savings in share market.
¨ **Best Investment in different sectors**
Do not invest your money in single share/company invest in multiple shares/companies and again not in same sector. Invest in different sectors this will save you from big loss if that sector or company goes in down trend.
¨

Wait, watch and trade

Do not jump in market early. Wait, watch and trade. Make sure and confirm all your strategies like resistance and support levels and then plan to trade/invest in share market.

¨ **Study tips carefully**

Do not react to tips given by anyone -

First observe that stock, check the volume, where they are increasing or decreasing and then decide your trade.

Do not buy or sell blindly based on share tips.

¨ **Always go with Market trend**

Don't short sell, if the market is going up and don't buy if the market is falling down.

¨ **Try to minimize your Loss and increase profit**

Get ready to accept loss if you do wrong trade -

Come out of your trade if you have entered in wrong time by accepting loss, instead of waiting and running into huge loss.

Don't Panic

Don't make early trades and even don't square off your trade early -

Even if you see the scrip has moved up drastically, don't buy, confirm the volumes of buying and selling and then decide your trade. Don't square off /exit from your trade early if you see scrip/share has come down bit from top. If it is coming down from top means it is cooling, if you see more buyer than seller then you should hold your position. You must know which share has what momentum, means if the share price is Rs.120 then you can expect upside from Rs.1 to 5 and not Rs.50 to 100. If the scrip is going up, it will go in ladder fashion, it will go up and it will come down bit and it will again continue its upward journey.

¨ **Invest in Share market for long term market**

Share market returns are long term returns.

If you planning for short term, then you should keep updated yourself about your stock and share market. Some day traders also do quite well earning on day to day basis. If you don't know proper day trading, then you should not do its big risk and same thing applies for short term trading. Invest in shares having good fundamental background and wait for long term, you will get good returns as compared to any other investment methods.

¨ **Wait for opportunity**

If you are not sure about market movement then watch and wait for opportunity, don't trade forcefully. Some times market move in range bound means market move up-down in very small range at that time it becomes very difficult to judge

the market direction. Its always better to wait instead of losing money.

¨ **Don't expect too much - day traders**

Don't expect too much - Be happy in whatever profit you get, don't try to grab too much from market. Be realistic,

and don't expect too much.

¨ **Online investment advice for high returns**

Lack of Knowledge is very risky and very dangerous, so don't do trading or investing without having proper knowledge.

Read books, refer websites and get prepared before you plan for share market trading or investing.

Mastering Risk and Reward in Trading

Not mastering risk and reward in trading is probably the main reason why so many traders and investors are destined to fail. It's really dumb when you think about it, because reward/risk is the easiest way to get a definable edge on the market house.

The reward/risk equation builds a safety net around your open positions. It's designed to tell you how much can be won, or lost, on each trade you take. The secondary purpose is to remove emotion so you can focus squarely on the cold, hard numbers.

Let's look at 15 ways that reward/risk will improve your trading performance.

1. 1. Every setup carries a directional probability that reflects a specific pattern. Always execute positions in the highest-odds direction. Exit your trades when a price fails to respond according to your expectations.

2. Every setup has a price level that violates the pattern. Only take trades where price needs to move a short distance to hit this "risk target." Look the other way and find the "reward target" at the next support or resistance level. Trade positions with the highest reward target to risk target ratios.

3. Markets move in trend and countertrend waves. Many traders panic during countertrends and exit good positions out of fear. After every trend in your favor, decide how much you're willing to give back when things turn against you.

4. What you don't see will hurt you. Back up and look for past highs and lows your trade must pass through to get to the reward target. Each price level will present an obstacle that must be overcome.

5. Time impacts reward/risk as efficiently as price. Choose a holding period based on the distance from your entry to the reward target. Then use price and time for stop-loss management. Also use time to exit trades even when price stops haven't been hit.

6. Forgo marginal positions and wait for the best opportunities. Prepare to experience long periods of boredom between frantic surges of concentration. Expect to stand aside, wait and watch when the markets have nothing to offer.

7. Good setups come in various shades of gray. Analyze conflicting information and jump in when enough ducks line up in a row. Often the best thing to do is calculate how much you'll lose if you're wrong, and then take the trade.

8. Careful stock selection controls risk better than any stop-loss system. Realize that standing aside requires as much deliberation as an entry or an exit, and must be considered on every setup.

9. Every trader has a different risk tolerance. Follow your natural tendencies rather than chasing the crowd. If you can't sleep at night, you're trading over your head and need to cut your risk.

10. Never enter a position without knowing the exit. Trading is never a buy-and-hold exercise. Define your exit price in advance, and then stick to it when the stock gets there.

11. Information doesn't equal profit. Charts evolve slowly from one setup to the next. In between, they emit noise in which elements of risk and reward conflict with each other.

12. Don't be fooled by beginner's luck. Trading longevity requires strict self-discipline. It's easy to make money for short periods of time. The markets will take back every penny until you develop a sound risk-management plan.

13. Enter positions at low risk and exit them at high risk. This often parallels to buying at support and selling at resistance, but it can also be used to trade momentum with safety and precision.

14. Look to exit in wild times in order to increase your reward. Wait for price acceleration and feed your position into the hungry hands of other traders just as the price pushes into a high-risk zone.

15. Manage risk on both sides of the trade. Focus on optimizing entry and exit points and specialize in single, direct price waves. Remember that the execution of low-risk entries into bad positions allows more flexibility than high-risk entries into good positions.

If you've internet connection you can view the educational videos for which you find the links here-in below:-

1. Learn How To Trade Stock, Online Stock, Share Trading.
2. Learning the Stock Market
3. Learn How To Trade Stock, Online Stock, Share Trading
4. Free on-line stock trading course
5. Stock Options Trading to make money as Income