A

Project Report on

"STUDY OF SHARE MARKET INVESTMENT AND MANAGEMENT."

At

"DALAL AND BROACHA
STOCK BROKING PVT. LTD, Mumbai"

Submitted To

University of

Towards partial fulfillment of

Master Degree in Business Administration

Submitted By

(Name)

MBA (Finance)

Guided By

Prof.

(Institute Name)

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Acknowledgement

With a sense of soul gratitude, I have submitted this project report to university of Pune.

I sincerely acknowledge with deep sense of gratitude and indebtness to my Director ____________ as well as my internal guide who was guided me with valuable inputs throughout the project. He gave acknowledgeable insights about the topic, which helped me throughout the project

I shall be remiss if fail to mention my brother ____________ who extended his help in various invisible ways in fulfillment of project successfully.

I think words with me are insufficient to express my heart to acknowledge my parent for their encouragement during my work.

Declaration

I hereby declare that the project report entitled **"STUDY OF SHARE MARKT INVESTMENT AND MANAGEMENT"** is an independent analysis work carried out by me as a part of MBA curriculum, university of Pune, under the guidance of (professor name) This project was undertaken as a part of academic curriculum according to the university rules and norms and had no commercial interest and motive. It is my original work. It is not submitted to any other organization for any other purpose.

Place:

Date: (______________)

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CHAPTER: 1

Introduction

Introduction

Keep it simple. Keep it straight: that is the investment philosophy. Never wait till the last rupee of profit comes in. Tops and bottoms are for the fools to catch, a top is the highest price point of a stock, which is what greedy investors often wait for and bottom is just the opposite, where one should buy into a stock.

Are you one of those who want to invest in share but doesn't know how to go about doing it. We are trying to explain, what investment in stock market is in a simple, clear and concise language. You don't need to be an economist, a chartered accountant, or mathematical wizard, infect most people who made great fortune were ordinary people.

The person who makes an investment is called an investors he may be an individual, a company, firm, etc. these investors provide funds to the businesses by purchasing their shares and debentures of companies. The capital is considered as "Life Blood for Business".

Even though investment condition, attitude and opportunities often change overtime and vary greatly from place to place, but basic rules of game nearly always remain the same.

Indian economy is on the roll with a growth rate averaging at 6% to 7% during the last years. Indian companies are performing well in almost all sectors be it software, engineering, information technology, automobiles, auto components or pharmaceuticals etc. that's the reason, foreign investors are coming by hordes and showing a great interest in Indian economy.

Investment in Indian economy primarily comes through: -

1. Direct Investments or Foreign Direct Investment and
2. Through the capital market where Foreign Institutional Investors (FII's) are allowed to invest Indian Economy.

The whole working of share market is done electronically; this helps the investors to invest their money in Share Market from anywhere during the working hours. Indian Share Market keeps a strict vigil on overall scenario in order to safeguard the investors, not only the big ones, but also at the micro level in order to avoid scams.

A well-organized and developed Share Market is an essential pre-requisite of economic development. An investor plays a vital role in the growth of Share Market by investing in Shares, Debentures, Government Bonds and Securities etc. because the of Share Market affects the working of Indian Economy.

INVESTMENT PRODUCTS

INVESTMENT - Deployment of funds with the intention of preserving or Increasing there value

1. Wealth creation
2. Income generation
3. Life planning
5. Retirement

A) Traditional Investment: - Gold, Land, Metals etc.

B) Products from Bank and financial institution

a) Saving Deposit b) FDR

c) Provident Fund d) Tax free relief bond

e) Postal Fix Deposit f) Indra Vikas Patra

g) Kisan Vikas Patra h) UTI Bonds etc.

C) Investment in Capital Market:

a) Govt. Securities

b) Derivatives

c) Share

1.1 Object of the project

As the people just heard about the Share Market, but actually they never knows that what is it? While investing in the Share Market the investors come across the various kinds of problems such as: -

1. Where to invest the capital?
2. When to invest the capital?
3. How to make safe investment?
4. When to enter the market?
5. When to left the market?

These are the basic question, which strikes in the mind of every new investor. The investors sometimes never knows that how the trading of shares takes place and what is its procedure, what is the role of Broker in the Share Market. Investors should not make research or collect relevant information about the Brokerage Firm with whom they intend to do business or whom they hand over their money.

1.2 Purpose of the study

The purpose behind the study of Share Market is to guide the young or new investors about the investment in the Shares, Securities, Bonds etc. and making the aware about the certain basics of investments before making an investment. The investor should aware of the working of Share Market and its technological changes.

1.3 Objective of the study

- The main objective of making the study of investor's role in share market is that, since last 10 years the share market is witnessing a tremendous rise in the Sensex. Especially, in last 2 years the share market witnessed the rise of about 2000 points in Sensex.

- It was 3000 – in 1995, 9000 in 2005, 14000 in 2007. This year the share market made a history by crossing the Sensex of 21000. What are the reasons behind such a rise?

- There are many technological changes are made in the share market for the benefit of the investors. To make aware about these modifications in the share market and also make them aware about the new procedure of online trading of shares and securities.

- What precautions should an investor take while making an investment and make the aware about the modifications in the rules and regulations of the Share Market.

- As a beginner, investors are sure to make mistakes in the investment world. Point out these mistakes, study them and derive proper conclusions. And make the aware about the working of the share market, which is considered as heart of the economy of every country.

1.4 Research Methodology

Research as a process involves defining and redefining problems hypothesis formulation organizing and evaluating data, deriving deduction inference and conclusion etc. after careful testing

For collecting the information for this project I have used the source of data. For the collection of data I have used in depth interview method for that purpose I have taken a general interview of Investor. Thus the data obtained through this method is primary one and true.

Primary data:-

The data was a generally collected by structured questionnaire the technique applied through personal direct survey, in depth interview were taken and by observation

Primary data most important role is knowing the

- Investor attitude and opinion
- Investor awareness about the various services
- Sample size for the survey was 100 customer

Secondary data:-

Secondary data is the data already collected by someone else. This data is not especially collected to solve present or specific problem. The information is relevant and can be used for our purpose
There are three major sources of secondary data collection

They are:

1) Internet
2) Newspaper
3) Books, magazines etc.

1.5 Scope of the study

- This study was share market investment and management.
- This study gave a chance to know about fundamental analysis and various tools that are used in fundamental analysis
- This study helps to understand the basics of financial statement and gives you the tools that help to decide which companies make worthwhile investment
- The study covers various investment tools on the basis of that investment are done.

1.6 Limitations of the study

As in the Stock Market there are daily variations in the stocks and shares so it is not possible to give the detail analysis of each share or stock. There are no pre-defined rules and regulations about the working of the Stock Market.

As a result, it is difficult to understand sometimes why the market is going too much high or too much low. There is no any certificate of holding shares of particular company, the shares are directly transfer to the demat account of the investor.

1.7 Rational of the study

Utility to Researcher:-

1) To interact with the manager of the company and gain knowledge through their experiences.
2) To gain the knowledge about the share market
3) Practical knowledge about the equity analysis and how to analyze the stocks.

Utility to company:-

1) The analysis done was beneficial to the company as additional information of their Investor.
2) With this, company can recommend their clients to invest in particular company's shares on the basis of analysis done. and also try to attract more trader by giving more services

CHAPTER: 2

Profile of the Organization

2.1 History of the organization

Established as a Partnership firm in 1961 by Mr. Priyakant Dalal, Dalal & Broacha is now a company incorporated under the Companies Act. The Company is the member of The Stock Exchange Mumbai, The National Stock Exchange and the OTC exchange of India

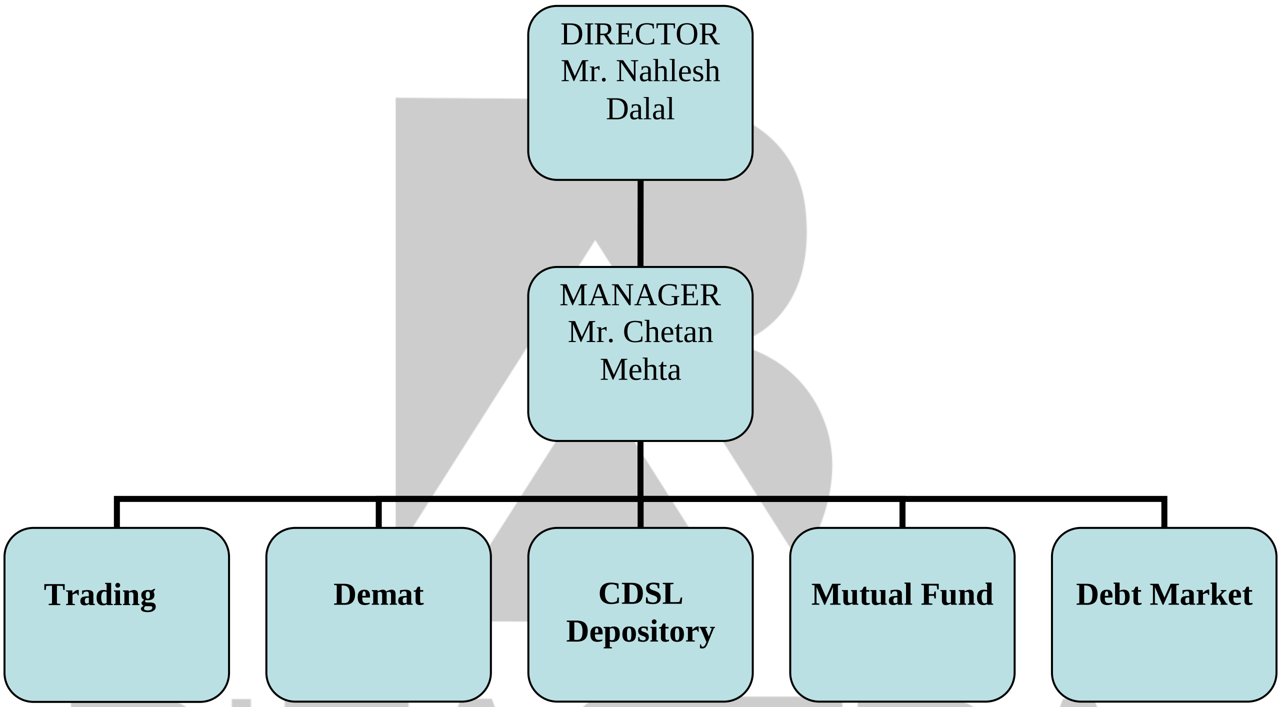
We serve almost all the major Indian Financial Institutions, Banks, Mutual funds, Insurance companies and many Foreign Institutional Investors.

The firm also has a large individual investor base including Non Resident Indians. We also cater to many Corporate Clients as well. The Organisation has independent professionals heading various divisions such as Equities Dealing (institutional and retail), Debt dealing and Research.

Integrity and transparency in all the dealings has earned us our clients trust and has enabled us to build long term relationships which we value the most.

The concept of this website was developed to bring our clients more closely to us as well as for faster dissemination of ideas and information to our clients. The focus of our research is more on strategic evaluation and future perspective rather than current numbers. The aim is to focus on long term appreciation while minimizing short-term risk.

2.2 Organization flow chart



2.3 Product / Services offered by the organization.

Dalal and Broacha offers diverse array of services that include retail and institutional broking, IPO and Mutual fund distribution as well as debt market .Besides broking and distribution, we also offer research support to our entire client

- RESEARCH
- FUNDAMENTAL ANALYSIS
- TECHNICAL ANAYLISIS
- INSTITUTIONAL BROKING
- DERIVATIVE DESK
- RETAIL BUSINESS
- DEPOSITORY SERVICES
- IPO & FIXED INCOME GROUPE

CHAPTER: 3

Analysis and Interpretation of Data

3.1 Introduction to Stock Market

- India's oldest and first stock exchange: Mumbai (Bombay) Stock Exchange. Established in 1875. More than 6,000 stocks listed.
- Total number of stock exchanges in India: 22
- They are in: Ahmedabad, Bangalore, Calcutta, Chennai, Delhi etc.
- There is also a National Stock Exchange (NSE) which is located in Mumbai.
- There is also an Over the Counter Exchange of India (OTCEI) which allows listing of small and medium sized companies.
- The regulatory agency which oversees the functioning of stock markets is the Securities and Exchange Board of India (SEBI), which is also located in Bombay.

Stock exchanges across the country are:

Bombay Stock Exchange:

Bombay Stock Exchange Limited (the Exchange) is the oldest stock exchange in Asia with a rich heritage. Popularly known as "BSE", it was established as "The Native Share & Stock Brokers Association" in 1875. It is the first stock exchange in the country to obtain permanent recognition in 1956 from the Government of India under the Securities Contracts (Regulation) Act, 1956.The Exchange's pivotal and pre-eminent role in the development of the Indian capital market is widely recognized and its index, SENSEX, is tracked worldwide.

National Stock Exchanges

The National Stock Exchange (NSE) is India's leading stock exchange covering various cities and towns across the country. NSE was set up by leading institutions to provide a modern, fully automated screen-based trading system with national reach. The Exchange has brought about unparalleled transparency, speed & efficiency, safety and market integrity.

NSE has played a catalytic role in reforming the Indian securities market in terms of microstructure, market practices and trading volumes. The market today uses state-of-art information technology to provide an efficient and transparent trading, clearing and settlement mechanism, and has witnessed several innovations in products & services viz. demutualisation of stock exchange governance, screen based trading, compression of settlement cycles, dematerialisation and electronic transfer of securities, securities lending and borrowing, professionalisation of trading members, fine-tuned risk management systems.

3.1.1 The case for investing in shares

Your capital grows quickly:

Returns from investments in shares come in two forms-capital appreciation and dividends. Capital appreciation takes place when there is increase in your share price.

Example:

If an investor invests in BHEL (100 shares) for Rs. 1000/share and after a certain period he sells the entire shares at Rs. 2000/share, there is a capital appreciation of Rs. 1000 which is equivalent to an increase of 100%. People are attracted to shares precisely because they offer exciting possibilities of getting rich.

You get income too:

Investments in shares not only give capital appreciation; it also gives income in the form of dividends. Dividend is the amount that a company distributes every year to its shareholders out of the profits it earns. It is usually expressed as a percentage of the face value of the share, or in rupees per share. To get a clear idea of what dividend means, let us assume that

Mr. X owns 1,00,000 equity shares of face value of Rs. 10 each in Dr. Reddy's Lab. Now if the company declares a dividend of 20 per cent or Rs. 2/share, then Mr. X is eligible to get Rs. 2, 00, 000 as his part of dividend.

It is not necessary for a company to declare a dividend every year. Companies which make losses usually skip the payment of dividends. However, most profit earning companies usually give an annual dividend to their shareholders. Some companies split this dividend into two parts, called interim dividend and final dividend.

Most of the Indian companies usually give dividends ranging from 10% to 30%. It all depends upon the profit that a company earns, and the policy adopted by the management on how much of these profits it can afford to distribute to its shareholders in the form of dividend.

Investing in shares is not speculation:

There is a common tendency to look upon the buying and selling of shares as speculation. Some people even goes to the extent of calling it gambling. This is simply not true.

When you buy a share after making a proper assessment of a company's future prospects, your risk is minimal and limited. When you do so on the basis of insufficient knowledge, incomplete analysis, a "hunch" or a "feeling", the risks are naturally much greater. The former is investment and the latter speculation. The difference between investment and speculation really lies in the degree of risk that you are willing to accept for attaining your goal. The investor takes calculated risks and plays a safe in return for moderate profits. The speculator deliberately takes high risks in expectation of getting disproportionately greater profits.

In the stock market both investors and speculators are operating all the time. However, it is not necessary that you should speculate. If an investor buys and sells shares on the basis of sufficient knowledge and analysis then his risks remain under control and his expected gains are predictable.

It is a liquid investment:

A liquid investment is one which can easily be sold. If an investment cannot be readily converted into cash it is often worthless. Liquid investments have also other advantages. They give you a feeling of security because they enable you to change your mind and correct your mistakes. In short, they give you flexibility for coping with ever changing economic conditions.

Shares are one of the most liquid forms of investment. They are much easier to buy and sell than real estate or works of art. Investments in social security certificates, fixed deposits in banks and companies are basically illiquid in nature, because they are made for a fixed period of time and cannot be readily converted into cash before expiry of such period.

However all shares are not equally liquid; some are more liquid than others. Real liquidity is only found amongst what are called “active” shares. Active shares are those in which transactions take place frequently on the various stock exchanges. These are about 1,500 or so in number, and constitute the most liquid forms of investment available in India today. If you confine your investments to these shares, as you should, you can ensure liquidity of your investment.

Ensures the safety of your capital:

Are share investments safe? Do they provide adequate protection against the risk of capital loss? They do, if you follow the three basic principles:

- Liquidity
- Long term investment strategy
- Diversification of your portfolio

Liquidity ensures safety of capital because it enables you to convert your investment into cash at the slightest fear or hint of a capital loss.

A long term investment strategy protects your portfolio from the temporary fluctuations and vagaries of the market.

Diversification reduces the capital loss, by spreading your investment over a large number of companies run by different business houses, operating in different fields like chemicals, shipping, engineering, steel, paper etc.and with plants located in different geographical regions of the country.

You don't need a lot of money to start:

The stock markets hold out attractive opportunities for the small investor because share investments do not necessarily require large sum of money. Investments in shares and building of a portfolio can even be made with amounts as small as Rs.100.

In fact, most of the 50 million or so Indian shareholders are small investors with investments ranging from Rs.10000 to Rs.50000. Shares can now be bought even one at a time since the stock exchanges authorities have now done away with the earlier concept of market lots and odd lots.

Stock markets are also better organised and their working is more closely regulated by the government and Securities and Exchange Board of India (SEBI) than those of property or commodity markets. Even the activities of sub brokers come under a closer watch than those of property agents, etc.

Again, investments in shares are ideally suited to the requirements of genuine middle-class investors, as these don't involve transaction in "black" or unaccounted money.

Finally, investment in share market provides investors with certain exclusive tax advantages which other forms of investment don't provide.

3.1.2 Important things every investor should know

Meaning of the company:

A company is a form of business organization. It is basically an association of individuals called shareholders who get together for the purpose of running a particular business. A company is managed by a board of directors, which consists mostly of elected representatives of the shareholders. The money that a company raises for starting and running its business is called the equity capital of the company. Companies also raise capital by borrowing from the public, banks and other financial institutions.

Liabilities and rights of the shareholders:

A company has an independent legal existence of its own, quite distinct from that of its shareholders. A shareholder cannot be held personally responsible or liable for the actions of a company, or any of its directors or the employees. The liability of the shareholder to his company is limited to the number of shares held by him. Example: Mr. Y is holding 100 shares of Rs.10 each then his liability is limited only upto Rs. 1000 in that particular company.

Public limited company and Private limited company:

There are two types of companies, public limited and private limited. It is mandatory for a private limited company to end with the words “private limited”, while a public limited companies simply ends its name with limited.

When we talk of investment in shares, we talk about shares of the public limited company. The shares of private limited company are neither quoted nor available for sale on the stock exchange.

Register of members:

Shareholders are often referred as members of the company. Every company is required to maintain a register of members where names, addresses and other relevant particulars of its shareholders and their shareholdings are recorded. Nowadays this information is maintained by two of the depositories: the NSDL (National Securities Depository Ltd.) and the CSDL (Central Securities Depository Ltd.) Most listed companies have now transferred their shares to the depositories who, in turn, keep a record of the shareholders in particular.

Annual report:

Every company prepares an annual report on its functioning and accounts and sends it to each of its shareholders well before the date fixed for the company’s annual general body meeting.

The annual report comprises the:

- Directors report.

- Auditors report.
- A fully audited Balance sheet and Profit and loss Account of the company for the previous year.

Preference shares and equity shares:

Preference shares give a fixed rate of dividend, which is currently around 6 to 8 per annum. Preferential shares give a right to their holders to receive dividends and repayment of capital in case of the company is wound up in preference to equity shareholders.

Equity shares on the other hand, don’t carry any fixed rate of dividend. Dividend is declared only if company makes profit in a particular year. Equity shareholders are entitled to vote in the Board meeting. They are also eligible to get Bonus issue which would be in a ratio to the shares held.

Right shares:

Companies often require additional funds for their working capital, or for their expansion and diversification programmes. They sometimes raise these funds by the sale of additional equity shares on a “rights basis” to its shareholders. Such shares are called right shares because the company’s shareholders have a prior right to buy these shares by virtue of their existing shareholding. The number of rights share issued to each of the shareholder is directly in proportion to the number of equity shares held in the company. Rights share could either be offered at par, or at a premium.

Bonus shares:

Companies do not generally issue the entire profit in the way of dividends. A fairly large part of profit is retained and added on to the reserves. In order to expand their equity capital they capitalize a part of the reserves by issuing bonus shares to its shareholders. The issue of bonus shares almost always leads to a fall in the market price. The issue of bonus shares enlarges the shareholding of an individual investor in the stock market.

Buyback of shares:

Buyback of shares is a term that refers to a situation where a company buybacks its own shares with its own capital. Buyback of the shares reduces the equity share capital of the company. This happens because the shares bought back from the market are extinguished and cease to exist. The company's Act debars the company from reissuing the share again. Consequently the earnings per share (EPS) go up because the same amounts of net post-tax earnings (as before the buyback) get spread over the reduced equity capital.

Stock splits:

A stock split is completely different from a bonus issue. Bonus shares results in increase n the value of equity share capital because through a book entry money is transferred from reserves to equity share capital. In stock split existing shares of the company are simply split into shares having smaller face value, or par value. Stock split in any way does not reduce or increase the capital of the company.

Example: Mr. Z is holding1000 shares of 100 each in BHEL which can be split into 2000 shares of 50 each.

Dematerialization of shares:

Dematerialization as the name suggests, is a term used for conversion of shares from their physical form to electronic form. This conversion is done by NSDL and CDSL. The CDSL acts as a depository for BSE, whereas the NSDL acts as a depository for NSE. After dematerialization, shares cease to exist in their physical form.

Merits of dematerialization:

- No risk of being fake or stolen shares.
- No stamp duty while transfer of shares.
- Free from tedious paperwork as it was in the physical form.
- Stock exchanges have now discarded the concept of marketable lots, small lots and odd lots.

Rematerialization:

Rematerialization is the reverse of dematerialization. It means to convert the electronically held shares back into physical form. You have the complete freedom of conversion from electronic form to physical form whenever you want to do so.

Reading daily market quotations:

The prices at which shares are transacted on stock markets get wide coverage in the financial newspapers like The Economic Times, Business Standard, and The Financial express. Stock market quotations in the financial newspaper will typically give you the following information:

1. Name of the Company.
2. Separate set of quotations for BSE and NSE.
3. Closing price of the previous day.
4. Opening price of the previous day.
5. High and low prices of the previous day.
6. Value of shares traded.
7. Number of trades took place in the share.
8. Volume of shares traded.
9. Current P/E ratio and
10. High/Low price of the year, or the past 52 weeks.

It is quite easy to read these quotations since almost all these newspapers provide easy to understand explanatory notes.

Stock market indices:

The main purpose of a stock market is to provide a means of measuring the overall trends in share prices in the market. The stock market index is like an instrument that tracks the overall behavior of the stock market. It is basically an average of carefully selected portfolio that represents, or almost represents, the whole market. The stock market index is also useful for comparing the returns you get from the stock markets with other assets, such as real estate, gold, collectibles, bonds etc.

Multinational Companies (MNC's):

An investor would frequently come across the term MNC in newspapers and magazines. MNC is an abbreviation which stands for multinational companies which were earlier also known as FERA companies. An MNC is a company in which foreigners held more than 40% of its equity capital. Most Indian subsidiaries of multinational corporations are now called MNC's, as their shares remain, by and large, good investments.

Blue chips:

This is another frequently used term though there is no standard definition of what a blue chip is. Companies that are large in size, technologically advanced, have professional management of high caliber, and have built a reputation for growth, regular payment of high dividends, and integrity in business dealings would normally be qualified under the label of blue chips. However no two investors would ever agree on where to draw the line separating blue chip companies from the others. It all finally boils down to subjective and personal preferences.

Fundamental and Technical analysis:

Fundamental analysis is a term used to describe the approach some investors adopt for taking investment decisions. Persons who follow this approach are called fundamentalists. Whereas technical analysis is another type of investment analysis commonly used for buying and selling of shares. It is an attempt to predict the future price of a particular share on the basis of a study of its past price movements.

Online trading of shares:

Is trading through the Internet safe?

The safety of transactions on the Internet depends on the encryption system used. The better this transaction system, the more difficult it is for any person to hack the site. Internationally, the best system available today is the 128-bit encryption, a system, which evens the Pentagon uses. ICICIdirect.com is one of the few online share-trading sites equipped with this 128-bit encryption.

Secondly, you too can ensure the safety of the transactions online. You normally get a secured user id and password, which is kept secret.

Thirdly, if the transaction system requires no manual intervention, you further improve the safety in the transactions. Among Indian sites, ICICIdirect.com is one of the very few fully integrated online trading sites.

This enables the elimination of the possibility of any manual intervention. It means that the orders are directly sent to the exchange ensuring that you get the best and right price.

Is trading through the Internet a difficult and cumbersome process?

In online trading sites, the greater the back-end integration of the system, the greater the amount of work the sites do for you, therefore greater the convenience available to you. For example, incase of ICICIdirect.com, your broking account, bank account and demat account are linked electronically. So when you punch in a buy or sell order, the system checks the funds/ shares availability and automatically credits/debits the accounts once the order is executed by the exchange.

Securities and Exchange Board of India (SEBI):

The Securities and Exchange Board of India (SEBI) is an autonomous body established by an act of parliament in 1992. SEBI is controlled by a statutory board consisting of one chairman and six members. SEBI's main objective is to protect the interest of investors, and to regulate all securities market particularly the share market. SEBI is a market regulator whose major functions include regulation, superintendence and control of all securities markets in India, overseeing the functioning of stock exchanges, framing rules for trading practices, attending to and removing investor grievances, framing rules for and regulating public issues, training and education of investors, and all matters pertaining to market intermediaries.

3.1.3Steps to buy and sell the shares

Selecting a broker:

When you decide to buy or sell shares, the first step to take is to choose a reliable broker or sub-broker who will carry out your transactions in a satisfactory manner. You can get a list of brokers and sub brokers from the stock exchanges. A good broker will make it easier and more profitable for you to transact business on the stock exchange. Therefore it is very important for an investor to put in the time and effort required in verifying the background of the broker or sub-broker with whom you intend to deal.

Most investors are under the impression that their broker's job is to provide advice and tips on what to buy and sell. This could not be farther from the truth. A broker's job is to execute your transaction for a fee and to provide you with necessary documentation. Another important factor to consider is whether your broker or sub broker are best avoided as their primary motivation is to increase their brokerage incomes through higher turnover of orders rather than looking after the client's interest. The only way to find whether a broker is reliable is only to transact with him for a certain period of time. Investing in the stock market requires the assistance of a stockbroker to execute your orders even if you don't feel like you need their advice.

Many investors today don't remember a time when you had no choice about the type of stockbroker to use. Full service brokers controlled the market and their high commissions were the standard.

Some of the leading stock brokers in India are:

- Angel Broking.
- Dalal & Broacha Stock broking
- Bonanza.
- Composite securities ltd.
- India Infoline.
- ICICI direct.com
- Kaarvy Stock broking.
- Motilal Oswal.
- Share Khan.

Buying and selling shares:

The first step is to open a demat account with your selected DP. All transactions on both NSE and BSE are done in demat securities.

A Demat account is like a Bank Account, with the difference being that instead of cash, a Demat account holds shares. So, if shares are bought, they are deposited into the buyers Demat account and if shares are sold, they are reduced accordingly from the Demat account. The shares that are deposited to or reduced from the Demat account are electronic shares. For an individual wishing to trade in shares, it is compulsory to trade only in Demat (dematerialized) shares. Physical shares cannot be traded. Demat shares have many advantages in terms of ease of handling etc.

A Demat account can be opened through most banks and financial institutions, after filling up the required forms and providing identity and address proofs.

<u>The usual charges associated with a Demat account are:</u>

1. Account opening charges.
2. Yearly charges for maintaining the Demat account.
3. Recurring periodic charges for holding shares in the Demat account.
4. Other service charges based on transactions carried out. Usually, there are no transaction / service charges when shares are bought. The charges will be levied when shares are sold.

The above charges may not be the same across different service providers but a big part is likely to be the same as regulatory agencies like Securities and Exchange Board of India (SEBI) specify certain norms.

<u>Trading:</u>

A Trading account is required if an individual wishes to trade, i.e. buy and sell shares in the stock exchange. The 2 main stock exchanges in India are the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). A Trading account can also be opened with most banks and financial institutions, after filling up the required forms and providing identity and address proofs. The actual trading can be done by phone, internet or using transaction slips that are provided at the time of opening the account.

There is a brokerage charge that is incurred for both buying and selling of shares. This charge varies across different trading houses. Also, government levies like the Securities Transaction Tax (STT) will be incurred on such transactions.

Bank account:

Needless to say, a Bank account is required for carrying out various financial transactions associated with trading of shares. This is where the money on sale of shares will be credited or money for buying shares will be debited from. A normal Savings Account is enough and nothing additional needs to be done with the Bank account.

Trading process:

Once the Demat account, Trading account and Bank account are in place, an individual is ready to start trading. While it is not necessary to have the Demat account, Trading account and Bank account with the same organization, I feel that having it with the same organization offers additional convenience, especially for individuals trading using the internet. The following example of buying and selling using a Trading account on the internet illustrates the convenience of having the Demat account, Trading account and Bank account with the same organization.

Buying shares:

When an individual wants to buy a share, he/she logs into the Trading account and specifies the details like the Company name, no. of shares to buy and the price at which to buy. Depending on this information, the required amount from the Bank account is set aside for this trade. When the desired price is reached, this trade is executed and the amount (after adjusting for charges) is debited from the Bank account and the shares are credited into the Demat account. If the Bank account had been with a different organization, then for carrying out this trade, it would have been necessary to move the amount into the Trading account.

Selling shares:

When an individual wants to sell a share, he/she logs into the Trading account and specifies the details like the Company name, no. of shares to sell and the price at which to sell. Depending on this information, the required no of shares from the Demat account is set aside for this trade. When you sell shares from your demat account by instructing your DP to transfer the number of shares that you have sold from your account to the demat account of your broker.

When the desired price is reached, this trade is executed and the shares are debited from the Demat account and the amount (after adjusting for charges) is credited to the Bank account. If the Bank account had been with a different organization, then after this trade, it would have been necessary to move the amount from the Trading account into the Bank account.

Please note that apart from the charges that are levied by the Bank, the Demat account service provider and the Trading account service provider, there will be additional government taxes like STT and Service Tax. Also, please make sure to read all the terms and fee details of the service providers before opening any account and be aware of the transaction costs involved with each transaction.

How to place order with the brokers?

No matter how much analysis you do or how sophisticated your software is, virtually nothing in trading is more critical than entering your orders properly. It is hard enough to determine the trades you want to take. Communicating your trading decision to the market can be another challenge if you are a trading newcomer – unless you work with a broker or experienced trader who can explain the terminology, the strategies and the nuances of the various orders.

Remember, it's your money the broker is holding so you should be very careful about telling the market what you want to do with your money. The order that you place with the broker may be mainly of three types:

- Fixed price order or limit order
- Stop loss order or
- Market order.

Before discussing the various types of orders, here are a couple of important points:

1. Not all orders are accepted at all exchanges or by all brokerage firm trading platforms. Check with your broker to be sure which orders you can use for the markets you trade.
2. Entering a trade is not the end of the order process. Be sure that you get a confirmation that your order has been executed and the price at which the order was filled. That fill shows where you stand in the market and may be the key to followup orders such as stops.
3. Never assume that a broker or a computer knows what your position is or what you are trying to accomplish. If you say or click "sell" instead of "buy," your order is likely to get executed, and you may wind up doubling the size of a short position when you thought you were closing out the short position.
4. Keep your own order log, especially open orders because they may lie in some forgotten queue long after the market has moved away from the area where they were placed and give you a big surprise if they are filled.

Limit:

A limit order specifies a price limit at which the order must be executed – you get the price you want or better or you don't get a position. A limit order lets you know the worst price at which your order will be executed. However, you cannot be certain that a limit order will be filled because the market may not trade at your price, or there may be only a few trades at the limit price level you specified and yours is not one of the orders filled. With a limit order, the tradeoff for being sure about the worst price you can get is that you may not get a position at all.

A buy limit order is placed at a price lower than the current market price. A sell limit order is placed at a price higher than the current market price. Some traders add "or better" to a limit order to reinforce their intent, but that is implied in a limit order and is not necessary.

Stoploss:

A "stop" is another common order because traders are always being admonished to trade with stops to protect their accounts. The stop is often used as a protective order, but it is also a good way to get into a new position. A stop order is essentially a market order but only if and when the market reaches a specific price. The specified price acts as the trigger that converts the stop order to a market order. Until and unless that trigger is pulled, your market order stays on the shelf waiting to be activated.

A buy stop order is placed at a price higher than the current market price. It will become a market order to buy only when the market moves up to that price. Like any market order, the trade may be executed at the stop order price, at a lower price or at a higher price, depending on the next best possible price available.

A sell stop order is placed at a price lower than the current market price. It will become a market order to sell only when the market moves down to that price. Like any market order, the trade may be executed at the stop order price, at a lower price or at a higher price, depending on the next best possible price available.

Market:

A market order is the most common type of order and should be used whenever you want your order to be executed immediately. You do not have to indicate a specific price because the order will be executed as soon as possible at whatever the next available market price is. Once this order is placed, it cannot be canceled because it is filled immediately. Keep in mind that the next available price may be far removed from the price at the time you placed your order in wild market condition.

3.2 Basic Investment Rules

Don't buy unlisted shares:

There are 20, 000 public limited companies in India, of which only around 7,000 are listed on the country's various stock exchanges. The first rule to invest profitably is to confine your buying to these 7,000 listed companies. Stock exchanges do not permit trading in unlisted shares. Therefore, if you want to buy unlisted shares, nor do they permit their registered members, i.e brokers to deal in the unlisted shares.

Never trust the advice and/or ideas of trading software vendors:

Stock trading system sellers, market commentators, financial analysts, brokers, newsletter publishers, trading authors, etc., unless they trade their own money and have traded successfully for years.

Note those that have traded successfully over very long periods of time are very few in number. Keep in mind that Wall Street and other financial firms make money by selling you something - not instilling wisdom in you.

Buy low-sell high:

As simple as this concept appears to be, the vast majority of investors do the exact opposite. Your ability to consistently buy low and sell high, will determine the success, or failure, of your investments. Your rate of return is determined 100% by when you enter the stock market.

Other rules:

- Don't buy inactive shares.
- Don't buy shares in closely held companies.
- Must let your profits run.
- Successful market timing.
- Successful investment methods.

Above mentioned are some of the golden rules of investment to be kept in mind by an investor before investing in any shares.

3.2.1 Parameters to judge a company

Is the management dynamic and forward looking?

A company can only be as good, or bad, as its management that provides the main driving force behind the corporate performance. Therefore, as a would-be investor it is necessary for you to find out the quality of company's management before you invest in its shares.

Companies run by traditional business families can sometimes be as dynamic and forward-looking as the best of professionally run subsidiaries of foreign multinationals. On the other hand, some foreign companies with so called professional managements have a poor record of performance. Therefore don't go merely by labels; look towards the inside story instead.

One way to find whether the management is good or bad is to look at its past performance. Look at its track record

Is the company sufficiently large in size?

Large companies generally offer better investment opportunities than do smaller ones. This is because large companies can make use of economies of scale with smaller companies cannot. The former are thus able to reduce cost and establish a clear competitive edge over smaller companies. Since their costs are lower, they can cope more effectively with adverse economic and business conditions.

As a result investment in larger companies is generally safer and more stable than investment in smaller companies. However this does not mean that you should ignore the smaller companies altogether. Below are some smaller entities performed fairly till recent past:

- Arvind Mills.
- Balrampur Chinni.
- HEG.
- Hikal.
- Matrix Laboratories etc.

Some of the largest companies (large cap) in India are:

1) State Bank Of India.
2) Tata Steel.
3) ITC Ltd.
4) Reliance Industries.

5) Hindustan Unilever Ltd.
6) BHEL.
7) Infosys Technology.
8) Satyam.
9) Wipro.

Again, though there is no rigid and universal rule applicable rule in this regard, we would suggest that as a rule-of-thumb companies with an equity capital of less than 10 crores and sales of less than 50 crores could be considered very small and by and large, you should avoid investing in such companies.

Does the company have a core competence or is it diversified?

Diversification in a company can take many forms. The most obvious forms are a diversified product range and diversified business operations. For example, a company like Hindustan Unilever Ltd (HUL.) has a diversified range of products, range comprising of soaps, detergents, toothpastes, fertilizers and agro chemicals. L & T, on the other hand, has a diversified range of business operations including cement, manufacturing, construction and consultancy.

Some well known diversified companies are:

Grasim Industries	Larsen and Turbo
Hindustan Unilever Ltd.	Reliance industries
ITC	Appollo Hospitals
Nestle	Wipro

<u>Growth of the companies:</u>

Growth companies provides excellent investment opportunities. As a company grows and expands, so will its profits. Hence it gives a call not only to the bonus issue but also for rising dividends.

Steps to identify the growth company:

- Check out past track records.
- Management policies of an entity.
- Consistency in share prices.
- Diversified business.

Some growth companies in India are:

ABB Ltd.	Indian Hotels	Indian Rayon
Bajaj Auto	Gujarat Ambuja Cem.	Infosys Technologies
Siemens	L & T	Wipro
TISCO	Telco	Reliance Industries

Does the company have any labour issues?

Most companies, at sometime or other, face labour problems. However, in most cases these problems are not very serious and they do not really disrupt the functioning of the company in a major way. The Bombay Textile strike in 1980s showed how a prolonged and violent labour agitation ruined the Bombay textile industry. A strong piece of advice is to keep away from the companies suffering from chronic labour issues.

Competitiveness of the company:

The Indian economy is now getting integrated with the world economy. The WTO (World Trade Organisation) agreement also provides for the integration of the economies of member countries through lowering of tariff barriers, reductions in subsidies, greater protection for patents and copyrights, and the gradual removal of restrictions on free movement of goods, services and personnel across nations. In such an environment only those companies that are in a position to compete in the global markets, or against cheap imports coming into their domestic markets, can possibly hope to survive and grow.

India enjoys the comparative advantage in the global markets in these industries:

1. IT services
2. Health Care
3. Silk
4. Cotton Textiles
5. Floriculture
6. Fruits
7. Milk products
8. Two-wheelers
9. Pharmaceuticals
10. Tea
11. Leather products
12. Mushrooms
13. Poultry products
14. Vegetables
15. Auto ancillaries
16. Gems and jewellery.

3.2.2 Assessing the financials of the companies

Ploughback and reserves:

After deduction of all expenses including taxes, the net profits of a company are split into two parts- dividends and ploughback. Dividend is that portion of the company's profits which is distributed to its shareholders, whereas ploughback is the portion that the company retains and gets added to the reserves. The figures for ploughback and reserves of any company can be obtained by a cursory glance at its balance sheet and profit and loss account. Most newspapers and magazines also give this information for prominent companies while reporting their annual working results.

Book value per share:

This term is very common in the investment literature. Book value per share indicates what each share of a company is worth according to company's books and accounts. The company's books and account maintain a record of what the company owns (assets), and what it owes to its creditors (liabilities). If you deduct the total liabilities of the company from its total assets, then what is left out are known as shareholders funds. Finally if you divide shareholder's funds by total number of equity shares issued then you can gain what is called as "book value of shares."

Book Value per share = Shareholders funds/Total no. of equity shares issued

Book value is the historic price or the original value at which company's assets are purchased. It doesn't reflect the current market price of the company's assets. It can, at best, give you a rough idea of what a company's shares should be worth.

Earnings per share (EPS):

EPS is well known and widely used investment ratio. It is calculated as:

EPS= Profit after tax/Total no. of equity shares issued.

This ratio gives the earnings of the company on a per share basis. For example-Mr. Naik has 100 shares with a face value of Rs. 10 each in SAIL. Suppose the earnings per share of SAIL is Rs. 6/share and the dividend declared is 20 per cent, or Rs 2/share. This means that each share of SAIL earns Rs. 6/year, even though you receive Rs. 2 as dividend. The remaining 4 rupees consists of ploughback and retained earnings.

In simple terms it can be shown as:

Return on investment	60 %
Dividend	20%
Ploughback and ret. Earnings	40%

Ideally speaking, your shares should appreciate by 40% from Rs. 10 to Rs. 14. per share.

The above illustration derives some basic investment lesson. You should evaluate your investment returns not on the basis of the dividend you receive, but on the basis of earnings per share. Earnings per share is the true indicator of the returns on your share investments.

Therefore, irrespective of what price you buy shares of any company, then at its EPS will provide with an invaluable tool for calculating return on an investors investment.

<u>Price earnings ratio (P/E):</u>

The price earning expresses the relationship between the market price of a company's share and its earning per share.

P/E Ratio= Price of the share/Earnings per share

The ratio indicates the extent to which earnings of a share are covered by its price. If P/E is 5, it means that the price of a share is 5 times its earnings. In other words the company's EPS remaining constant, it will take you approximately five years through dividends plus capital appreciation to recover the cost of buying the share. The lower the P/E, lesser the time it will take for you to recover your investment.

Dividend and yield:

There are many investors who buy shares with the objective of earning a regular income from their investment. The primary concern is that with the amount that a company gives as dividends- capital appreciation being only a secondary consideration. For such investors, dividends obviously play a crucial role in their investment calculations.

Yield= Dividend per share/ Market price per share X 100.

Yield indicates the percentage of return that you can expect by way of dividends on your investment made at the prevailing market price. The concept of dividend is far greater than of dividends.

ROCE, RONW and PEG ratios:

While analyzing a company, the most important thing you would like to know is whether the company is efficiently using the capital (shareholders funds +borrowed funds) entrusted to it.

Return on capital employed (ROCE):

ROCE is best defined as operating profit divided by networth. It is the basic ratio that tells a shareholder what he is getting out of his investment in the company. It reflects the overall earnings performance and the operational efficiency of a company’s business.

Return on networth (RONW):

RONW is defined as net profit divided by networth. It is a basic ratio that tells a shareholder what he is getting out of the company. RONW is a better measure to get an idea of overall company's operations, while RONW is a better measure for judging the returns that a shareholder gets on his investment.

PEG ratio:

PEG is an important and widely used ratio for forming an estimate of intrinsic value of a share. It tells you whether the share that you are interested in buying or selling is under-priced, fully priced or over-priced.

3.2.3 Right timing for the right price

Suggestions for better timing in the market:

There are no hard and fast rules about the proper timing of investment decision. The art of buying and selling of shares at the right time cannot be really be reduced to any formula- it can be picked up only through personal experience. Below are some valuable suggestions to time the market in a better way:

1. Don't buy a share after its steep rise in the price:

A steep rise is usually followed by a steep fall; the steeper the rise, the greater the subsequent fall. When share prices fall, they retrace about one-third to two-thirds of the price range covered by the earlier rise. Thus if the prices of shares will rise from Rs. 40 to Rs. 55, then in the subsequent fall its price will probably drop to Rs. 45 to Rs. 50 per share.

2. <u>If you want to sell a share, do so immediately after a steep rise in its price:</u>

The chances are that you will then be selling at around one of its peaks, which it may not touch again for quite sometime.

3. <u>Don't sell a share immediately after a steep fall in its prices:</u>

Chances are that the share prices will rally by recovering around one-third to two-third of the lost ground. The appropriate time to sell it would be during the ensuring rally when you can get a better price.

4. <u>A sharp fall in prices offers an opportunity for buying</u>:

A confident investor will buy the shares when the prices have a steep fall. Example if the share price of BHEL is Rs. 500 today and after a week if it touches Rs. 300 or less than that then that gives a call to buy the shares of BHEL.

5. <u>Share prices usually record a sharp rise just before any expansion project:</u>

If you are a frequent investor or a buyer then you should do your buying around a month or so before it happens. On the other hand, if you are a seller you should sell a couple of months after the plant goes into commercial production so that you can take full advantage of that price rise.

3.2.4 Investing in public issues (IPO's)

There are basically two ways in which you can buy shares; you can either buy them from the stock market or you can apply for them in a public issue. The stock market is a secondary market where shares are bought and sold, whereas primary market is one where companies issue shares for the first time.

When a company raises funds by issuing new shares or debentures for sale to the public, it is called the public issue, or an IPO (Initial Public offering). Such new shares are called new issues. Bonus shares and right shares are also called new issues but since they are only issued to existing shareholders of the company, they are not called public issues.

Profitability of public issues:

Public issues provide you with an opportunity for picking up shares at relatively low prices. Newly formed companies usually offer their values for subscription at par values, whereas existing companies price their new issues at levels which are sometimes as much as 20 to 30 percent lower than the market price of their existing shares. For example if new shares are quoted at Rs. 12 to Rs. 15 per share may be quoted as high as Rs. 20 to Rs. 25 per share in the secondary market soon after their listing on the stock exchanges. Similarly, shares issued at par by new companies also quote at high premiums soon after they get listed on the stock exchange. For example in early 2004 public issues of Maruti Udyog, Indraprastha Gas and Divi's Labs listed at high premiums.

Should an investor invest in an IPO?

IPO's are inherently very risky business. As a result, there is potential for huge gains and huge losses. Since the company is starting to be listed on an exchange, there is no historical market data for it and very little to research. On the first day, the stock could gain hundreds of percentage points or lose hundreds of percentage points.

Step 1:

To apply to an IPO you have to fill an IPO application form. These forms are available in stalls outside the stock exchanges and with vendors in various other areas.

Step 2:

You can also get an application form through a share broker or investment consultant, if you have one. Else forms are available at various banks.

You can also check the Web site of Karvy Consultants (www.karvy.com) who are often registrars or lead managers for issues.

The other option is to check the SEBI Website (http://www.sebi.gov.in/) for the prospectus of a particular IPO. The prospectus lists the lead managers for the IPO and you can get a copy of the application form from their centers.

Step 3:

Once you get the form, you have to fill it, remit the amount after calculating the number of shares applied for in the bank that is designated in the form as collecting centre for that IPO.

Step 4:

If you have a demat account, then you can apply for the shares directly through your demat account or there is an option of physical delivery of share certificates.

Some IPO's offer only demat (dematerialised) form of shares, while others offer both demat as well as regular (physical) shares.

SEBI advises investors to get the allotment in demat form as the shares in IPO are tradable only in demat segment in the stock exchanges. Dealing of physical shares (allocated in IPO) is not accepted.

Guidelines for investing in new issues:

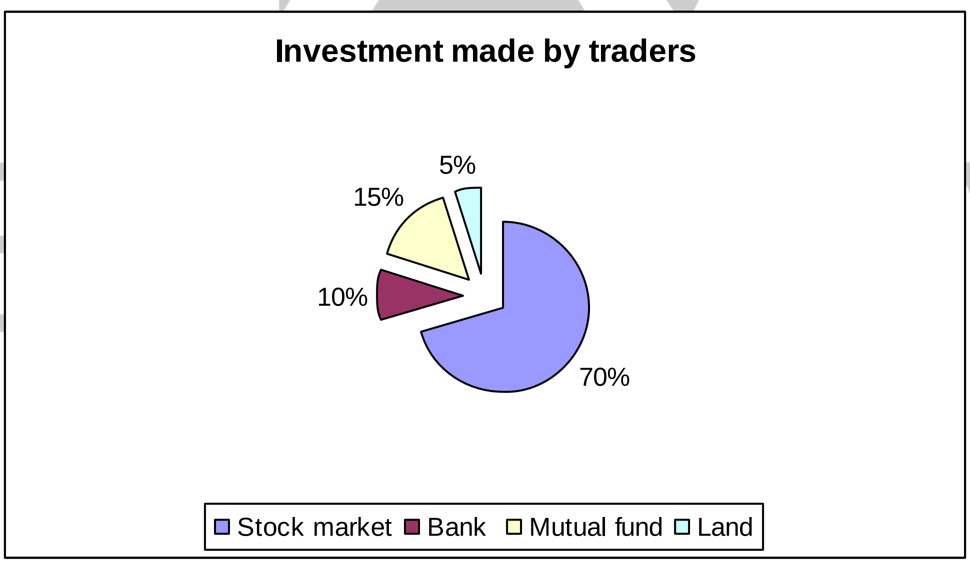
1. Don't invest blindly in a company having unknown and untried promoters
2. Don't invest in a company which is not ready to start business operations.
3. Invest in companies that have something new to offer.
4. Invest in companies that operate in high-growth sectors of the economy.
5. Avoid investing in very small companies.
6. Check the reputation and market standing of foreign collaborator, if there is one.
7. Companies where the foreign collaborator has an equity stake are often good investments.
8. Do apply for mega issues of well – known profit earning companies.

3.3 Analysis and Interpretation of Data

A questionnaire was distributed among the share traders of Dalal and Broacha ltd. A sample of 100 traders was taken to analyze and the response is shown in the form of pie chart

1) Where do you invest your money?

Investment	%age
Stock market	70
Bank	10
Mutual fund	15
Land	5

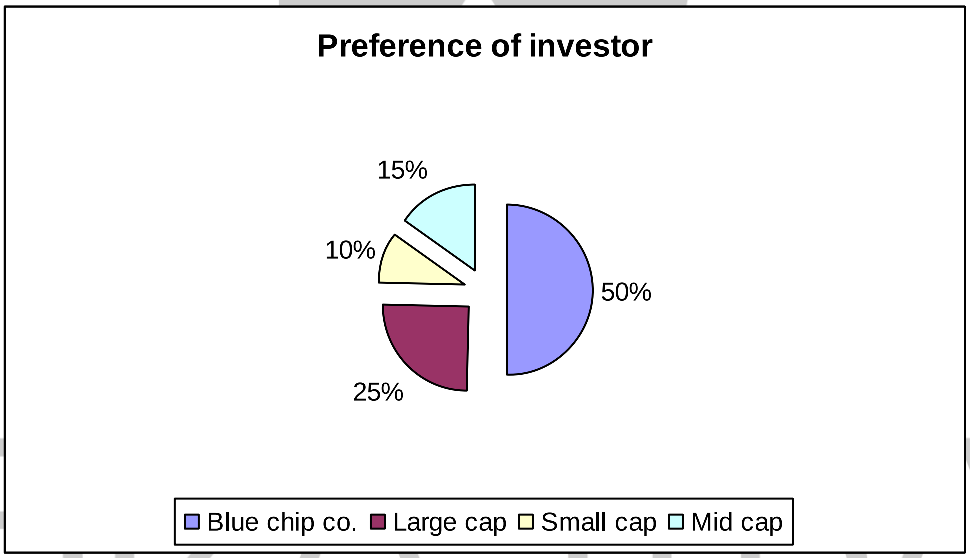


Interpretation:-

From the above pie chart it is understood that 70% of the trader invest in stock market, 10% in bank, 5% in land and 15% in mutual fund.

2) Where will you prefer to invest your money?

Preference	%age
Blue chip co.	50
Large cap	25
Small cap	10
Mid cap	15

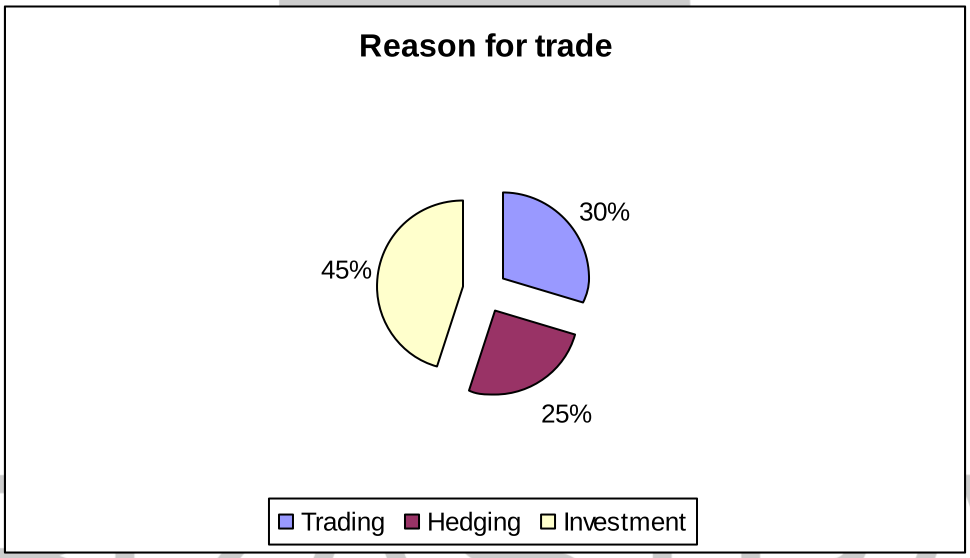


Interpretation:-

From the above pie chart it is understood that 50% of the trader invest in blue chip companies, 25% in large cap, 10% in small cap and 15% in mid cap.

3) What is the reason for which you trade?

Reason	%age
Trading	30
Hedging	25
Investment	45

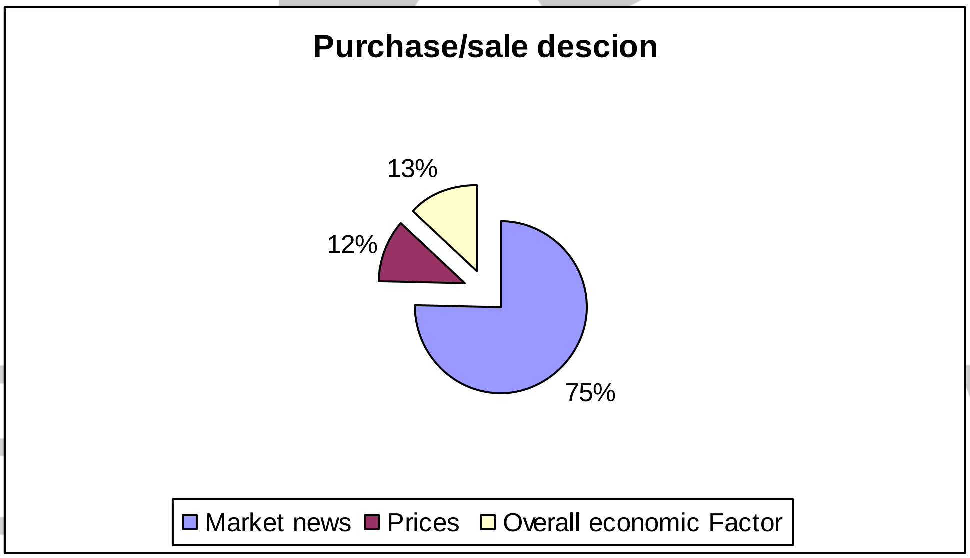


Interpretation:-

From the above pie chart it is understood that 30% of the trader invest for trading, 45% invest as investment, and 25% traders invest for hedging.

4) When is purchase/sale decision made?

Decision	%age
Market news	75
Prices	12
Overall economic Factor	13

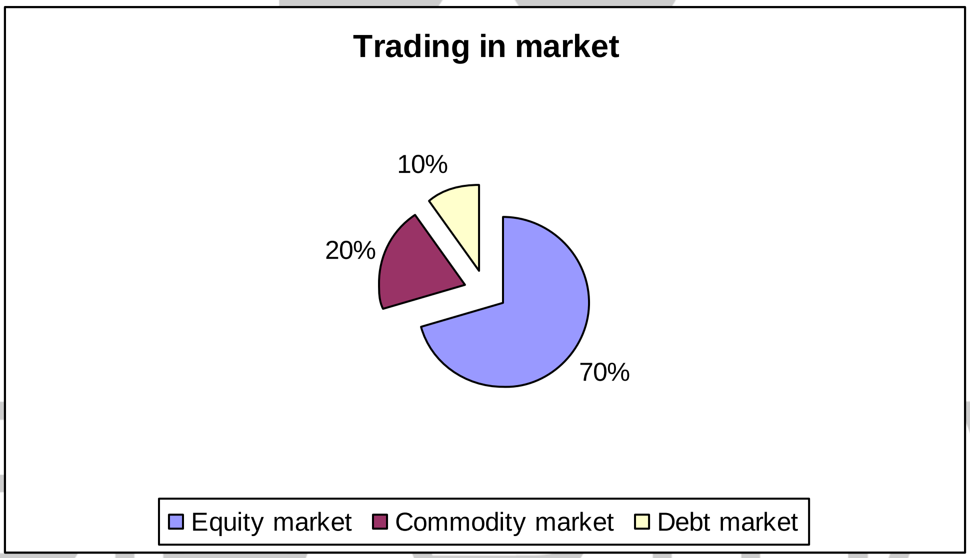


Interpretation:-

From the above pie chart it is understood that 75% of the trader take decision on the basis of market news, 12% on the basis of prices, and 13% on the basis of overall economic factor.

5) Are you trade in equity market, commodity market or debt market?

Trading	%age
Equity market	70
Commodity market	20
Debt market	10

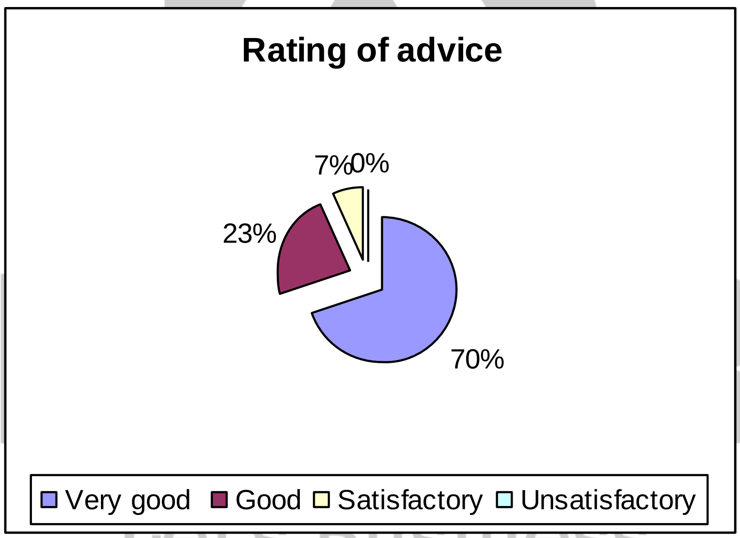


Interpretation:-

From the above pie chart it is understood that 70% of the traders are trading in equity market, 20% of the traders are trading in commodity market, and 10% of the traders are trading in debt market.

6) How do you rate the advice given to you for investing the funds?

Rating	%age
Very good	70
Good	23
Satisfactory	7
Unsatisfactory	0

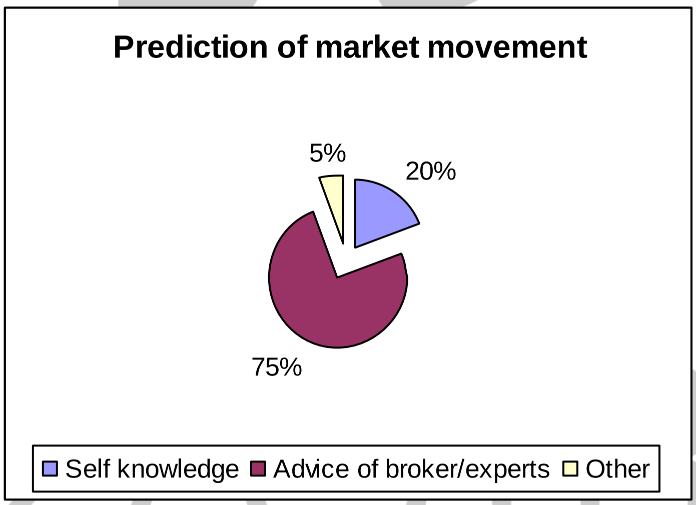


Interpretation:-

From the above pie chart it is understood that 70% of the traders are feeling that the advice provided to them is very good, for 23% it is good and for 7% it is satisfactory.

7) According to you, what is the basis for prediction of market movement?

Market Movement	%age
Self knowledge	20
Advice of broker/experts	75
Other	5

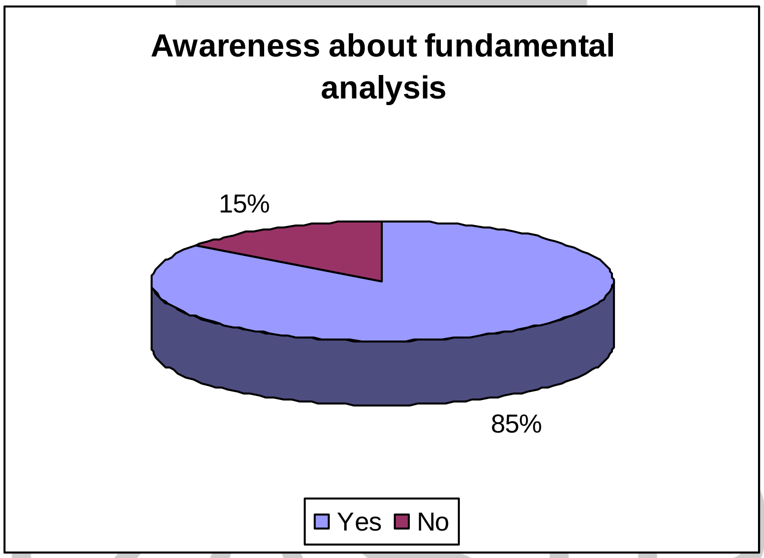


Interpretation:-

From the above pie chart it is understood that 75% of the traders predict the market on the basis of advice of broker, 20% on the basis of self knowledge, and 10% on the basis of other.

8) Are you aware about fundamental analysis?

Awareness	%age
yes	85
no	15

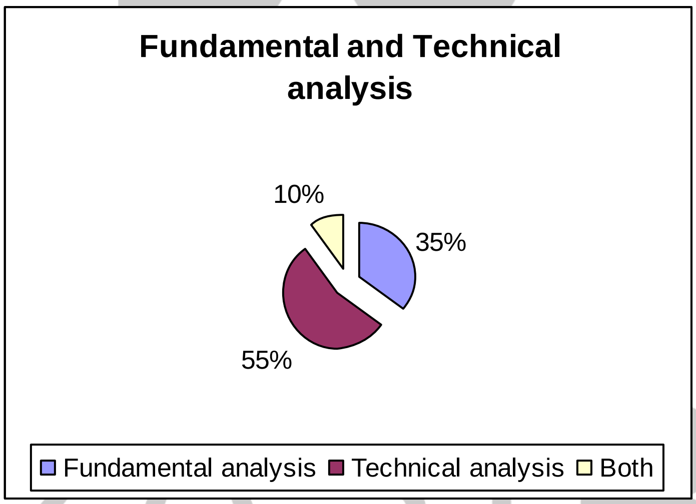


Interpretation:-

From the above pie chart it is understood that 85% of the traders aware about the fundamental analysis and 15% traders are not aware about it .

9) Do you prefer fundamental analysis or technical analysis?

Preference	%age
Fundamental analysis	35
Technical analysis	55
Both	10

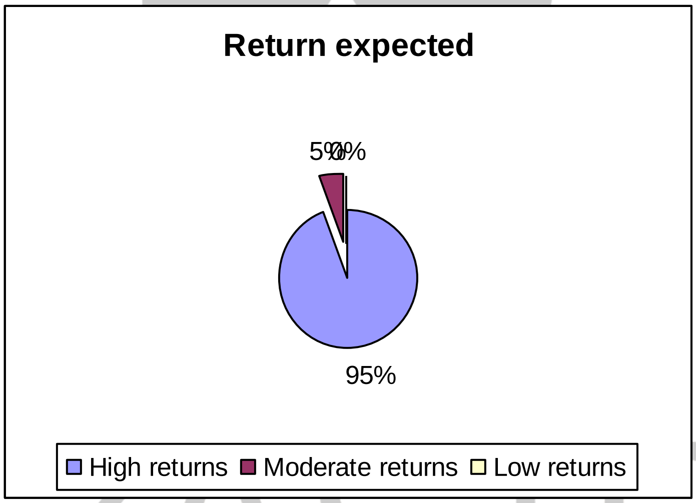


Interpretation:-

From the above pie chart it is understood that 35% of the traders prefer fundamental analysis, 55% prefer technical analysis and 10% both

10) How do you rate the returns the money you have invested?

Rating	%age
High returns	95
Moderate returns	05
Low returns	0



Interpretation:-

From the above pie chart it is understood that 95% of the traders are getting high returns and remaining 5% are getting moderate return.

CHAPTER: 4

Suggestions

Suggestions

There is no assured route for achieving investment success or for that matter there any cut-and-dried, instantly-applicable or sure-shot formula for making money in stock market. Below are some tips/suggestions for successful investment in the equities:

Basic rules are:

1. Select liquid stocks only.
2. Select a few stocks only.
3. If you are already holding the stock wait for the peak or the bottom
4. Don't be over enthusiastic.
5. Never challenge the market.

Some of the strategies for profitable investment are:

1. Do not invest in unlisted shares.
2. Invest in active shares.
3. Diversify your investment.
4. Don’t over diversify.
5. Ensure liquidity of your investment.
6. Don’t invest in the new issues especially where you are not aware of the management.
7. Do not speculate in the stock market.
8. When investing, go for a long term investment.
9. Bank on growth, growth and only growth.

CHAPTER: 5

Conclusion

Conclusion

There is no assured route for success. This is a fact which is universally applicable and so in case of investment. There is no short cut formula which could be applied instantly and make money out of it instantly in the stock market. Therefore, a good investment takes time, patience, hard work and perseverance to achieve success. Over the next ten – twenty years, Indian capital market and stock market may offer some of the best and lucrative opportunities to make big money as compared to other investment avenues.

All roads to investment success are equally valid and all of them have strong points in their favour and disfavor. The stock market is a place where every theory has its day and gained a spectacular success. The only drawback is that most theories do not work with all people. Each investor has to select and formulate his own theory, plan his objectives and assess his capabilities the entire situation efficiently while investing.

Hence the report was an attempt to explain with some basic tips for investment which may be beneficial to the investors who can expect healthy and safe returns for each penny one invests in the stock market.

CHAPTER: 6

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