G.Venkataswamy Naidu College (Autonomous)

(Re-Accredited by NAAC with 'A' Grade)

(STAR College Status by DBT-MST, Govt. of India)

Kovilpatti – 628 502

PG AND RESEARCH DEPARTMENT OF COMMERCE

PART – IV – OPEN ELECTIVE (SELF STUDY COURSE)

Course Title: Fundamentals of Stock Market

Course Code: U20C060E

SYLLABUS AND STUDY MATERIAL

Course Type	Course Code	Course Title	Lecture (L)	Tutorial (T)	Practical (P)	Credit (C)
Open Elective	U20CO6OE	Fundamentals of Stock Market	-	-	-	3

Contact hours per semester: -

Contact hours per week: -

Year	Semester	Internal Marks	External Marks	Total Marks
Third	Six	-	100	100

Preamble

This course embraces the required skills and abilities to be improved for trading in the stock Market and selecting the most profitable investment alternatives.

Course Outcomes (COs)

On successful completion of the course, the learners will be able to

S.NO.	Course Outcome	Knowledge Level (RBT)
CO1	explain the basic concepts and overview of stock market.	K1
CO2	describe the significance of Primary Market and Secondary Market.	K2
CO3	discuss the functions of recognized stock exchange in India(NSE and BSE) and Role of SEBI.	K3
CO4	analyse the trading practices in stock market.	K4
CO5	compare and select the most profitable investment alternatives.	K5

K1 – Remember; K2 – Understand; K3 – Apply; K4 – Analyze; K5 – Evaluate; K6 – Create.

CO-PO Mapping (Course Articulation Matrix)

POs / COs	PO1	PO2	PO3	PO4	PO5	PO6	PO7
CO1	3	3	2	3	2	3	2
CO2	3	2	3	2	1	-	-
CO3	3	3	3	3	2	2	2
CO4	3	2	2	2	1	1	2
CO5	3	3	2	-	2	3	2
Total Contribution of COs to POs	15	13	12	10	8	9	8
Weighted Percentage of COs Contribution to POs	100	86.67	80	66.67	53.33	60	53.33

3- Strongly Correlated 2-Moderately Correlated 1-Slightly Correlated - Not Correlated

Course Content

UNIT I An Overview of Stock Market

Meaning, Functions, Intermediaries, Role of SEBI, Recognized stock exchange in India (NSE and BSE), Derivative on stocks, Meaning, Types.

Unit II Primary Market

Meaning, Role of Primary Market, Functions of primary market, Problems of New Issues Market, IPO's, Investor protection in primary market – Recent trends in primary market – SEBI measures for primary market.

Unit III Secondary Market

Meaning, Role of secondary market, Functions of Secondary Market, Organization and Regulatory framework for stock exchanges in India, SEBI measures for secondary market.

Unit IV Trading in Stock market

Patterns of trading and settlement, Speculation, Types of speculations, Activities of brokers, Broker charges, Settlement procedures, National Securities Depository Limited (NSDL), Central Securities Depository Limited (CSDL).

UNIT V Investment Alternatives

Introduction and meaning of Investment Alternatives, Shares, Bonds, Government Securities, Insurance Policies, Mutual Funds, Post Office saving scheme, Public Provident Fund, Stock Return Valuation, Capital Assets Pricing Model (CAPM).

Text Books:

1. Mridula Goyal and Alok Goyal (2020), "Fundamentals of Stock Market", VK Global Publications Pvt Ltd.

Reference Books:

1.AnkushBansal (2022), " Professional Corporate Funding and Listings in Stock Exchanges" The Present Publication House.

2. Matthew R. Kratter (2019), "A Beginner's Guide to the Stock Market", Independently Publishing Company.

Web References:

1. https://www.flame.edu.in/pdfs/fil/presentations/FIL_Stock%20Market.pdf
2. https://www.dailyfx.com/education/understanding-the-stock-market/stock-market-basics.html
3. https://www.angelbroking.com/knowledge-center/share-market/share-market-basics
4. http://www.iepf.gov.in/IEPF_GU/pdf/First_Steps_to_Investing_A_Beginners_Guide_Prithvi_Haldea.pdf

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Unit I

An Overview of Stock Market

Meaning of stock market:

The stock market broadly refers to the collection of exchanges and other venues where the buying, selling, and issuance of shares of publicly held companies take place.

Functions of stock Market

Economic Barometer:

A stock exchange is a reliable barometer to measure the economic condition of a country.

Every major change in country and economy is reflected in the prices of shares. The rise or fall in the share prices indicates the boom or recession cycle of the economy. Stock exchange is also known as a pulse of economy or economic mirror which reflects the economic conditions of a country.

2. Pricing of Securities:

The stock market helps to value the securities on the basis of demand and supply factors. The securities of profitable and growth oriented companies are valued higher as there is more demand for such securities. The valuation of securities is useful for investors, government and creditors. The investors can know the value of their investment, the creditors can value the creditworthiness and government can impose taxes on value of securities.

3. Safety of Transactions:

In stock market only the listed securities are traded and stock exchange authorities include the companies names in the trade list only after verifying the soundness of company.

The companies which are listed they also have to operate within the strict rules and regulations. This ensures safety of dealing through stock exchange.

4. Contributes to Economic Growth:

In stock exchange securities of various companies are bought and sold. This process of disinvestment and reinvestment helps to invest in most productive investment proposal and this leads to capital formation and economic growth.

5. Spreading of Equity Cult:

Stock exchange encourages people to invest in ownership securities by regulating new issues, better trading practices and by educating public about investment.

6. Providing Scope for Speculation:

To ensure liquidity and demand of supply of securities the stock exchange permits healthy speculation of securities.

7. Liquidity:

The main function of stock market is to provide ready market for sale and purchase of securities. The presence of stock exchange market gives assurance to investors that their investment can be converted into cash whenever they want. The investors can invest in long term investment projects without any hesitation, as because of stock exchange they can convert long term investment into short term and medium term.

8. Better Allocation of Capital:

The shares of profit making companies are quoted at higher prices and are actively traded so such companies can easily raise fresh capital from stock market. The general public hesitates to invest in securities of loss making companies. So stock exchange facilitates allocation of investor’s fund to profitable channels.

9. Promotes the Habits of Savings and Investment:

The stock market offers attractive opportunities of investment in various securities. These attractive opportunities encourage people to save more and invest in securities of corporate sector rather than investing in unproductive assets such as gold, silver, etc.

Intermediaries of stock market

Intermediaries that facilitate initial public offering are share transfer agents, registrar, merchant bankers, underwriters, credit rating agencies, and custodians.

- Registrars.
- Merchant Bankers.
- Underwriters.
- Stock Brokers.
- Depository.
- Clearing Corporation.
- Share Transfer Agents.

Functions of SEBI

Primarily there are three key functions performed by SEBI:

A. Protective Functions- This function is performed by SEBI to conserve the interest of investors and financial institutions. Its core protective functions are to check:

1. Price Rigging- The primary purpose of SEBI is to prevent manipulated fluctuations in the financial market. Swings are the foundation of trade and earn money for tradesmen or investors in the financial market.

Various people study historical fluctuations on the basis of it numerous theories have also been made to predict the trend. These theories are called Technical Analysis, and a lot of traders study them before investing.

Mostly these fluctuations are normally based on the market, but there are times when unusual variations are made by a group of corporate so that the investors can have a huge loss. These built-up fluctuations are called price rigging.

Hence, the role of SEBI here is to stop these sudden fluctuations. They have introduced circuits for doing it; the circuit is a threshold concerning the previous day closing. In case the security price goes beyond the limit, then the circuit breaker would be used, and trading for that specific security would be stopped for a couple of hours or a day.

2. Prevent insider trading- This can also be said to be a part to stop price rigging. The stock price of any company gets immensely affected by any public announcement or news about the company. There are always some people who are aware of the upcoming news about the company.

Hence, they can take advantage of this news to buy and sell the company' security before the news comes into action. This is termed as insider trading. To prevent this, SEBI has barred trusts of listed companies and employee welfare schemes so that they cannot purchase their own shares from the secondary market.

SEBI has also requested these listed companies to unveil their employee benefit schemes which should include their stock purchase. They should align them as per ESOS and ESPS guidelines.

3. Financial education for investors- Another primary role of SEBI is to provide online and offline seminars or training by multiple means to train the traders and investors. These seminars include money management and the basics of the financial market.

4. SEBI guidelines- SEBI has made bye-law guidelines so that any unfair practices that can be used by companies to manipulate security markets can be prevented.

B. Development Functions- The primary function of development functions is providing training to the intermediaries. Here, SEBI also works on bringing innovation in Indian Financial Market. Some of the development functions comprise

- IPO is permitted through an exchange
- Education of electronic platform for financial market
- Information on discount brokerage
- Underwriting is optional to lessen the cost of issue
- Training for financial intermediaries

The objective of SEBI is to promote fair practices; hence, it educates them about it plus makes the investors aware of the stock market in depth.

C. Regulatory Functions- In the regulatory functions, SEBI does the monitoring of the functioning of financial market go-betweens. The implementation of SEBI bye-laws emissaries and corporate is done. This is a vital step as it ensures that the stock market operates seamlessly with untarnished transparency.

It is the role of SEBI to formulate guidelines and code of conduct for financial intermediaries and regulate amalgamations, alliance and takeovers takeover of companies. Some of its regulatory functions are:

- Registering and regulating functions of mutual funds
- Regulates takeover of companies
- It has to register all share transfer agents, intermediaries, trustees, brokers, sub-brokers and other people involved with the stock exchange
- Conduct inquiries & audit of exchanges

Also, SEBI has the authority to charge a fee on capital market participants. Plus, it also directs the credit rating agencies.

Role of SEBI

SBI caters to the requirement of three parties that operate in the Indian Capital Market. It was founded to improve the financial market of India, hence to obtain its purpose it takes care of the most vital financial market participants:

1. The issuer of Securities- Any firm that issue securities should be listed on the stock exchange. Issuers are entities that help in raising funds from the financial market. The function of SEBI is to confirm that the issue of IPO's and FPO's takes place healthily.

2. Investor- They help in keeping the market alive as the capital market functions because the traders exist. Investors earn money from the market, so SEBI assures that no malpractices happen against them in the market. Thus, it's the role of SEBI to safeguard the interest of investors and prevent them from any unfair trade practice.

3. Financial Intermediaries- They are the mediators in the financial market, and they take care that the stock market transactions happen seamlessly and securely. The role of SEBI is to monitor each activity of financial intermediaries like NBFC's, broker, sub-broker, etc.

Recognised stock exchange in India

A stock market is a place where the shares of publicly listed companies are traded. It originated in India at the end of the 18th century when a lot of negotiable instruments were introduced in the market. A Stock Exchange helps in facilitating the trades that allow the smooth functioning of the transactions.

There were numerous stock exchanges in India that were formed during the early 1990s. As of now, the most important stock exchanges in India are the Bombay Stock Exchange (BSE) and the National Stock Exchange(NSE). In this article, we will understand in detail the various stock exchanges registered with The Securities & Exchange Board of India.

Bombay Stock Exchange (BSE)

Bombay Stock Exchange was formed in 1875 and is one of the two principal large stock exchanges in India. The major objective of BSE is to provide an efficient and transparent market for trading currencies, equities, mutual funds etc. As per the official website of BSE, its vision is to "Emerge as the premier Indian stock exchange with best-in-class global practice in technology, product innovation, and customer service."

BSE has a wholly-owned subsidiary. Indian Clearing Corporation Limited acts as a central counterparty to all the trades that happen on the exchange and provides settlements of the trades executed. Another subsidiary of BSE Limited is BSE Institute Limited which serves as a capital market educational institution in our country.

In the 1850s, 5 stockbrokers would gather under a banyan tree in front of the Mumbai Town Hall. Due to the increase in the number of brokers, the place of meetings kept changing before finally moving to Dalal Street in the year 1874. In order to measure the overall performance of the exchange, in 1986, the BSE developed the S&P BSE SENSEX index.
Apart from the Sensex, BSE also has other important indices such as BSE100, BSE200, BSE MIDCAP, BSE SMALLCAP, BSEAuto, BSEPharma, BSEMetal, etc.

National Stock Exchange (NSE)

National Stock Exchange is the leading stock exchange in India. It was established in the year 1992 as the first dematerialized electronic exchange in the country. It was the first exchange to provide a fully-automated screen-based trading system to the investors to facilitate easy trading. In the year 1993, NSE registered itself as a stock exchange under the Securities Contract Regulations Act. It operates with a vision to “to continue to be a leader, establish a global presence, facilitate the financial well-being of people .”

The benchmark index of NSE, Nifty 50 is used extensively by investors around the world to keep track of the Indian capital market. NSE had also played an important role in the creation of the National Securities Depository Limited. (NSDL) allows the investors to hold and transfer their shares electronically without any hassle. This eventually leads to holding the financial instruments conveniently in electronic form thereby reducing the fake certificate issues.

The NSE commenced trading in derivatives with the launch of index futures in the year 2000. Since then, the futures & options have come a long way in becoming a popular financial product. In the Futures and Options segment, trading in the NIFTY 50 Index, NIFTY IT index, NIFTY Bank Index, NIFTY Next 50 index, and single stock futures is available.

Kolkata Stock Exchange

Kolkata Stock exchange is the second oldest stock exchange in Southeast Asia and was incorporated in the year 1908 with 150 members. Presently, CSE is located at the Lyons Range. It was granted recognition under the relevant provisions of the Securities Contract (Regulation) Act, 1956, and was replaced by the screen-based trading system only in the year

1997. The matter pertaining to the exit of the Calcutta stock exchange by SEBI is pending before the Calcutta High Court.

Metropolitan Stock Exchange (MSE)

The Metropolitan stock exchange was recognized as a "notified stock exchange" in the year 2012 by SEBI. MSE offers an electronic and hi-tech trading platform in Capital Markets, Debt Markets, Futures & Options.

MSE launched its SX40 index on February 9th, 2013, and commenced trading from February 11th, 2013. 'SX40', is a free-float based index consisting of 40 large-caps, liquid stocks representing diverse sectors of the economy.

MSE considers 'Information, Innovation, Education and Research' as its four cornerstones of the unique market development philosophy to support its mission of financial literacy across India.

India International Exchange (India INX)

India International Exchange Limited is India's first International Financial Services Centre located in Gujarat. Its operations started in 2017 and is a subsidiary of BSE Limited.

The exchange offers a single segment approach for all asset classes such as equities, currencies, commodities etc. The exchange uses an advanced technology platform and is the fastest in the world with a turn-around time of 4 microseconds. For global experts and market participants, India INX offers to be an offshore exchange that provides innovative products and services along with competitive advantages in terms of the tax structure.

NSE IFSC Limited

On November 26th, 2016, NSE IFSC Limited (NSE International Exchange) was incorporated by the Registrar of Companies, Gujarat. It is a fully owned subsidiary company of the National Stock Exchange of India Limited (NSE). It has received approval from the Securities and Exchange Board of India (SEBI) to establish an international exchange in Gujarat International Finance Tech City (GIFT) – International Financial Service Centre (IFSC) Gandhinagar.

The city, which is a special economic zone, is India's first IFSC. As a part of the advantages offered to the companies, Exchange and Financial Services units located in GIFT IFSC are offered a competitive tax structure and facilitative regulatory framework. It offers benefits such as exemptions from security transaction tax, commodity transaction tax, dividend distribution tax, capital gain tax waivers, and no income tax.

With an objective of increasing access to financial markets, NSE International Exchange has been launched to grow the financial market as well as expected to bring capital into India. Furthermore, Stock exchanges operating in the GIFT IFSC are permitted to offer trading in securities in any currency other than the Indian rupee.

Subject to the approval of SEBI, trading is permitted in:

- equity shares of companies incorporated outside of India,
- depository receipts,
- debt securities of eligible issuers, currency, index, interest rate,
- non-agriculture commodity derivatives,
- all categories of exchange-traded products

that are available for trading in stock exchanges in FATF/ IOSCO compliant jurisdiction. NSE IFSC Limited had launched the trading on 5th June 2017 and offers longer trading hours in various products including in Index Derivatives, Stock Derivatives, Currency Derivatives, Commodity Derivatives, and Debt Securities.

Derivatives

The term derivative refers to a type of financial contract whose value is dependent on an underlying asset, group of assets, or benchmark. A derivative is set between two or more parties that can trade on an exchange or over-the-counter (OTC). These contracts can be used to trade any number of assets and carry their own risks. Prices for derivatives derive from fluctuations in the underlying asset. These financial securities are commonly used to access certain markets and may be traded to hedge against risk.

Types of Derivatives

Forwards and futures

These are financial contracts that obligate the contracts' buyers to purchase an asset at a pre-agreed price on a specified future date. Both forwards and futures are essentially the same in their nature.

However, forwards are more flexible contracts because the parties can customize the underlying commodity as well as the quantity of the commodity and the date of the transaction. On the other hand, futures are standardized contracts that are traded on the exchanges.

2. **Options**

Options provide the buyer of the contracts the right, but not the obligation, to purchase or sell the underlying asset at a predetermined price. Based on the option type, the buyer can exercise the option on the maturity date (European options) or on any date before the maturity (American options).

3. **Swaps**

Swaps are derivative contracts that allow the exchange of cash flows between two parties. The swaps usually involve the exchange of a fixed cash flow for a floating cash flow. The most popular types of swaps are interest rate swaps, commodity swaps, and currency swaps.

Advantages of Derivatives

Unsurprisingly, derivatives exert a significant impact on modern finance because they provide numerous advantages to the financial markets:

1. **Hedging risk exposure**

Since the value of the derivatives is linked to the value of the underlying asset, the contracts are primarily used for hedging risks. For example, an investor may purchase a derivative contract whose value moves in the opposite direction to the value of an asset the investor owns. In this way, profits in the derivative contract may offset losses in the underlying asset.

2. **Underlying asset price determination**

Derivatives are frequently used to determine the price of the underlying asset. For example, the spot prices of the futures can serve as an approximation of a commodity price.

3. **Market efficiency**

It is considered that derivatives increase the efficiency of financial markets. By using derivative contracts, one can replicate the payoff of the assets. Therefore, the prices of the underlying asset and the associated derivative tend to be in equilibrium to avoid arbitrage opportunities.

4. **Access to unavailable assets or markets**

Derivatives can help organizations get access to otherwise unavailable assets or markets. By employing interest rate swaps, a company may obtain a more favorable interest rate relative to interest rates available from direct borrowing.

Disadvantages of Derivatives

Despite the benefits that derivatives bring to the financial markets, the financial instruments come with some significant drawbacks. The drawbacks resulted in disastrous consequences during the Global Financial Crisis of 2007-2008. The rapid devaluation of mortgage-backed securities and credit-default swaps led to the collapse of financial institutions and securities around the world.

1**. High risk**

The high volatility of derivatives exposes them to potentially huge losses. The sophisticated design of the contracts makes the valuation extremely complicated or even impossible. Thus, they bear a high inherent risk.

2. **Speculative features**

Derivatives are widely regarded as a tool of speculation. Due to the extremely risky nature of derivatives and their unpredictable behaviour, unreasonable speculation may lead to huge losses.

3. **Counter-party risk**

Although derivatives traded on the exchanges generally go through a thorough due diligence process, some of the contracts traded over-the-counter do not include a benchmark for due diligence. Thus, there is a possibility of counter-party default.

Unit II

Primary Market

Meaning of primary market:

The primary market is a part of the capital market. It enables the government, companies, and other institutions to raise additional funds through the sale of debt and equity-related securities. For example, primary market securities can be notes, bills, government bonds, corporate bonds, and stocks of companies

Functions of primary market

The purposes of such a market are several:-

1. **New issue offer:** The primary market facilitates the offer of a new issue that has not previously traded on any other exchange. This, as a result, is also known as a "New Issue Market."

Organizing a fresh issue offer entails a thorough evaluation of project feasibility, among other things. The financial arrangements are made for the purpose and include considerations of promoters' equity, liquidity ratio, debt-equity ratio, and foreign exchange demand.

2. Services for underwriting: When launching a new issue, underwriting is critical. In a primary market, an underwriter's responsibilities include acquiring unsold shares if it is unable to sell the requisite number of shares to the public. Underwriting commissions can be earned by a financial institution acting as an underwriter. Investors depend on underwriters to determine if incurring the risk is worth the potential rewards. It is possible that an underwriter will purchase the whole IPO issue and then sell it to investors.

3. **New issue distribution:** In a key marketing arena, a new issue is also distributed. A new prospectus issuance kicks off this type of distribution. It invites the general public to purchase a new issue and gives thorough information about the firm, issue, and underwriters involved.

Role of the Primary Market

The key function of the primary market is to facilitate capital growth by enabling individuals to convert savings into investments. It facilitates companies to issue new stocks to raise money directly from households for business expansion or to meet financial obligations. It provides a channel for the government to raise funds from the public to finance public sector projects. Unlike the secondary market, such as the stock market which trades listed shares between buyers and sellers, the primary market exists for the issuance of new securities by corporations and the government directly to investors.

Role of New Issue Markets

Companies raise funds in the primary market by issuing initial public offerings (IPOs). These stock offerings authorize a share of ownership in the company to the extent of the stock value. Companies can issue IPOs at par (market value) or above par (a premium), depending on past performance and future prospectus.

In a booming economy, a greater number of corporations float IPOs since more investors have surplus funds for investment purposes. Thus, the number of IPOs issued indicative of the health of the economy. Invariably, smaller companies seeking funds for business expansion are the ones typically that float IPOs. But large, well-established firms also become publicly traded companies to gain visibility and to expand. Companies can raise an additional round of funding in the primary market by floating a secondary public offering.

Role of New Issue Markets in Global Investments

The primary market enables business expansion and growth for domestic and foreign companies. International firms issue new stocks--American Depository Receipts (ADRs)--to investors in the U.S., which are listed in American stock exchanges. By investing in ADRs, which are dollar-denominated, you can diversify the risk associated with putting all your savings in just one geographical market.

Sale of Government Securities

The government directly issues securities to the public via the primary market to fund public works projects such as the construction of roads, building schools etc. These securities are offered in the form of short-term bills, notes that mature in two to seven years, longer-term bonds and treasury inflation-protected securities (TIPS) linked to the Consumer Price Index. Government-issued U.S. Treasury bonds are free of credit risk..

Primary Market Participants

An investment bank sets the offer price of the corporate security as opposed to market forces, which determines the price in the secondary market. While brokerage firms and online licensed dealers sell IPOs to the public, you may not be allotted IPO shares because of the large demand for a small number of shares typically issued by the company. Moreover, institutional investors (large mutual funds and banks) usually get the lion's share of much anticipated IPOs.

Market Risk

The Securities and Exchange Commission cautions investors that IPOs are inherently risky and therefore unsuited for low network individuals who typically are risk-averse. This should be noted as something to be cautious about for two reasons. As an investor, of course, want to weigh the risk with the potential earnings. If small corporation is considering going public, need a sufficient budget to plan and market your IPO to ensure it gets some traction from investors – in addition to all of the other costs inherent to an IPO.

Problems faced in New Issue Market

The activities in the new issue market relates to underwriting and marketing of new issues. Financial institutions and brokers are actively engaged in these activities. Recently, banks have started their own division of merchant banking or their subsidiaries for undertaking activities in the new issue market. They are well versed in the requirements of Companies Act and the Securities Contracts (Regulation) Act, and listing requirements with regard to new issue market.

Despite the role of financial institutions, which competently handle all the issues relating to the new issue market, the new issue market suffers from certain problems. The problems can be summarized as follows:

1. INEFFECTIVE MOBILIZATION OF SAVINGS

It is felt that the new issue market has not fared well in the recent past. Particularly, the new issue market could not mobilize adequate savings from the public. Hardly about 5% of financial savings of the household sector is mobilized for investment in shares and debentures. A larger portion of domestic savings goes to the private market or to the financial institutions.

2. FUNCTIONAL AND INSTITUTIONAL GAP

The new instruments in the new issue market do not appeal to the investing public. The reason is that the merchant banking which is the major player in the new issue market is still in its infancy in India.

In fact, the merchant bankers are not playing any developmental role and they do not pay adequate attention to the preparation of project reports, though it is their responsibility to do so. As a result, the small investors are often deceived by the tall claims of the companies and they do not find the new issues attractive.

3. RISK AVERSION

Underwriters and financial institutions subscribe more for preference shares and debentures than for equity shares. The reason is that debentures, being fixed income bearing securities are more attractive to the investing public. So, they prefer debentures to equity shares.

Understandably, they hesitate to invest in equity shares as they do not fetch any fixed income. So, the companies themselves have shifted from equity financing to debt financing.

4. INORDINATE DELAY IN THE ALLOTMENT PROCESS

The average investor in semi urban and rural areas has to send the application form for shares to the centres where banks accept it. He has to incur some expenditure on securing a bank draft and postal charges for mailing it. Till the shares are allotted, he suffers loss of interest. If shares are not allotted, he has to pay collection charges in getting the refund of application money.

Moreover, even if shares are allotted, there are inordinate delays in receiving allotment letters, share certificates and also in effecting transfer of shares. Again, dividend warrants, refund orders interest payments etc,, are not encashable at par in all cases.

All these problems cause hardships to the small investors, especially in the rural areas and the rural investors get discouraged and refrain from applying for new issues.

5. PROBLEMS OF THE COMPANY

The issuing companies also suffer from certain problems. They are often tempted to present a rosy picture about the projected figures of turnover, profits, dividends, etc., for the future, which can be avoided.

Secondly, some companies make exaggerated claims about their prospects to the public. Thirdly, their claims about over-subscription are often false. Apart from these, there are no fixed norms for appraisal of the projects prepared by the companies.

INVESTORS PROTECTION IN PRIMARY MARKET:

Securities and Exchange Board of India (SEBI) has been established with the prime mandate to protect the interest of investors in securities. It is also mandated to promote the development of, and to regulate the securities market. An investor enjoys investing, if

- he knows how to invest;
- he has full knowledge of the market;
- the market is safe and there are no miscreants; and
- there are arrangements for redressal in case of grievances. Accordingly, SEBI's investor protection strategy has four elements.

First, build the capacity of investors through education and awareness to enable an investor to take informed investment decisions. SEBI endeavours to ensure that the investor learns investing, that is, he obtains and uses information required for investing, evaluates various investment options to suit his specific goals, ascertains his rights and obligations in a particular investment, deals through registered intermediaries, takes necessary precautions, seeks help in case of any grievance, etc. SEBI has been organizing investor education and awareness workshops directly, and through investor associations and market participants, and been encouraging market participants to organize similar programmes. It maintains an updated, comprehensive web site for education of investors. It publishes various kinds of cautions through media. It responds to the queries of investors through telephone, e-mails, letters, and in person for those who visit SEBI office.

Second, make available every detail relevant for investment in public domain. SEBI has adopted disclosure based regulatory regime. Under this framework, issuers and intermediaries disclose relevant details about themselves, the products, the market and the regulations so that the investor can take informed investment decisions based on such disclosures. SEBI has prescribed and monitors various initial and continuous disclosures.

Third, ensure that the market has systems and practices which make transactions safe. SEBI has taken various measures such as screen based trading system, dematerialization of securities, T+2 rolling settlement, and framed various regulations to regulate intermediaries, issue and trading of securities, corporate restructuring, etc. to protect the interests of investors in securities. It also ensures that only the fit and proper persons are allowed to operate in the market, every participant has incentive to comply with the prescribed standards.

Fourth, facilitate redressal of investor grievances. SEBI has a comprehensive mechanism to facilitate redressal of investor grievances against intermediaries and listed companies. It follows up with the companies and intermediaries who do not redress investors' grievances, by sending reminders to them and having meetings with them. It takes appropriate enforcement actions as provided under the law (including launch of adjudication, prosecution proceedings, directions) where progress in redressal of investor grievances is not satisfactory. It has set up a comprehensive arbitration mechanism in stock exchanges and depositories for resolution disputes of the investors. The stock exchanges have investor protection funds to compensate investors when a broker is declared a defaulter. Depository indemnifies investors for loss due to negligence of depository or depository participant.

MEANING OF IPO (INITIAL PUBLIC OFFERING):

An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance. An IPO allows a company to raise capital from public investors. The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors. Meanwhile, it also allows public investors to participate in the offering

IPO (INITIAL PUBLIC OFFER) IN PRIMARY MARKET:

The primary market is where securities are created. It's in this market that firms sell (float) new stocks and bonds to the public for the first time. An initial public offering, or IPO, is an example of a primary market. These trades provide an opportunity for investors to buy securities from the bank that did the initial underwriting for a particular stock. An IPO occurs when a private company issues stock to the public for the first time.

For example, company ABCWXYZ Inc. hires five underwriting firms to determine the financial details of its IPO. The underwriters detail that the issue price of the stock will be $15. Investors can then buy the IPO at this price directly from the issuing company.

This is the first opportunity that investors have to contribute capital to a company through the purchase of its stock. A company's equity capital is comprised of the funds generated by the sale of stock on the primary market.

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The following important regulatory measures have been introduced by SEBI in primary market:

(a) SEBI has introduced a code of advertisement for public issues by companies for making fair and truthful disclosures. The companies are now required to disclose all material facts and specific risk factors associated with their projects while making public issues.

(b) It has required the stock exchanges to amend their listing agreements to ensure that a listed company furnishes annual statements to them showing variations between financial projections and project utilisation of funds made in the offer documents and actual. This will enable shareholders to make comparisons between performance and promises made by of company.

c) An important reform SEBI has introduced is that it has brought merchant banking also under its regulatory framework. The merchant bankers are required to follow the code of conduct issued by SEBI in respect of pricing and premium fixation of issues of shares companies.

(d) The practice of making preferential allotment of shares at prices unrelated to the prevailing price has been stopped by SEBI. Besides, to ensure transparency insider trading has also been banned.

(e) As a part of the process of establishing transparent rules for trading in stock exchanges, a notorious BADLA system has been banned and in its place Rolling Settlement System has been introduced.

Unit – III
Secondary Market

Meaning of secondary market

The secondary market is where investors buy and sell securities they already own. It is what most people typically think of as the "stock market," though stocks are also sold on the primary market when they are first issued

The secondary market refers to space where securities are traded after changing hands from the original issuer. Often it is an exchange, and the securities could be either equity shares, ETFs, or close-ended funds.

For ETFs, this refers to the exchange on which ETF units are traded by retail investors. It is called a secondary market because the ETF units are twice removed from their creator, as authorized participants further break up their block units and then release them for trading in the secondary market.

Functions of Stock Exchange / Secondary Market

1. Economic Barometer : It is a reliable barometer to measure the economic condition of the country. The rise or fall in the share prices indicates the boom or recession cycle of the economy.
2. Pricing of Securities : The stock market helps to value the securities on the basis of demand and supply factors.
3. Safety of Transactions : In stock market only the listed securities are traded and stock exchange authorities include the companies names in the trade list only after verifying the soundness of company.
4. Contributes to Economic Growth : In stock exchange securities of various companies are bought and sold. This process of disinvestment and reinvestment helps to invest in most productive investment proposal and this leads to capital
5. Spreading of Equity Cult : Stock exchange encourages people to invest in ownership securities by regulating new issues, better trading practices and educating public about investment.
6. Providing Scope for Speculation: To ensure liquidity and demand of supply of securities the stock exchange permit healthy speculation of securities.
7. Liquidity : The main function of stock market is to provide ready market for sale and purchase of securities. The investors can invest in long term investment projects without any

hesitation, as because of stock exchange they can convert long term investment into short term and medium term.

8. Better allocation of capital.

9. Promotes the habits of savings and investment.

Role of secondary market in India

Secondary markets **help trade safely in shares** as they are regulated by the capital markets regulator, SEBI. Secondary market is the market for outstanding securities and enables price discovery. The market value of shares gives value to the Company.

Regulations in India

Indian Capital Markets are regulated and monitored by the Ministry of Finance, The Securities and Exchange Board of India and The Reserve Bank of India.

The Ministry of Finance regulates through the Department of Economic Affairs - Capital Markets Division. The division is responsible for formulating the policies related to the orderly growth and development of the securities markets (i.e. share, debt and derivatives) as well as protecting the interest of the investors. In particular, it is responsible for

- institutional reforms in the securities markets,
- building regulatory and market institutions,
- strengthening investor protection mechanism, and
- providing efficient legislative framework for securities markets.

The Division administers legislations and rules made under the

- Depositories Act, 1996,
- Securities Contracts (Regulation) Act, 1956 and
- Securities and Exchange Board of India Act, 1992.

The Regulators

Securities & Exchange Board of India (SEBI)

The Securities and Exchange Board of India (SEBI) is the regulatory authority established under the SEBI Act 1992 and is the principal regulator for Stock Exchanges in India. SEBI's primary functions include protecting investor interests, promoting and regulating the Indian securities markets. All financial intermediaries permitted by their respective regulators to participate in the Indian securities markets are governed by SEBI regulations, whether domestic or foreign. Foreign Portfolio Investors are required to register with DDPs in order to participate in the Indian securities markets.

Reserve Bank of India (RBI)

The Reserve Bank of India (RBI) is governed by the Reserve Bank of India Act, 1934. The RBI is responsible for implementing monetary and credit policies, issuing currency notes, being banker to the government, regulator of the banking system, manager of foreign exchange, and regulator of payment & settlement systems while continuously working towards the development of Indian financial markets. The RBI regulates financial markets and systems through different legislations. It regulates the foreign exchange markets through the Foreign Exchange Management Act, 1999.

National Stock Exchange (NSE) – Rules and Regulations

In the role of a securities market participant, NSE is required to set out and implement rules and regulations to govern the securities market. These rules and regulations extend to member registration, securities listing, transaction monitoring, compliance by members to SEBI / RBI regulations, investor protection etc. NSE has a set of Rules and Regulations specifically applicable to each of its trading segments. NSE as an entity regulated by SEBI undergoes regular inspections by them to ensure compliance.

SEBI guidelines for Secondary market

1. All the companies entering the capital market should give a statement regarding fund utilization of previous issue.
2. Brokers are to satisfy capital adequacy norms so that the member firms maintain adequate capital in relation to outstanding positions.
3. The stock exchange authorities have to alter their bye-laws with regard to capital adequacy norms.
4. All the brokers should submit with SEBI their audited accounts.
5. The brokers must also disclose clearly the transaction price of securities and the commission earned by them. This will bring transparency and accountability for the brokers.
6. The brokers should issue within 24 hours of the transaction contract notes to the clients.
7. The brokers must clearly mention their accounts details of funds belonging to clients and that of their own.

8. Margin money on certain securities has to be paid by claims so that speculative investments are prevented.

9. Market makers are introduced for certain scrips by which brokers become responsible for the supply and demand of the securities and the price of the securities is maintained.

10. A broker cannot underwrite more than 5% of the public issue.

11. All transactions in the market must be reported within 24 hours to SEBI.

12. The brokers of Bombay and Calcutta must have a capital adequacy of Rs. 5 lakhs and for Delhi and Ahmadabad it is Rs. 2 lakhs.

13. Members who are brokers have to pay security deposit and this is fixed by SEBI

Unit – IV

Trading and Stock market

Trading and Settlement Procedures

1] Selecting a Broker or Sub-broker

When a person wishes to trade in the stock market, it cannot do so in his/her individual capacity. The transactions can only occur through a broker or a sub-broker. So according to one's requirement, a broker must be appointed.

Now such a broker can be an individual or a partnership or a company or a financial institution (like banks). They must be registered under SEBI. Once such a broker is appointed we can buy/sell shares on the stock exchange.

2] Opening a Demat Account

Since the reforms, all securities are now in electronic format. There are no issues of physical shares/securities anymore. So an investor must open a dematerialized account, i.e. a Demat account to hold and trade in such electronic securities.

So we or our broker will open a Demat account with the depository participant. Currently, in India, there are two depository participants, namely Central Depository Services Ltd. (CDSL) and National Depository Services Ltd. (NDSL).

3] Placing Orders

And then the investor will actually place an order to buy or sell shares. The order will be placed with his broker, or the individual can transact online if the broker provides such services. One thing of essential importance is that the order /instructions should be very clear. Example: Buy 100 shares of XYZ Co. for a price of Rs. 140/- or less.

Then the broker will act according to our transactions and place an order for the shares at the price mentioned or an even better price if available. The broker will issue an order confirmation slip to the investor.

4] Execution of the Order

Once the broker receives the order from the investor, he executes it. Within 24 hours of this, the broker must issue a Contract Note. This document contains all the information about the transactions, like the number of shares transacted, the price, date and time of the transaction, brokerage amount, etc.

Contract Note is an important document. In the case of a legal dispute, it is evidence of the transaction. It also contains the Unique Order Code assigned to it by the stock exchange.

5] Settlement

Here the actual securities are transferred from the buyer to the seller. And the funds will also be transferred. Here too the broker will deal with the transfer. There are two types of settlements,

On the Spot settlement: Here we exchange the funds immediately and the settlement follows the T+2 pattern. So a transaction occurring on Monday will be settled by Wednesday (by the second working day)

Forward Settlement: Simply means both parties have decided the settlement will take place on some future date. It can be T+% or T+9 etc.

Speculation

In the world of finance, speculation, or speculative trading, refers to the act of conducting a financial transaction that has substantial risk of losing value but also holds the expectation of a significant gain or other major value. With speculation, the risk of loss is more than offset by the possibility of a substantial gain or other recompense.

Types of Speculators

1. Bullish speculator

A bullish speculator expects the prices of securities to rise. A bull is a speculator who buys securities with the hope of selling them at a higher price in the future.

2. Bearish speculator

A bearish speculator is one who expects the prices of securities to fall in the future. A bearish speculator sells short securities, aiming to profit from being able to repurchase them at a lower price at some point in the future.

One of the notable characteristics of speculators is that they readily trade in both bull and bear markets, being equally comfortable with both buying long and selling short.

Brokerage

A brokerage provides intermediary services in various areas, e.g., investing, obtaining a loan, or purchasing real estate. A broker is an intermediary who connects a seller and a buyer to facilitate a transaction.

- Activities of brokers in stock market
- Execute trades on the financial markets at the expense of the customer and on his behalf.

- Provide information support about the situation on trading platforms, sending notifications about quotes and trading mechanisms.
- Provide information about other market participants, making the correct decision for the client to conduct the transaction.
- Lending to clients for margin transactions.
- Storage and protection of customer data.
- Creating a technical base to make transactions on the exchange.

Brokerage Fee

A brokerage fee is a fee or commission a broker charges to execute transactions or provide specialized services on behalf of clients. Brokers charge brokerage fees for services such as purchases, sales, consultations, negotiations, and delivery.

There are many instances of brokerage fees charged in various industries such as financial services, insurance, real estate, and delivery services, among others.

Settlement Procedures:

Under the screen based environment, computerised matching of orders and quotes takes place. At the end of the trading session the member has to download his daily transaction reports etc. from the system. At the end of the Settlement period Delivery Price (usually the closing price at the last day of the Settlement period) will be fixed by the system to enable the members to receive or deliver scrips at uniform rates and netting of trades is done by the system and the following Settlement reports are generated by the system for each member. The member can download these reports on second day of the Settlement end date.

- Statement of scrip wise net deliveries to be made by the member.
- Statement of scrip wise net deliveries to be received by the member.
- Balance Sheet showing the net receivable or not payable by the Member.

Settlement Period:

At present the Exchange follows the following Settlement Schedule :

-Rolling Settlement Daily

- Odd Lot - Daily

National Securities Depository Limited

National Securities Depository Limited (NSDL) is an Indian central securities depository, based in Mumbai. It was established in August 1996 as the first electronic securities depository in India with national coverage. It was established based on a suggestion by a national institution responsible for the economic development of India. It's demat accounts now hold assets worth $4 trillion.

Functions

NSDL performs the following functions through its participants:

1. It maintains investors' holdings in the electronic form.
2. It enables the surrender and withdrawal of securities to and from the depository.
3. If effects settlement of securities traded on exchanges.
4. It carries out settlements that have not been done on the stock exchanges.
5. It makes allotment in electronic form, of initial public offerings (IPO).
6. It offers facility for freezing or locking of investors' accounts.
7. It facilitates offer of securities as a mortgage for loans

Central Depository Services (India) Ltd (CDSL)

Central Depository Services (India) Ltd (CDSL), is the first listed Indian central securities depository and a division of the Securities and Exchange Board of India, Ministry of Finance, Government of India based in Mumbai.

Central Depository Services (India) Limited (CDSL) was initially promoted by the BSE Ltd. which thereafter divested its stake to leading banks. CDSL received the certificate of commencement of business from the Securities and Exchange Board of India (SEBI) in February 1999.

Functions

- **Safekeeping** Securities may be in dematerialized form, book-entry only form (with one or more "global" certificates), or in physical form immobilized within the CSD.
- **Deposit and withdrawal** Supporting deposits and withdrawals involves the relationship between the transfer agent and/or issuers and the CSD. It also covers the CSD's role within the underwriting process or listing of new issues in a market.
- Dividend, interest, and principal processing, as well as corporate actions including proxy voting Paying and transfer agents, as well as issuers are involved in these

processes, depending on the level of services provided by the CSD and its relationship with these entities.

- **Other services** CSDs offer additional services aside from those considered core services. These services include securities lending and borrowing, matching, and repo settlement, or ISIN assistance.
- **Pledge -** Central depositories provide pledging of share and securities. Every country is required to provide legal framework to protect the interest of the pledger and pledgee.

UNIT – V

Investment Alternative

INVESTMENT ALTERNATIVE

An alternative investment is a financial asset that does not fit into the conventional equity/income/cash categories. Private equity or venture capital, hedge funds, real property, commodities, and tangible assets are all examples of alternative investments.

Meaning of Share

A share represents a unit of equity ownership in a company. Shareholders are entitled to any profits that the company may earn in the form of dividends. They are also the bearers of any losses that the company may face. In simple words, if you are a shareholder of a company, you hold a percentage of ownership of the issuing company in proportion to the shares you have bought.

Shares can be further categorized into two types. These are:

Equity Shares and Preference Shares

Equity Shares Meaning

These are also known as ordinary shares and comprise the bulk of the shares being issued by a particular company. Equity shares are transferable and are traded actively by investors in stock markets. As an equity shareholder, you are not only entitled to voting rights on company issues but also have the right to receive dividends.

These dividends, however, are not fixed. Equity shareholders also partake in any losses faced by the company, limited to the amount they had invested. Equity shares can be further divided based on:

- Share capital
- Returns

Classification of Equity Shares based on Share Capital

- **Authorised Share Capital:** Every company, in its Memorandum of Associations, requires to prescribe the maximum amount of capital that can be raised by issuing equity shares. The limit, however, can be increased by paying additional fees and after the completion of certain legal procedures.
- **Issued Share Capital:** This implies the specified portion of the company’s capital, which has been offered to investors through the issuance of equity shares. For example, if the nominal value of one stock is Rs 200 and the company issues 20,000 equity shares, the issued share capital will be Rs 40 lakhs.

- **Subscribed Share Capital:** The portion of the issued capital, which has been subscribed by investors is known as subscribed share capital.
- **Paid-Up Capital:** The amount of money paid by investors for holding the company's stocks is known as paid-up capital. As investors pay the entire amount at once, subscribed and paid-up capital refer to the same amount.

Classification of Equity Shares based on Definition

- **Bonus Shares:** Bonus share definition implies those additional stocks which are issued to existing shareholders free-of-cost, or as a bonus.
- **Rights Shares:** Right shares meaning is that a company can provide new shares to its existing shareholders - at a particular price and within a specific period - before being offered for trading in stock markets.
- **Sweat Equity Shares:** If as an employee of the company, you have made a significant contribution, the company can reward you by issuing sweat equity shares.
- **Voting and Non-Voting Shares**: Although the majority of shares carry voting rights, the company can make an exception and issue differential or zero voting rights to shareholders.

Classification of Equity Shares based on Returns

- **Dividend Shares:** A company can choose to pay dividends in the form of issuing new shares, on a pro-rata basis.
- **Growth Shares:** These types of shares are associated with companies that have extraordinary growth rates. While such companies might not provide dividends, the value of their stocks increases rapidly, thereby providing capital gains to investors.
- **Value Shares:** These types of shares are traded in stock markets at prices lower than their intrinsic value. Investors can expect the prices to appreciate over some time, thus providing them with a better share price.

Preference Shares

Preferential shareholders receive preference in receiving profits of a company as compared to ordinary shareholders. Also, in the event of liquidation of a particular company, the preferential shareholders are paid off before ordinary shareholders. Here are the different types of shares in this category:

- **Cumulative and Non-Cumulative Preference Shares:** In the case of cumulative preference shares, if a particular company doesn't declare an annual dividend, the benefit is carried forward to the next financial year. Non-cumulative preference shares don't provide for receiving outstanding dividends benefits.
- **Participating/Non-Participating Preference Share:** Participating preference shares allow shareholders to receive surplus profits, after payment of dividends by the company. This is over and above the receipt of dividends. Non-participating preference shares carry no such benefits, apart from the regular receipt of dividends.
- **Convertible/Non-Convertible Preference Shares:** Convertible preference shares can be converted into equity shares, after meeting the requisite stipulations by the company's Article of Association (AoA), while non-convertible preference shares carry no such benefits.
- **Redeemable/Irredeemable Preference Share:** A company can repurchase or claim redeemable preference share at a fixed price and time. These types of shares are sans any maturity date. Irredeemable preference shares, on the other hand, have no such conditions.

Bonds

Bonds are issued by organizations generally for a period of more than one year to raise money by borrowing.

Organizations in order to raise capital issue bond to investors which is nothing but a financial contract, where the organization promises to pay the principal amount and interest (in the form of coupons) to the holder of the bond after a certain date. (Also called maturity date).Some Bonds do not pay interest to the investors, however it is mandatory for the issuers to pay the principal amount to the investors.

Maturity Date

Maturity date refers to the final date for the payment of any financial product when the principal along with the interest needs to be paid to the investor by the issuer.

Characteristics of a Bond

- A bond is generally a form of debt which the investors pay to the issuers for a defined time frame. In a layman's language, bond holders offer credit to the company issuing the bond.
- Bonds generally have a fixed maturity date.
- All bonds repay the principal amount after the maturity date; however some bonds do pay the interest along with the principal to the bond holders.

Types of Bonds

Following are the types of bonds:

1. **Fixed Rate Bonds**

   In Fixed Rate Bonds, the interest remains fixed throughout the tenure of the bond. Owing to a constant interest rate, fixed rate bonds are resistant to changes and fluctuations in the market.

2. **Floating Rate Bonds**

   Floating rate bonds have a fluctuating interest rate (coupons) as per the current market reference rate.

3. **Zero Interest Rate Bonds**

   Zero Interest Rate Bonds do not pay any regular interest to the investors. In such types of bonds, issuers only pay the principal amount to the bond holders.

4. **Inflation Linked Bonds**

   Bonds linked to inflation are called inflation linked bonds. The interest rate of Inflation linked bonds is generally lower than fixed rate bonds.

5. **Perpetual Bonds**

   Bonds with no maturity dates are called perpetual bonds. Holders of perpetual bonds enjoy interest throughout.

6. **Subordinated Bonds**

   Bonds which are given less priority as compared to other bonds of the company in cases of a close down are called subordinated bonds. In cases of liquidation, subordinated bonds are given less importance as compared to senior bonds which are paid first.

7. **Bearer Bonds**

Bearer Bonds do not carry the name of the bond holder and anyone who possesses the bond certificate can claim the amount. If the bond certificate gets stolen or misplaced by the bond holder, anyone else with the paper can claim the bond amount.

8. **War Bonds**

   War Bonds are issued by any government to raise funds in cases of war.

9. **Serial Bonds**

   Bonds maturing over a period of time in installments are called serial bonds.

10. **Climate Bonds**

    Climate Bonds are issued by any government to raise funds when the country concerned faces any adverse changes in climatic conditions.

GOVERNMENT SECURITIES

Treasury bonds, Treasury bills, and Treasury notes are all government-issued fixed income securities that are deemed safe and secure. T-bonds mature in 20 or 30 years and offer the highest interest payments bi-annually.

Features of Government Securities:

- Issuing Authority.
- Government Securities and Stock Market.
- Government Securities and Commercial Banks.
- Issue Price.
- Government Securities and Rate of Interest.
- Tax Exemption.
- Government Securities and Financial Institutions.
- Government Securities and Underwriting.

Types of government securities

Government securities are often considered risk-free and make excellent investment opportunities for risk-averse investors, or even for more daring investors looking to diversify their risk.

Treasury bills (T-bills)

Only the central government can issue T-bills. These are money market instruments with a maturity period of less than one year. The government issues three types of bills, with a maturity period of 91, 182, and 364 days. Investors can choose one depending on the liquidity they want.

The most important thing to note is that T-bills do not pay any interest to the holders. To make money in the market, investors buy T-bills at a discounted rate and sell at a premium.

Cash Management Bills (CMB)

Launched in 2010 by the Government of India and RBI, these are comparatively newer money market instruments used by the government to meet its short term cash flow mismatches.

However, maturity is one factor where CMBs are different from T-bills. The maturity period, in this case, is less than 91 days. They are considered a short term investment product. Like treasury bills, they are issued at a discount rate (for example, you may pay Rs. 97 for a Rs. 100 bill) and then redeem it at maturity date for Rs. 100.

Long-term government securities

Unlike CMBs and T-bills, the maturity of these securities is longer than one year. They are popularly called dated government securities. The maturity of these securities typically ranges from 5 yrs to a maximum of 40 yrs. Investors also earn a fixed interest rate when they invest in a government security. The interest rate can be both fixed and floating. Interest is received quarterly on the total amount of capital invested.

The nine types of G-secs provided by the Government of India are listed below:

- Fixed-rate bond
- Floating rate bond
- Capital bond
- Inflation index bond
- Bonds with call/put option
- Special securities
- STRIPS
- 75% Savings bonds
- Sovereign gold bonds

State development loans (SDL)

The state development loan as the name suggests is issued by the state government. It is used to fund the state's development projects and budgetary needs. The functioning of the

SDL is similar to other government securities. The basic difference between both of them is that SDL is issued by the state government and the G-sec is issued by the central government.

Limitations and risk of government securities

- The interest rate on government security is marginally low as compared to the other financial instruments.
- Government security loses its value when inflation in the country rises.
- The long-term returns are low as compared to other asset classes.
- When the government enters into a fiscal crisis, due to the vulnerability the security loses its value.

Risks involved

There are two types of risk involved.

Credit risk: There is always a risk of non-payment of the principal amount and the interest rate. Although, in the case of government securities, the risk is almost negligible. But, investors should be diligent, and always check third-party ratings before making any investment.

Inflation risk: When inflation is rising, the low interest on the bonds does not attract a lot of investors. Therefore, inflation affects the purchasing power and viability of these instruments. However, there are inflation-linked bonds that increase the principal and interest amount of the investor when inflation is rising.

Different Types of Insurance Policies Available in India

Following are the types of insurance available in India:

1. General Insurance

Following are some of the types of general insurance available in India:

Health Insurance

Motor Insurance

Home Insurance

Fire Insurance

Travel Insurance

2. Life Insurance

There are various types of life insurance. Following are the most common types of life insurance plans available in India:

Term Life Insurance

Whole Life Insurance

Endowment Plans

Unit-Linked Insurance Plans

Child Plans

Pension Plans

General Insurance

General insurance policies are one of the types of insurance that offer coverage in the form of sum assured against the losses incurred other than the death of the policyholder. Overall, general insurance comprises different types of insurance policy that offer financial protection against losses incurred due to liabilities such as bike, car, home, health, and similar. These various general insurance types of insurance policies include:

Health Insurance

Health insurances are types of insurance policy that covers the expenses incurred due to medical care. Health insurance plans either pay or reimburse the amount paid towards the treatment of any illness or injury. Different types of insurance policy cover varied medical care expenses.

It usually offers protection against:

a) Hospitalization

b) Treatment of critical illnesses

c) Medical bills post hospitalization

d) Daycare procedures

There are a few types of health insurance plans also cover the cost of resident treatment and pre-hospitalization expenses. Rising costs of healthcare in India Is making health insurance a necessity. Different types of health insurance plans available in India include:

1) Individual Health Insurance: Offers coverage to only an individual

2) Family Floater Insurance: Allows your entire family to get coverage under a single plan, which usually covers husband, wife, two children

3) Critical Illness Cover: Specialized types of health insurance that offers coverage against various life-threatening illnesses like stroke, heart attack, kidney failure, cancer, and similar others. Policyholders get a lump sum amount on diagnosis of a critical illness.

4) Senior Citizen Health Insurance: These types of insurance plans cater to all individuals above 60 years of age

5) Group Health Insurance: Offered by an employer to its employee

6) Maternity Health Insurance: This insurance type covers medical expenses for prenatal, post-natal, and delivery stage, offering protection to both the mother and the newborn

7) Personal Accident Insurance: These types of insurance plans cover financial liabilities arising due to accidental injuries, disability, or death

Motor Insurance

Motor insurances are types of insurance that offer financial assistance in case your bike or car get involved in an accident. Various types of Motor insurance policies in India include:

1) Car Insurance: Individually owned four-wheelers are covered under this plan. The car insurance types include- third-party insurance and comprehensive cover policies.

2) Bike Insurance: These are types of insurance policy where individually owned two-wheelers are covered against accidents

3) Commercial Vehicle Insurance: This is one of the insurance types, which offers coverage to any vehicle used for commercial purposes

Home Insurance

A home insurance policy offers comprehensive protection to the contents and structure of your house against any physical destruction or damage. In other words, this insurance type will provide coverage against any natural and human-made calamity, such as fire, earthquake, tornado, burglaries, and robbery.

Different types of home insurance policies include:

1) Home Structure/Building Insurance – Protects the structure of the house against damage during any calamity

2) Public Liability Coverage – Provides coverage against any damage to a guest or third-party on the insured residential property

3) Standard Fire and Special Perils Policy – Coverage against damages caused due to fire outbreaks, natural calamities (e.g., landslides, rockslides, earthquakes, storms, and floods), and anti-social human-made activities (e.g., explosions, strikes, and riots)

4) Personal Accident – Provides financial coverage to you and your family against any kind of permanent disablement or sudden demise to the insured individual, anywhere around the world

5) Burglary and Theft Insurance – Provides compensation for stolen goods in case of a burglary or theft

6) Contents Insurance – Provides compensation for loss of furniture, vehicles, and other appliances in case of a fire, theft, flood, or riots

7) Tenants' Insurance – Provides financial protection to you (as a tenant) against any loss of personal property living in a rented house

8) Landlords' insurance – Provides coverage to you (as a landlord) against contingencies such as public liability and loss of rent

Fire Insurance

Fire insurance policies are different types of insurance coverages that compensate any losses incurred due to a fire breakout with a sum assured. These types of insurance policy usually provide a significant amount of coverage to help both individuals and companies to reopen their places after incurring extensive damage due to fire. These insurance types cover war risk, turmoil, riots losses as well.

Different types of fire insurance in India are –

1) Valued policy

2) Specific Policy

3) Floating Policy

4) Consequential Policy

5) Replacement Policy

6) Comprehensive Fire insurance policy

Travel Insurance

Travel insurance is a type of insurance policy, providing financial protection for you and your loved ones while you are visiting any place in India or abroad. Whether you are travelling solo or with your loved ones, the travel insurance coverage will help ensure that you have a peaceful journey.

The travel insurance policy coverage takes care of any issues that you may face during your trip such as loss of baggage, flight cancellations, loss of passport, personal and medical emergencies. Different types of travel insurance policies include:

1) Domestic Travel Insurance: Within the country

2) International Travel Insurance: For any trips or vacations outside of India

3) Individual Travel Insurance: If you are travelling alone

4) Student Travel Insurance: If you are going abroad for further studies

5) Senior Citizen Travel Insurance: For senior citizens, ageing between 60 to 70 years

6) Family Travel Insurance: For any family vacations

Life Insurance

Life insurance plans offer coverage against unfortunate events like death or disability of the policyholder. Besides financial protection, there are various types of life insurance policies that allow the policyholders to maximize their savings through regular contributions into different equity and debt fund options.

You can choose a life insurance policy to secure your family's financial future against life's uncertainties. The policy coverage comprises of a large amount, which is payable to your loved ones if anything happens to you. With this insurance type, you have the flexibility to choose the life insurance policy period, coverage amount, and payout option based on the financial requirements. Different types of life insurance policy are as follows:

Term Life Insurance

Whole Life Insurance

Endowment Plans

Unit-Linked Insurance Plans

Child Plans

Pension Plans

Term Life Insurance Plans

Term insurance is the purest and most affordable among the types of insurance policy in which, you can opt for a high life cover for a specific period. You can secure your family's financial future with a term life insurance plan by paying a low premium (term insurance plans generally do not have any maturity value, and thus, offer lower rates of premium than other life insurance products.)

If anything happens to you within the policy period, your loved ones would receive the agreed Sum Assured as per the payout option chosen (some term insurance types offer multiple payout options as well)

Whole Life Insurance Plans

- Whole life insurance plans, also known as ‘traditional’ life insurance plans, provide coverage for the entire life of the insured individual, as opposed to any other life insurance instrument that offers coverage for a specific number of years.
- While a whole life insurance plan offers to pay a death benefit, the plan also contains a savings component, which helps accrue a cash value throughout the policy term. The maturity age for whole life insurance policy is 100 years. In case, the insured individual lives past the maturity age, the whole life plan will become matured endowment.

Endowment Plans

Endowment plans essentially provide financial coverage to the policyholder against life’s uncertainties, while allowing them to save regularly over a certain period. Upon maturity of the endowment plan, the policyholder receives a lump sum amount if he or she survives the policy term.

If anything happens to you (as Life Insured), the life insurance endowment policy pays the complete Sum Assured to your family (beneficiaries)

Unit-Linked Insurance Plan (ULIP)

Unit Linked Insurance Plans are types of insurance policy that offer both investment and insurance benefits under a single policy contract. A portion of the premium that you pay towards a Unit Linked Insurance Plan is allocated to a variety of market-linked equity and debt instruments.

The remaining premium contributes towards providing the life cover throughout the policy tenure. In this investment-cum-insurance type product, you have the flexibility to choose the allocation of premium into different instruments as per your financial requirements and market risk appetite.

Child Plans

Child plans are types of insurance policy that helps you financially secure your child's life goals such as higher education and marriage, even in your absence. In other words, child plans offer a combination of savings and insurance benefits that aid you in the financial planning for your child's future needs at the right age.

The sum of money received on Maturity under this insurance type can be used to fulfill the financial requirements of your child.

Pension Plans

It also known as retirement plan, is a type of investment plan that aids you in accumulating a portion of your savings over an extended period.

Essentially, a pension plan helps you deal with financial uncertainties post-retirement, by ensuring that you continue to receive a steady flow of income even after your working years are over.

In other words, a pension plan can be a type of insurance in India that allows you to create a financial cushion for your life post-retirement, in which you contribute a specific amount of money regularly until your retirement. Subsequently, the accumulated amount is given back to you as annuity or pension at regular intervals.

With Max Life Insurance, you can find comprehensive plans such as Max Life Smart Wealth Plan or Max Life Smart Secure Plus Plan to fulfill your particular investment goals and keep your loved ones financially secure.

MUTUAL FUNDS

A mutual fund is **a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt**. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds.

Mutual funds are largely a safe investment, seen as being a good way for investors to diversify with minimal risk. But there are circumstances in which a mutual fund is not a good choice for a market participant, especially when it comes to fees.

TYPES

Open-ended funds

In an open-ended mutual fund, an investor can invest or enter and redeem or exit at any point of time. It does not have a fixed maturity period.

Close-ended funds

Close-ended mutual funds have a fixed maturity date. An investor can only invest or enter in these type of schemes during the initial period known as the New Fund Offer or NFO period. His/her investment will automatically be redeemed on the maturity date. They are listed on stock exchange(s).

1. Equity or growth schemes

These are one of the most popular mutual fund schemes. They allow investors to participate in stock markets. Though categorised as high risk, these schemes also have a high return potential in the long run. They are ideal for investors in their prime earning stage, looking to build a portfolio that gives them superior returns over the long-term. Normally an equity fund or diversified equity fund as it is commonly called invests over a range of sectors to distribute the risk.

Equity funds can be further divided into three categories:

Sector-specific funds:

These are mutual funds that invest in a specific sector. These can be sectors like infrastructure, banking, mining, etc. or specific segments like mid-cap, small-cap or large-cap segments. They are suitable for investors having a high risk appetite and have the potential to give high returns.

Index funds:

Index funds are ideal for investors who want to invest in equity mutual funds but at the same time don't want to depend on the fund manager. An index mutual fund follows the same strategy as the index it is based on.

For example, if an index fund follows the BSE Index as the replicating index and if it has a 20% weightage in let's say Stock A, then the index fund will also invest 20% of its assets in Stock A.

Index funds promise returns in line with the index they mirror. Further, they also limit the loss to the proportional loss of the index they follows, making them suitable for investors with a medium risk appetite.

Tax saving funds:

These funds offer tax benefits to investors. They invest in equities and are also called Equity Linked Saving Schemes (ELSS). These type of schemes have a 3 year lock-in period. The investments in the scheme are eligible for tax deduction u/s 80C of the Income-Tax Act, 1961.

2. Money market funds or liquid funds:

These funds invest in short-term debt instruments, looking to give a reasonable return to investors over a short period of time. These funds are suitable for investors with a low risk appetite who are looking at parking their surplus funds over a short-term. These are an alternative to putting money in a savings bank account.

3. Fixed income or debt mutual funds:

These funds invest a majority of the money in debt - fixed income i.e. fixed coupon bearing instruments like government securities, bonds, debentures, etc. They have a low-risk-low-return outlook and are ideal for investors with a low risk appetite looking at generating a steady income. However, they are subject to credit risk.

4. Balanced funds:

As the name suggests, these are mutual fund schemes that divide their investments between equity and debt. The allocation may keep changing based on market risks. They are more suitable for investors who are looking at a combination of moderate returns with comparatively low risk.

5. Hybrid / Monthly Income Plans (MIP):

These funds are similar to balanced funds but the proportion of equity assets is lesser compared to balanced funds. Hence, they are also called marginal equity funds. They are especially suitable for investors who are retired and want a regular income with comparatively low risk.

6. Gilt funds:

These funds invest only in government securities. They are preferred by investors who are risk averse and want no credit risk associated with their investment. However, they are subject to high interest rate risk.

Public Provident Fund (PPF)

Public Provident Fund (PPF) scheme is a long term investment option that offers an attractive rate of interest and returns on the amount invested. The interest earned and the returns are not taxable under Income Tax. One has to open account under this scheme and the amount deposited during a year will be claimed under section 80C deductions.

Importance of Public Provident Fund account

PPF account is one of the best investment options for individuals who have a low-risk appetite.

PPF is a government-backed scheme, and the investment is also not market-linked. Due to this, it offers guaranteed returns to protect the investment needs of many people.

As the returns from PPF accounts are fixed, they are used as a diversification tool for the investor's portfolio. Additionally, they also offer tax-saving benefits.

Interest rate on PPF

The current interest rate is 7.1% p.a. that is compounded annually.

The Finance Ministry set the interest rate every year, which is paid on 31st March. The interest is calculated on the lowest balance between the close of the fifth day and the last day of every month. Further, use our PPF calculator to figure out the returns you can expect on investing a certain amount in a PPF account.

Four essential features of PPF

Tenure: The PPF has a minimum tenure of 15 years, which can be extended in blocks of 5 years as per your wish.

Investment Limits: PPF allows a minimum investment of Rs 500 and a maximum of Rs 1.5 lakh for each financial year. Investments can be made in a lump sum or in a maximum of 12 instalments.

Opening Balance: The account can be opened with just Rs 100. Annual investments above Rs 1.5 lakh will not earn interest and will not be eligible for tax savings.

Deposit Frequency: Deposits into a PPF account has to be made at least once every year for 15 years.

Mode of deposit: The deposit into a PPF account can be made either by way of cash, cheque, demand draft (DD) or through an online fund transfer.

Nomination: A PPF account holder can designate a nominee for his account either at the time of opening the account or subsequently.

Joint accounts: A PPF account can be held only in the name of one individual. Opening an account in joint names is not allowed.

Risk factor: Since PPF is backed by the Indian government, it offers guaranteed, risk-free returns as well as complete capital protection. The element of risk involved in holding a PPF account is minimal.

Who is eligible to invest in PPF?

Any Indian citizen can invest in PPF.

One citizen can have only one PPF account unless the second account is in the name of a minor.

NRIs and HUFs are not eligible to open a PPF account. However, if they have an existing PPF account in their name, then it shall remain active till its completion date. However, these accounts cannot be extended for 5 years as in the case of Indian citizens.

What is Stock Valuation?

Every investor who wants to beat the market must master the skill of stock valuation. Essentially, stock valuation is a method of determining the intrinsic value of a business (or any investment security) is the present value of all expected future cash flows, discounted at the appropriate discount rate. Unlike relative forms of valuation that look at comparable companies, intrinsic valuation looks only at the inherent value of a business on its own. (or theoretical value) of a stock. The importance of valuing stocks evolves from the fact that the intrinsic value of a stock is not attached to its current price. By knowing a stock's intrinsic value, an investor may determine whether the stock is over- or under-valued at its current market price.

How to Value a Stock?

Valuing stocks is an extremely complicated process that can be generally viewed as a combination of both art and science. Investors may be overwhelmed by the amount of available information that can be potentially used in valuing stocks (company's financials, newspapers, economic reports

Economic Indicators

An economic indicator is a metric used to assess, measure, and evaluate the overall state of health of the macro economy. Economic indicators, stock reports, etc.).

Therefore, an investor needs to be able to filter the relevant information from the unnecessary noise. Additionally, an investor should know about major stock valuation methods and the scenarios in which such methods are applicable.

Types of Stock Valuation

Stock valuation methods can be primarily categorized into two main types: **absolute** and **relative**.

1. Absolute

Absolute stock valuation relies on the company's fundamental information. The method generally involves the analysis of various financial information that can be found in or derived from a company's financial statements. Many techniques of absolute stock valuation primarily investigate the company's cash flows, dividends, and growth rates. Notable absolute stock valuation methods include the dividend discount model (DDM)Dividend Discount Model. The Dividend Discount Model (DDM) is a quantitative method of valuing a company’s stock price based on the assumption that the current fair price of a stock and the discounted cash flow model (DCF)Discounted Cash Flow DCF Formula.

2. Relative

Relative stock valuation concerns the comparison of the investment with similar companies. The relative stock valuation method deals with the calculation of the key financial ratios of similar companies and derivation of the same ratio for the target company. The best example of relative stock valuation is comparable companies analysis.

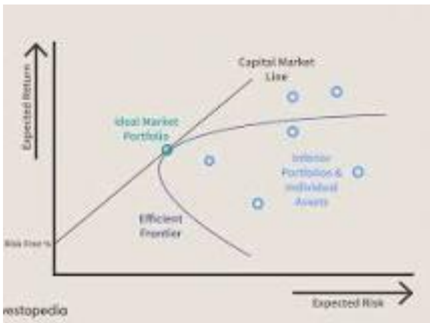
Capital asset pricing model and its assumptions

The model assumes that all active and potential shareholders have access to the same information and agree about the risk and expected return of all assets (homogeneous expectations assumption). The model assumes that the probability beliefs of active and potential shareholders match the true distribution of returns.

Characteristics of Capital Asset Pricing Model

The Capital Asset Pricing Model is a mathematically simple estimate of the cost of equity. The rate of return required is based on the level of risk associated with the investment. CAPM states that investors require additional returns (risk premium) in excess of a risk-free rate proportional to market risk.

Why is CAPM use



The Capital Asset Pricing Model (CAPM) describes the relationship between systematic risk and expected return for assets, particularly stocks. 1 CAPM is widely used throughout finance for pricing risky securities and generating expected returns for assets given the risk of those assets and cost of capital.