## Index in share market

Index consists of group of shares. Index denotes the direction of the entire market. Like when people say market is going up or down then that means Index is going up or down. Index consists of high market capitalization and high liquidity shares.

High Market capitalization shares - Companies having highest number of shares and highest price of each share.Market capitalization is calculated by multiplying current share price and number of shares in the market.

High Liquidity shares - Shares in the market with high volumes.

Two types of Indices

Nifty and Sensex
Nifty - Nifty consist of a group of 50 shares.
Sensex - Sensex consist of a group of 30 shares.

## Stock exchanges

Mainly there are two exchanges in India.
NSE (National stock exchange) - Nifty is listed with NSE.
BSE (Bombay stock exchange) - Sensex is listed with BSE.
NSE and BSE are countries economic barometer.
Stock exchanges like NSE and BSE are the places where the trading of shares takes place.

## Process of share market

First let us understand the Working of a share market

To learn about how you can earn on the stock market, one has to understand how it works.When a person want to buy/sell shares in the share market then he has to first place the order with a broker or can do themselves using online trading
systems (this will be discussed later). When you place the buy order, the message is transferred to the exchange [either NSE {National Stock Exchange} or BSE {Bombay Stock Exchange}] and the order stays in the queue of exchange's other orders and gets executed if the price of that share comes to that value. Once you get the confirmation of this transaction, the shares purchased, will be sent to your demat account. The shares will be stored in demat account in electronic format.

Rolling Settlement Cycle: (RSC) RSC means when you will get your shares in your demat account. In a rolling settlement, each trading day(T) is considered as a trading period and trades executed during the trading day(T) are settled on a T+2 basis i.e. trading day plus two working days. So the conclusion is on forth working day you will get the shares in your demat account.

What is Demat account and why it is required?

Securities and Exchange Board of India (SEBI) is a board of India appointed by the Government of India in 1992 with its head office at Mumbai. Its one of the function is helping the business in stock exchanges and in other security markets. In another word it is the regulator for stock exchanges. It monitors and regulates both stock exchanges in India.

**a)** Demat (short form of Dematerialization) is the process by which an investor can get shares (also called as physical certificates)converted into electronic form maintained in an account with the Depository Participant (DP).

**b)** DP could be organizations involved in the business of providing financial services like banks, brokers, financial institutions etc. DP's are like agents of Depository.

**c)** Depository is an organization responsible to maintain investor's securities (securities can be shares or any other form of investments) in the electronic form. In India there are two such organizations called NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services India Ltd.)

**d)** Investor's wishing to open Demat account has to go DP and open the account.

**e)** Opening the Demat account is as simple as opening the saving bank account with any bank. As you need bank account to save money, deposit cheques etc, likewise you need to have a demat account to buy and sells stocks in share market and to hold the shares.

**f)** All shares what you own will show in your demat account, so you don't have to possess any physical certificates. All your shares are all held electronically in your demat account. As you buy and sell the shares, accordingly, your shares will get adjusted in your demat account.

## Demat account is must

YES. Demat account is must. The market regulator, the Securities and Exchange Board of India (SEBI), has made it compulsory to open the demat account if you want to buy and sell shares in Indian share market. So a demat account is a must for trading and investing in share market.

## How to open a Demat account?

You have to approach a Depository Participant (DP) to open a Demat account. Most banks are DP participants so you can approach them or else you can contact us. To have latest list of registered DP please visit websites www.nsdl.co.in and www.cdsl.com .A broker and a DP are two different people. A broker is a member of the stock exchange, who buys and sells shares on his behalf and also on behalf of his customers. A broker can also be a DP.

## Following are the documents required to open Demat account

When you approach any DP, you will be guided through the formalities for opening a demat account. The DP will ask to provide some documents as proof of your identity and address. Below is a list of documents out of which you have to submit one or two.PAN card, Voter's ID, Passport, Ration card, Driver's license, Photo credit card Employee ID card, IT returns, Electricity/ Landline phone bill etc.

## Do you need any shares to open a Demat account?

NO. You need not have to have any shares to open a demat account. A demat account can be opened with no balance of shares. And also there is no restriction to maintain any minimum shares. You can have a zero balance (shares) in your account.

## How much it cost to open a Demat account?

The charges for demat account opening varies from broker to broker of from DP to DP.Generally some broker charge one time account opening fees but currently due to high competition they are offering free account. To have latest charges please visit websites of www.nsdl.co.in and www.cdslindia.com or else you need to contact the specific broker.

## Finally

After successfully opening the demat account you are ready to do buying and selling of shares in share market exchanges like BSE and NSE.

### Important points to remember while opening online demat account

1) Do multiple enquiries with various brokers or DP's and try getting low brokerage charges.
2) Also discuss about the margin they provide for day trading.
3) Discuss about fund transfer facility. The fund transfer should be reliable and easy. Fund transfer from your bank account to trading account and fund payout from your trading account back to your bank savings account. Some online share trading account has integrated savings account which makes easy for you to transfer funds from your saving account to trading account.
4) Very important is about service they provide, the research calls, intraday or daily trading tips.
5) Also enquire about their services charges and any other hidden fees if any.
6) Check how reliable and easy is to contact them in case of any emergency, like buying and selling of shares on immediate basis or in case of any technical or other problems at your side while trading yourself.
7) You can also request to broker for demonstration of the trading terminal software and check how comfortable it is for you. There are various brokers and DP, please contact us for more information of brokers.

## Type of Markets

Basically there are two types of markets.

1. Primary market
2. Secondary market

### Primary Market

A primary market is a place where companies, government and other corporate bodies sell new shares and other financial products which are also called as financial products. In primary market trading is not allowed.
Like any newly listed company sells IPO (initial public offer) then it happens in primary market or whenever any already exiting company goes public then at that time it issues an IPO in primary market.

### Secondary market

A market place where actual share trading (buying and selling) takes place is called secondary market. Majority of share trading in India happens in top two exchanges called NSE and BSE.

## Difference between Trader and Investor

### Trader

Buying and selling of shares based on technical analysis or market trend taking into consideration very short duration like
from a single day to couple of days is called trader. Mostly trading is done throughout the day and wit is called as day rading or intraday trading.Trader buys and sells the stock and he is not worried about the company's performance or how good the company is.

### Investor

Buying shares after analyzing the fundamentals of the company and holding them for long term like from

couple of months to couple of years is called as Investor. Investor buys a company only after analyzing its worth. If the current stock price is available at discount (undervalued) then he buys it for long term prospective.

## Types of Trading and Investments

Basically trading and investing are two different methods of earning money in share market.

Trading is done on stock price for a day or for couple of days.Trader is not worried about company performance; he is only worried to book profits whenever the share price rises. Basically there are two types of trading methods

1. Day trading and
2. Swing trading.

### 1. Day trading

Buying and selling of shares on daily basis is called day trading.Day trader don't carry stocks to next day, he
square off the positions (shares) on same day.Mainly there are two types of day traders.
i. Scalp trading
ii. Momentum trading

7. i) Scalp Trading
8. A scalp trader buys and sells shares at very low profits (margins) and does multiple trades on daily basis.

ii) Momentum Trading

A momentum trader identifies the trend and buys shares at bottom and sells at the high of the trend.He may do one or two trades or at the most three trades in a day.He may not do as multiple trades as scalp trader on daily basis.

### 2. Swing Trader

A swing trader is just like a day trader but swing trade may hold the shares (positions) for couple of days like 4 to
5 days, while day trader doesn't hold shares even for next day.Swing trader basically trades based on news, breakout and breakdown in technical charts, based on volume surge, based on up and down trade etc.

## Types of Investment

Basically there are three types of investment methods.

i. Short term investment
ii. Midterm investment
iii. Long term investment

vi. **i) Short term investment**

Investment done from couple of weeks to couple of months is called short term investment. It is done based on
breaking news, or based on charts of technical analysis.

x. ii) Mid term Investment

Investments done from couple of months to couple of years is called mid tem investment. It is done based on analysis of quarterly financial results or based on fundamental analysis.

xiii. iii) Long term investment

Investment done from one year to couple of years like 3 years, 5 years, 10 years etc Long term investment is basically done after thoroughly analyzing the fundamentals of the company and its future growth prospects. And also the wise investor invests in companies whose current share prices are undervalued but its future growth is huge. Generally long term investor is worry free from daily markets up and down and share prices volatility.

Note - There is no any hard and fast rule that investor follows any particular methods of investing method as mentioned above.

## Meaning of Bid and Ask price

### Bid Price

The bid price is the price at which buyers are ready to buy shares.The bid price is also called as buying price.

**Ask Price** The Ask price is the price at which sellers are ready to sell shares. The ask price is also called as selling price or offer price

**Company declares Quarterly Results** A listed company, either in BSE or NSE, declares their performance every quarter through out the day. Based on the performance of quarterly results market judge how the company is performing and if analysis shows that the company is doing well then its share prices goes up and if analysis found that company is not performing, as per expectation, then market reacts negatively to that company and the result is its share prices falls.

First quarter duration - April to June

Results declaration on – July
Second quarter duration - July to September
Results declaration on – October
Third quarter duration - October to December
Results declaration on – January
Forth quarter duration - January to March
Results declaration on – April
Forth quarter is considered as end of financial year end.

### IPO (initial public offer)

As the name indicates initial public offer, it is the initial stage of the share in the primary market. After issue is complete

IPO becomes share and comes into secondary market and market participant's start trading or investing on this share. Whenever a new company gets listed on stock exchanges it issues IPO or any existing company (either private limits company or single owner company) want to go public then at that time it issues IPO.Main intention of offering IPO's - either to raise capital (money) for company's expansion plans etc - Or whenever an already existing company goes public.

## Future Derivatives

Future derivative is the product whose value (price) depends in underlying security (assets) Underlying assets are like equity (share/stock), indices (nifty, Jr. Nifty), commodity etc. Future trading can be done on stocks as well as on Indices like IT index, Auto index, Pharma index etc. In simple language one future contract is group of stocks (one lot) which has to be bought with certain expiry period and has to be sold (squared off) within that expiry period. Suppose if you buy futures of Wipro of one month expiry then you have to sell it within that one month period.

## Options

An option is a contract that gives the buyer the right, but not the compulsion, to buy or sell an underlying asset at a specific
price on or before a certain date. Underlying assets are like equity (share/stock), indices (nifty, Jr. Nifty), commodity etc.

## Calls and Puts

The two types of options are calls and puts:
A call gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase before the option expires.

A put gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are very similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.

Note - Currently we are in the process of writing more about options and how to trade on them and very soon we will post them on website. For more information please visit our Options section.

Mutual funds A registered company with SEBI (securities exchange board of India) does investments in various financial products like share market, government bonds, securities etc on behalf of customers is called mutual fund.There are various mutual fund companies in the market and few are mentioned below, Sundaram, Reliance, SBI, HSBC, Birla and many more.The mutual fund companies collect money from customers and invest on their behalf in various financial products.

Investors who don't want to expose to share market directly or who doesn't have much knowledge of share market they prefer to invest in equity related mutual funds. Mutual funds consist of fund manager who manages all investments.Learn Indain stock market trading.