



INVESTMENT ANALYSIS & PORTFOLIO MANAGEMENT

Subject Code – MBA FM314

By

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Module 1 - Introduction to Investment

INTRODUCTION TO INVESTMENT:

Investment:

Investment refers to the allocation of money or resources with the expectation of generating income, profit, or an increase in value over time.

- Investors commit their funds to various assets or ventures in the hope of achieving specific financial goals. Investments can take many forms, ranging from traditional financial instruments to alternative assets. The act of investing has the goal of generating income and increasing value over time.
- An investment can refer to any mechanism used for generating future income. This includes the purchase of bonds, stocks, or real estate property, among other examples. Additionally, purchasing a property that can be used to produce goods can be considered an investment.
- The meaning of investment is putting your money into an asset that can grow in value or produce income or both.

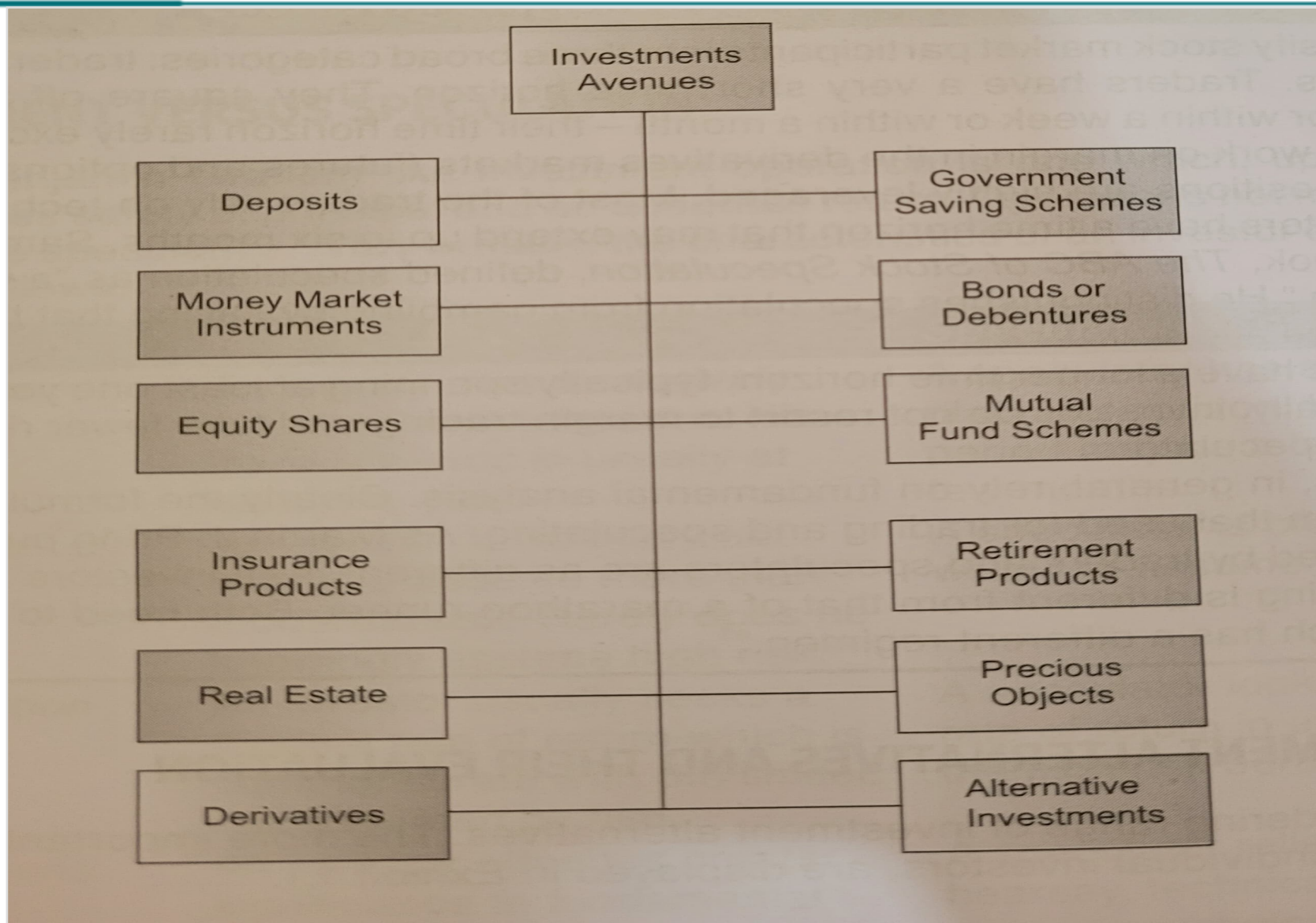
INVESTMENT AVENUES/ INVESTMENT ALTERNATIVES:

"Investment avenues" refers to the various options or channels available to investors for allocating their funds in order to generate returns or achieve specific financial objectives.

These avenues encompass a wide range of financial instruments and assets that individuals, institutions, or funds can consider when making investment decisions. The choice of investment avenues depends on factors such as risk tolerance, financial goals, investment horizon, and the investor's overall financial strategy.

Examples: Stocks, bonds, mutual funds, real estate, cryptocurrencies, precious metals, savings accounts, retirement accounts, commodities, exchange-traded funds (ETFs), peer-to-peer lending, art, and collectibles.

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1] Deposits

- A major portion of financial assets of individuals is held as deposits.
- **Key Types:**
 - Bank deposits
 - Post office deposits
 - Company fixed deposits

2] Government Savings Schemes

- Schemes offered by the Government of India for individual investors through post offices and select banks.
- **Important Schemes:**
 - Public Provident Fund (PPF)
 - Senior Citizens' Saving Scheme
 - National Savings Certificate (NSC)

3] Money Market Instruments

- Debt instruments with a maturity of less than one year.
- Highly liquid with negligible default risk.



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- **Major Instruments:**

- Treasury bills
- Certificates of deposit (CD)
- Commercial paper (CP)
- Repos

4] Bonds or Debentures

- Long-term debt instruments representing a contract where the issuer promises a stipulated stream of cash flows.

- **Classifications:**

- Government securities
- PSU bonds
- Debentures of private sector companies
- Preference shares

5] Equity Shares

- Represent ownership capital; shareholders hold a residual interest in company income and wealth.

- **Stock Market Classifications:**

- Blue chip shares
- Growth shares
- Income shares
- Cyclical shares
- Speculative shares



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6] Mutual Funds

- Vehicles to participate indirectly in equity and fixed-income instruments managed by professionals.
- **Broad Types:**
 - Equity schemes
 - Debt schemes
 - Balanced schemes

7] Life Insurance

- Premiums represent the investment/sacrifice; the assured sum represents the future benefit.
- **Common Policies:**
 - Endowment assurance policy
 - Money back policy
 - Whole life policy
 - Term assurance policy

8] Retirement Products

- Designed to provide income post-retirement.
- **Key Schemes:**
 - Employees' Provident Fund (EPF) Scheme, 1952
 - Employees' Pension Scheme (EPS), 1952
 - National Pension System (NPS), 2004
 - Pension schemes offered by insurance companies and mutual funds

9] Real Estate

- A core portfolio asset (residential house for most investors; alternative real estate for affluent investors).
- **Types of Investment:**
 - Agricultural land
 - Semi-urban land
 - Commercial property
 - A resort home
 - A second house

10] Precious Objects

- Small-sized physical assets that are highly valuable in monetary terms.
- **Examples:**
 - Gold and silver
 - Precious stones
 - Art objects

11] Financial Derivatives

- Financial instruments whose value is derived from an underlying asset (often used for hedging or trading).
- **Important Derivatives:**
 - Options
 - Futures

12] Alternative Investments

- Investments beyond traditional stocks, bonds, and cash.
- **Examples:**
 - Venture capital
 - Private equity
 - Hedge funds

INVESTMENT ATTRIBUTES:

Investment attributes refer to the characteristics or features that investors consider when evaluating and selecting investments. These attributes help investors make informed decisions based on their financial goals, risk tolerance, and investment strategy.

- 1. Rate of return
- 2. Risk
- 3. Marketability
- 4. Taxes
- 5. Convenience
- 6. Safety
- 7. Liquidity
- 8. Duration
- 9. Diversification



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1. Return on Investment (ROI): The potential for profit or loss on an investment. Investors assess the historical performance and expected future returns of an investment. $\text{Return} = \frac{\text{End period value} - \text{Beginning period value} + \text{Dividend}}{\text{Beginning period value}} \times 100$

- Example: Market return of the stock indicates the price appreciation for the particular stock. If a particular share is purchased in 2021 at Rs 50, disposed at Rs 60 in 2022 & the dividend yield is Rs 5. Calculate the return.
- Given :
- Beginning period : Rs 50, End Period : Rs 60, Dividend : Rs 5
- $R = \frac{(60-50)+5}{50} \times 100 = 30$
- $R = 30$

2. Risk: The degree of uncertainty or potential for loss associated with an investment.. Different investments carry varying levels of risk, and investors consider their risk tolerance when making investment decisions.

3. Liquidity: The ease with which an investment can be bought or sold in the market without significantly affecting its price. More liquid investments allow for easier entry and exit.

4. Marketability: It is desirable that an investment instrument be marketable, the higher the marketability the better it is for the investor. To gauge the marketability of other financial instruments like provident fund (which in itself is non-marketable). Then we would consider other factors like, can we make a substantial withdrawal without much penalty, or can we take a loan against the accumulated balance at an interest rate not much higher than our earning rate of interest on the provident fund account.

5. Taxes: Some of our investments would provide us with tax benefits while other would not. This would also be kept in mind when choosing the investment avenue. Tax benefits are mainly of 3 types:

- a. Initial tax benefits. This is the tax gain at the time of making the investment, like life insurance.
- b. Continuing tax benefit. Is the tax benefit gained on the periodic return from the investment, such as dividends.
- c. Terminal tax benefit. This is the tax relief the investor gains when he liquidates the investment. For example, a withdrawal from a provident fund account is not taxable.

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6. Convenience: Here we are talking about the ease with which an investment can be made and managed. The degree of convenience would vary from one investment instrument to the other.

7. Safety: Although the degree of risk varies across investment types, all investments bear risk. Therefore, it is important to determine how much risk is involved in an investment. The average performance of an investment normally provides a good indicator. However, past performance is merely a guide to future performance not a guarantee.

8. Duration: Investments typically have a longer horizon than cash and income options. The duration of an investment-, particularly how long it may take to generate a healthy rate of return is a vital consideration for an investor. The investment horizon should match the period that your funds must be invested for or how long it would take to generate a desired return.

9. Diversification: Spreading investments across different asset classes, industries, or geographic regions to reduce risk. Diversification can help balance a portfolio's overall risk and return.

FEATURES OF A GOOD INVESTMENT

A good investment possesses certain features that align with an investor's financial goals, risk tolerance, and overall investment strategy.

1. Managed Risk
2. Safety
3. Return
4. Liquidity
5. Consistency and Stability
6. Long-Term Viability
7. Hedge against inflation
8. Transparency
9. Tax Efficiency
10. Diversification
11. Low costs and fees

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- **Managed Risk:** Effective risk management is crucial. A good investment considers the associated risks and strives to balance risk and return. Diversification and thorough risk assessments are common strategies for managing risk.
- **Return:** A good investment should offer the potential for attractive returns. Whether through capital appreciation, dividends, interest, or other income, the investment should provide the opportunity for growth over time. Risk and return go together. Higher the risk, higher the chances of getting higher return. An investment in a low risk high safety investment such as investment in government securities will obviously get the investor only low returns.
- **Liquidity:** Liquidity refers to the ease with which an investment can be bought or sold in the market. A good investment provides reasonable liquidity, allowing investors to enter and exit positions without significant impact on the asset's price.
- **Low Costs and Fees:** High costs and fees can erode returns over time. A good investment minimizes unnecessary costs, ensuring that more of the returns flow to the investor.
- **Consistency and Stability:** Investments that demonstrate consistency and stability in performance are often considered good. This can be reflected in steady returns over time and a track record of withstanding market fluctuations.

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- **Safety:** The first and foremost concern of any ordinary investor is that his investment should be safe. That is he should get back the principal at the end of the maturity period of the investment. There is no absolute safety in any investment, except probably with investment in government securities or such instruments where the repayment of interest and principal is guaranteed by the government.
- **Long-Term Viability:** When talking about investment, we look for long-term options to help our investment grow with time. If you look at a company stock and can't see yourself owning its stocks ten years from now, you must avoid investing in it.
- **Tax Efficiency:** Tax implications can significantly impact investment returns. A good investment considers tax efficiency and seeks to minimize the tax burden on the investor. Earn to Lend
- **Diversification:** A well-diversified investment spreads risk across different asset classes, industries, or geographic regions. Diversification helps mitigate the impact of poor performance in any single investment.

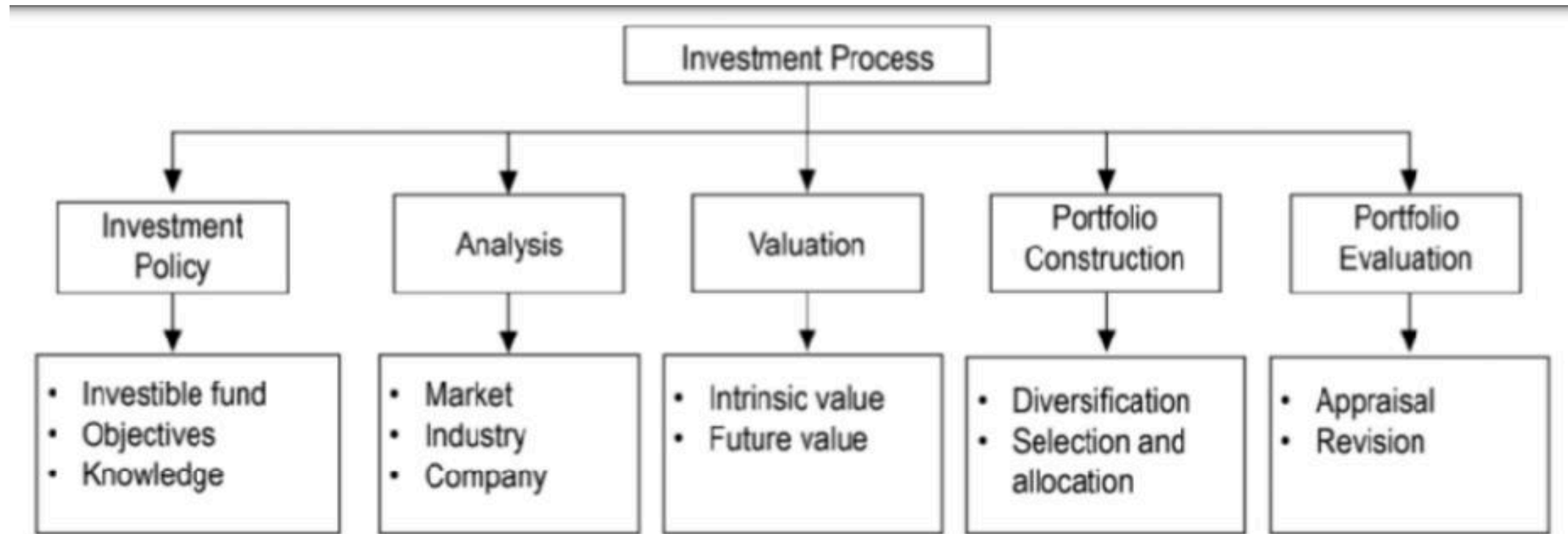
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Investor v/s Speculator :

speculator as follows.

	<i>Investor</i>	<i>Speculator</i>
<i>Planning horizon</i>	An investor has a relatively longer planning horizon. His holding period is usually at least one year.	A speculator has a very short planning horizon. His holding period may be a few days to a few months.
<i>Risk disposition</i>	An investor is normally not willing to assume more than moderate risk. Rarely does he knowingly assume high risk.	A speculator is ordinarily willing to assume high risk.
<i>Return expectation</i>	An investor usually seeks a modest rate of return which is commensurate with the limited risk assumed by him.	A speculator looks for a high rate of return in exchange for the high risk borne by him.
<i>Basis for decisions</i>	An investor attaches greater significance to fundamental factors and attempts a careful evaluation of the prospects of the firm.	A speculator relies more on hearsay, technical charts, and market psychology.
<i>Leverage</i>	Typically an investor uses his own funds and eschews borrowed funds.	A speculator normally resorts to borrowings, which can be very substantial, to supplement his personal resources.

INVESTMENT PROCESS:



INVESTMENT POLICY:

Framing of the Investment Policy For systematic functioning, the government or investor, formulates the investment policy before proceeding to invest.

- The essential ingredients of the policy are investible funds, objectives and knowledge about investment alternatives and the market.

- **Investible funds:**

The entire investment procedure revolves around the availability of investible funds. Funds may be generated through savings or from borrowings. If the funds are borrowed, the investor has to be extra careful in the selection of investment alternatives. He must make sure that the returns are higher than the interest he pays. Mutual funds invest their stockholders' money in securities.

- **Objectives:**

The objectives are framed on the premises of the required rate of return, need for regular income, risk perception, safety and the need for liquidity

- **Knowledge:**

Knowledge about investment alternatives and markets plays a key role in policy formulation.

SECURITY ANALYSIS:

Securities to be bought are scrutinised through market, industry and company analyses after the formulation of investment policy.

- **Market analysis:** The stock market mirrors the general economic scenario. The growth in gross domestic product and inflation is reflected in stock prices. Recession in the economy results in a bear market. Stock prices may fluctuate in the short-run but in the long-run, they move in trends, i.e., either upwards or downwards. The investor can fix his entry and exit points through technical analysis.
- **Industry analysis:** Industries that contribute to the output of major segments of the economy vary in their growth rates' overall contribution to economic activity. Some industries grow faster than the GDP and are expected to continue in their growth. For example, the information technology industry has experienced a higher growth rate than the GDP. The economic significance and the growth potential of the industry have to be analyzed.
- **Company analysis:** The purpose of company analysis is to help the investors make better decisions. The company's earnings, profitability, operating efficiency, capital structure and management have to be screened. These factors have a direct bearing on stock prices and investors' returns. The appreciation of stock value is a function of the performance of the company. A company with a high product market share is able to create wealth for investors in the form of capital appreciation.

VALUATION:

Valuation helps the investor determine the return and risk expected from an investment in common stock.

Intrinsic value:

- The intrinsic value of the share is measured through the book value of the share and price earning ratio.
- Simple discounting models also can be adopted to value the shares. Stock market analysts have developed many advanced models to value shares. The real worth of the share is compared with the market price, and investment decisions are then made.

Future value:

- The future value of securities can be estimated by using a simple statistical technique like trend analysis. The analysis of the historical behaviour of price enables the investor to predict the future value.

CONSTRUCTION OF PORTFOLIO:

A portfolio is a combination of securities. It is constructed in a manner so as to meet the investor's goals and objectives.

- The investor should decide how best to reach the goals with the securities available.
- The investor tries to attain maximum return with minimum risk. Towards this end, he diversifies his portfolio and allocates funds among the securities.

1. Diversification: The main objective of diversification is the reduction of risk in the form of loss of capital and income. A diversified portfolio is comparatively less risky than holding a single portfolio. Several modes are available to diversify a portfolio.

- Debt and equity diversification Debt instruments provide assured returns with limited capital appreciation. Common stocks provide income and capital gain but with a flavour of uncertainty. Both debt instruments and equity are combined to complement each other.

Industry diversification Industries' growth and their reaction to government policies differ from each other. Banking industry shares may provide regular returns but with limited capital appreciation. Information technology stocks yield higher returns and capital appreciation, but their growth potential in the post-global crisis years was unpredictable. Thus, industry diversification is needed, and it reduces the risk.

Company diversification Securities from different companies are purchased to reduce the risk. Technical analysts suggest that investors buy securities based on price movement. Fundamental analysts suggest the selection of financially sound and investor-friendly companies.

2. Selection: Securities have to be selected based on the level of diversification, industry and company analyses. Funds are allocated for selected securities. Selection of securities and the allocation of funds seal the construction of portfolio.

PORTFOLIO EVALUATION:

A portfolio has to be managed efficiently. Efficient management calls for evaluation of the portfolio. This process consists of portfolio appraisal and revision.

- **Appraisal:** |

The return and risk performance of security varies from time to time. The variability in returns of securities is measured and compared.

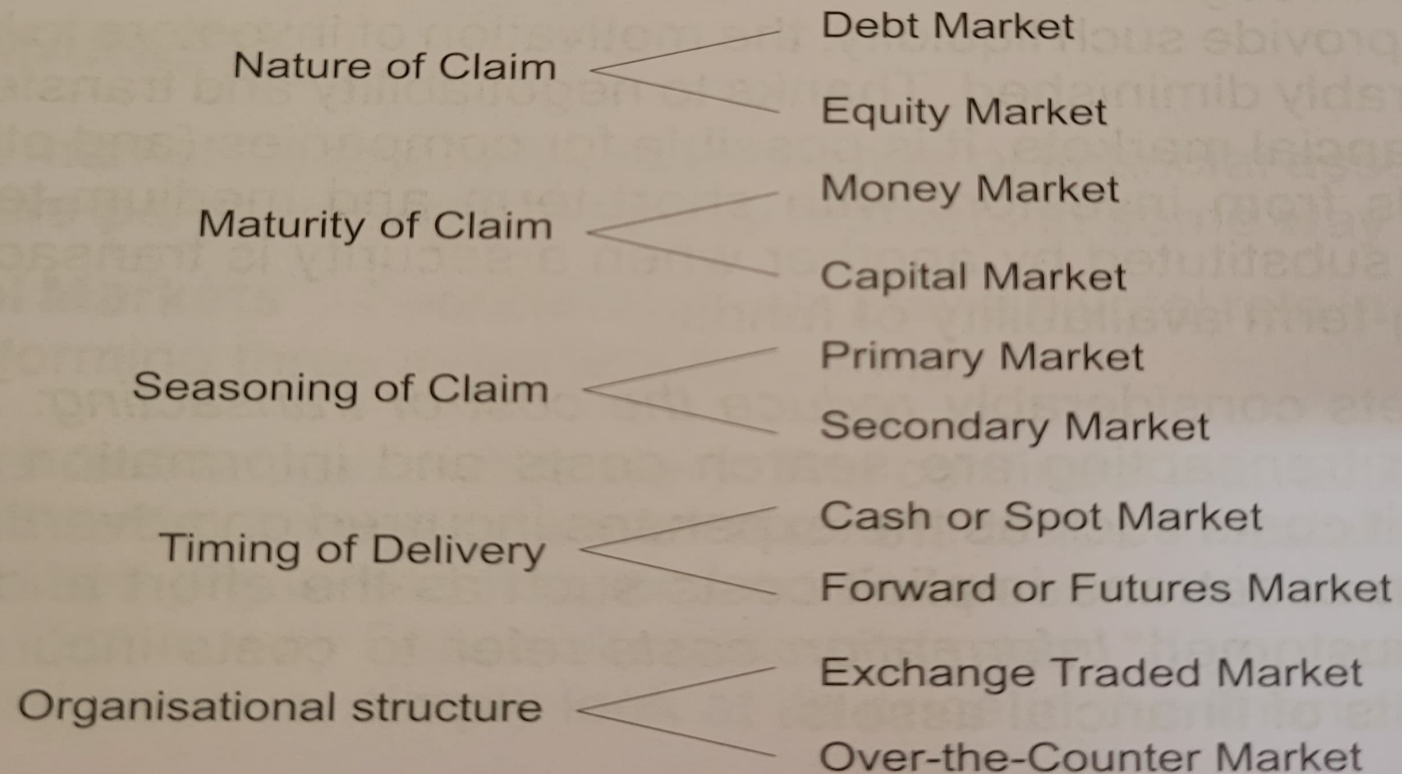
Developments in the economy, industry and relevant companies from which stocks are bought have to be appraised. The appraisal warns of the loss and steps can be taken to avoid such losses.

- **Revision:**

- It depends on the results of the appraisal. Low-yielding securities with high risk are replaced with high-yielding securities with low risk factor. The investor periodically revises the components of the portfolio to keep the return at a level.

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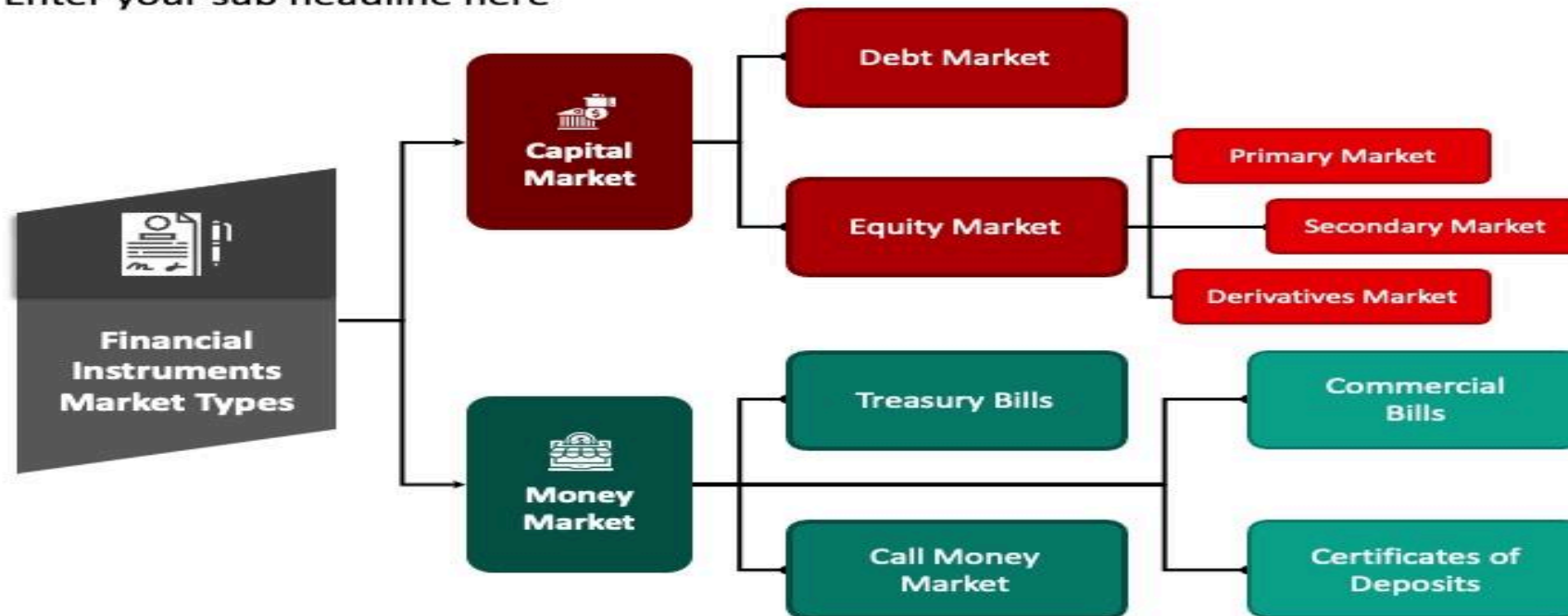
Exhibit 1.3 Classification of Financial Markets



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FINANCIAL INSTRUMENTS

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Money Market Instruments :

- Debt instruments with maturity of less than one year at issuance.
- Highly liquid with negligible risk.
- Dominated by the government, financial institutions, banks, and corporates (individual participation is rare).

1] Treasury Bills (T-Bills)

- Issued by the Reserve Bank of India (RBI) representing obligations of the Government of India.
- Sold via auction; standard primary tenors: 91 days, 182 days, and 364 days.
- **Zero coupon:** Sold at a discount and redeemed at par (yield = discount rate).
- Nil credit risk and negligible price risk due to short maturity.

2] Commercial Paper (CP)

- Short-term, unsecured promissory note issued by corporates, Primary Dealers (PDs), and all-India financial institutions.
- Issued under limits set by the RBI.
- Maturity ranges from 7 days to 1 year.
- Issued in denominations of ₹5 lakhs or multiples thereof.
- Sold at a discount and redeemed at par.



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3] Certificate of Deposit (CD)

- Negotiable money market instrument issued by banks and financial institutions.
- **Maturity limits:**
 - Banks: 7 days to 1 year
 - Financial institutions: 1 year to 3 years
- Issued in dematerialised form or as a Usance Promissory Note.
- Issued at a discount to face value or on a floating rate basis.
- Highly liquid, transferable, and typically offers higher yields than T-Bills.

4] Call / Notice Money Market

- Unsecured lending and borrowing between financial institutions.
- **Duration:** 1 day (Call money / overnight) to 14 days (Notice money).
- Only banks and Primary Dealers can borrow and lend; others (e.g., insurance, mutual funds) can only lend.

5] Repurchase Agreements (Repos & Reverse Repos)

- **Repo:** Agreement where one party sells securities to another and agrees to repurchase them later at a specified higher price.
- **Reverse Repo:** The purchase of securities with an agreement to resell them later (lending funds).
- The difference between sale and repurchase price serves as the interest yield.
- Predominantly overnight transactions.

CAPITAL MARKET INSTRUMENTS:

Bonds or Debentures: Overview & Core Features

- **Definition:** Long-term debt instruments where the issuer promises periodic interest payments and principal repayment at redemption.
- **Fixed Tenor:** Defined maturity at which they are redeemable.
- **Coupon Rate:** Fixed or floating (linked to a benchmark), payable periodically (quarterly, semi-annually, annually) or cumulatively.
- **Security & Risk:** Carries lower risk than equity; can be secured (backed by asset mortgage) or unsecured.
- **Taxability & Trading:** Interest is taxable unless specifically exempt (e.g., tax-free bonds); government bonds and corporate debentures are listed on stock exchanges.

1] Central Government Securities (G-Secs)

- **Nature:** Issued by the RBI on behalf of the Government of India.
- **Maturity & Coupon:** Fixed maturity (2 to 30 years) with semi-annual coupon payments.
- **Forms of Issue:** Promissory note, bearer bond, stock registered with RBI (SGL/CSGL accounts), or Bond Ledger Account (demat form).
- **Registry & Depository:** Managed by the Public Debt Office (PDO) of the RBI, Mumbai, and depositories like NSDL/CDSL.
- Qualify as **Statutory Liquidity Ratio (SLR)** investments for institutional players.

2] State Development Loans (SDLs)

- Debt securities issued by state governments to raise funds within an annual ceiling.
- Managed by the RBI.
- Offer coupon rates marginally higher than G-Secs of comparable maturity.

3] RBI Bonds (Floating Rate Bonds)

- Risk-free instrument backed directly by the RBI; issued in demat form.
- **Tenor:** 7 years (premature withdrawal allowed for senior citizens).
- **Interest Rate:** Floating; linked to National Savings Certificate (NSC) rate + 35 bps, reset half-yearly (Jan 1 and July 1).
- **Denomination:** Multiples of ₹1,000 with no maximum investment ceiling.
- Non-transferable in the secondary market; cannot be used as loan collateral.

4] Public Sector Undertaking (PSU) Bonds

- Issued by PSUs; categorized into **taxable** and **tax-free** bonds.
- Tax-free interest caps and issuance require Ministry of Finance approval.
- **Investor Advantages:** No TDS on interest, transferable via endorsement/delivery, no stamp duty on transfer, and traded on exchanges.

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5] Inflation Indexed Bonds (IIBs)

- Launched in 2013–14 for individuals, HUFs, charitable trusts, and universities.
- **Investment Limits:** Min ₹5,000, Max ₹5,00,000 per annum.
- **Tenor:** 10 years (early exit allowed after 1 year for seniors, 3 years for others).
- **Interest Structure:** Fixed base rate (1.5% p.a.) + CPI inflation rate (compounded half-yearly).
- Eligible as collateral for loans.

6] Private Sector Debentures

- Instruments for corporate long-term borrowing.
- **Trustee Appointment:** Mandatory when sold to the public to safeguard debenture holders' interests.
- **Regulations (>18 months maturity):** Mandatory credit rating and creation of a Debenture Redemption Reserve (DRR) equal to at least 50% of the issue size before redemption starts.
- **Embedded Options:** May include Call (issuer buys back early), Put (investor redeems early), or Convertible clauses (convert to equity).

Equity Shares: Core Concepts & Shareholder Rights

- **Nature:** Ownership capital; shareholders bear business risk and receive residual income.
- **Book Value Formula:**
$$\text{Book Value per Share} = \frac{\text{Number of Outstanding Equity Shares} \times \text{Paid-up Equity Capital} + \text{Reserves and Surplus}}{\text{Number of Outstanding Equity Shares}}$$
- **Key Rights:**
 - Residual claim to profits (via dividends/retained earnings).
 - Voting rights to elect directors and approve resolutions.
 - Pre-emptive rights to maintain proportional ownership in new issues.
 - Residual claim on company assets during liquidation.

Stock Market Classification of Equity Shares:

- **Blue-Chip Shares:** Large, well-established, financially sound companies with solid earnings and dividend track records.
- **Growth Shares:** Companies with entrenched market positioning and above-average earnings growth.
- **Income Shares:** Stable businesses with limited expansion opportunities that pay high dividend yields.
- **Cyclical Shares:** Earnings and revenues swing with general business/economic cycles.
- **Speculative Shares:** Highly volatile prices driven predominantly by speculative trading.
- **Defensive Shares:** Relatively unaffected by broad economic downturns.

Preference Shares

- Hybrid security combining features of debt (fixed dividend) and equity.
- **Dividend:** Fixed rate; paid only out of distributable profits.
- **Cumulative:** Unpaid dividends accumulate and must be paid before equity dividends.
- **Redemption:** Redeemable usually within 7 to 12 years; dividends are taxable.

Financial Derivatives: Overview

- Financial contracts whose value is derived from an underlying asset (e.g., equity shares).
- Function as a side bet on the price movement of that underlying asset.
- Primarily utilized by investors and portfolio managers for hedging (risk management) and speculation.



Futures Contracts

- Definition: A binding agreement between two parties to exchange an asset for cash at a predetermined future date and specified price.
- Long Position (Buyer): Agrees to purchase the asset; benefits if market price rises.
- Short Position (Seller): Agrees to sell the asset; benefits if market price falls.
- Payoff Dynamic: Zero-sum game; the gain of one party equals the exact loss of the counterpart.

Options Contracts: Core Mechanics

- Nature: Asymmetric contracts granting the holder the right, but not the obligation, to buy or sell an asset at a predetermined exercise price on or before expiration.
- Option Premium: The non-refundable upfront fee paid by the buyer (holder) to the seller (writer) to acquire this right.
- Writer's Obligation: The seller/writer is legally obligated to execute the trade if the holder chooses to exercise.

Call vs. Put Options

- Call Option:
 - Gives the holder the right to buy shares at the exercise price.
 - Writer must sell if the call holder exercises.
- Put Option:
 - Gives the holder the right to sell shares at the exercise price.
 - Writer must buy if the put holder exercises.

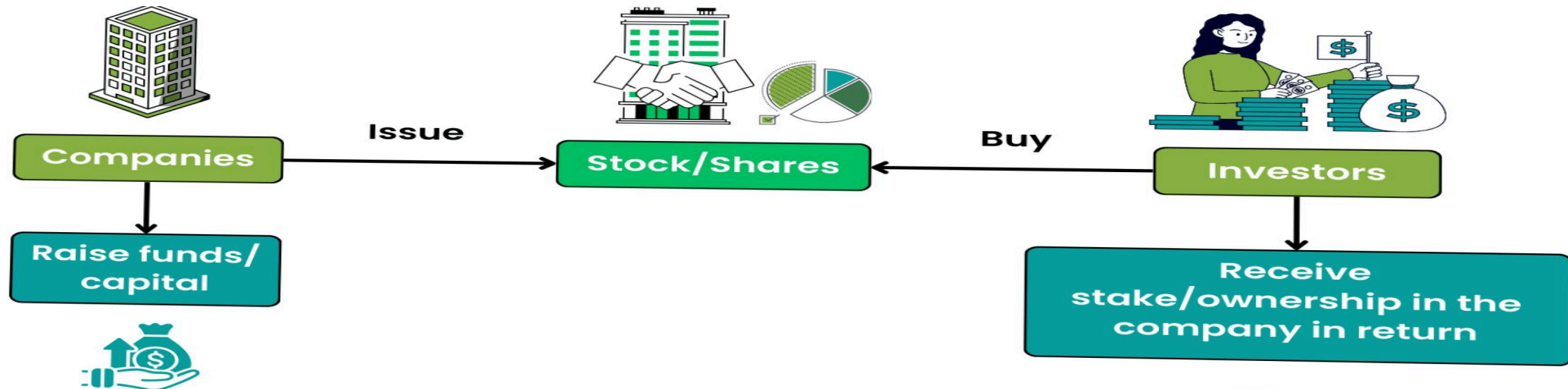
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Comparison	 Money Market	 Capital Market
Definition	It is the part of the financial market where lending and borrowing takes place for short-term up to the one-year.	It is part of the financial market where lending and borrowing takes place for the medium-term and long-term.
Types of Instruments Involved	Money markets generally deal in promissory notes, bills of exchange, commercial paper, T bills, call money, etc.	Capital market deals in equity shares, debentures, bonds, preference shares.
Maturity Period	The maturity of financial instruments is generally up to 1 year.	The maturity of capital markets instruments is longer, and they do not have stipulated time frame.
Risk Factor	Since the market is liquid and the maturity is less than one year, the risk involved is low.	Due to less liquid nature and long maturity, the risk is comparatively high.
Return on Investment	The return in money markets are usually low.	The returns in capital markets are high because of higher duration.

SECURITIES MARKET :

The market in which securities are issued, purchased by investors, and subsequently transferred among investors is called the securities market. The securities market has two interdependent and inseparable segments, viz., the primary market and secondary market.

Stock Market (Equity Market): This is where shares of publicly held companies are bought and sold. Stock exchanges like the New York Stock Exchange (NYSE) and NASDAQ are examples of organized stock markets.



Evolution of the Indian Stock Market

- **Early Origins:** Began around 1830 under a neem tree in Calcutta; brokers later gathered under a banyan tree near Mumbai Town Hall in the 1850s.
- **Birth of BSE:** Formed in 1875 as the *Native Share and Stock Brokers' Association*, moving to Dalal Street in 1874.
- **Regulation:** Securities Contracts (Regulation) Act, 1956 introduced mandatory recognition for exchanges.
- **Current Key Exchanges:** NSE (dominant domestic exchange), BSE, MSE, plus international IFSC exchanges (India INX, NSE IFSC).

1] Trading Mechanisms – Outcry vs. Screen-Based

- **Open Outcry System (Pre-1994):** Physical trading floor with verbal shouting, hand signals, and trading posts where jobbers provided two-way quotes.
- **Screen-Based Trading (SBTS):** Introduced nationwide by NSE via NEAT in 1994, fully supplanting the floor trading system.
- **Benefits of SBTS:** Geographically dispersed trading, superior informational efficiency, rapid execution speed, and complete audit trails.

Order Execution & Order Matching

- **Order Types:**
 - *Limit Order*: Specifies the worst acceptable price to buy (ceiling) or sell (floor).
 - *Market Order*: Executes instantly at the prevailing best market bid/ask price.
- **Matching Rule**: Automated matching based strictly on **Price-Time Priority**.
 - *Price Priority*: Best price executed first (highest buyer, lowest seller).
 - *Time Priority*: For identical prices, earlier entered orders execute first.
- **Limit Order Book (ELOB)**: Open, transparent electronic register displaying unmatched limit orders to all market participants.

2] Clearing and Settlement Architecture

- **Definitions:**
 - *Clearing*: Determining who owes what to whom.
 - *Settlement*: The actual delivery of securities against payment of funds.
- **Clearing Corporation / House:**
 - Acts as the **legal counterparty** for all trades (novation), eliminating counterparty default risk.
 - Collects margins (initial and mark-to-market) to guarantee trade fulfillment.
- **Membership**: Split between *Trading Members* (order execution) and *Clearing Members* (settlement obligation).

Dematerialisation & Depositories Act, 1996

- **Shift Away from Physical Shares:** Replaced paper certificates to eliminate transfer delays (1–3 months), heavy paperwork, and "bad paper" risk.
- **Depositories (NSDL & CDSL):** Registered with SEBI, holding securities in fungible electronic form via Depository Participants (DPs).
- **Core Legal Principles:**
 - Depository is the registered owner; investor is the beneficial owner.
 - Shares are fungible (no distinctive certificate numbers).
 - Delivery vs. Payment (DvP) transfers ownership automatically with zero stamp duty on demat trades.

Settlement Cycles & Modern T+1 Flow

- **Evolution:** Shifted from weekly account periods (with speculative badla carryovers) to rolling settlement starting in 2002.
- **Current Standard (T+1 Settlement):**
 - **T:** Trade day execution.
 - **T+1 (Morning):** Clearing processes, delivery processing, and custodial confirmations.
 - **T+1 (Afternoon):** Settlement activities—pay-in and pay-out of securities and funds.
 - **T+1 / T+2:** Post-settlement auction and auction settlement for shortages.
- **Next Frontier:** Phased rollout of optional **T+0** same-day settlement

Different Types of Stock Trading

1. **Intraday Trading:** Buying and selling within the same trading session; positions are closed before the end of the day to eliminate overnight market risk using charts, patterns, and technical indicators.
2. **Scalping:** An extreme form of intraday trading holding positions for seconds or minutes; targets high trade volumes for small per-trade gains while navigating higher commission and slippage costs.**Swing Trading:** Positions held from a few days to several weeks to profit from short-to-medium-term price swings using technical tools.
3. **Momentum Trading:** Trades entered on the premise that existing strong upward or downward price performance will persist; relies on price action and indicators like moving averages, RSI, and stochastics.
4. **Position Trading:** Extended long-term holdings driven by macroeconomic analysis, industry prospects, and company fundamentals.

Stock Market Indices

- **Price-Weighted Index:** Sum of sample stock prices relative to a base date; implicitly assumes buying one share of each constituent stock.
- **Equal-Weighted Index:** Simple arithmetic average of price relatives; assumes an equal monetary value is invested across each constituent stock.
- **Value-Weighted (Market-Cap) Index:** Weights assigned in proportion to total market capitalization relative to a base date.

Benchmark Indian Indices (Nifty 50 & BSE Sensex)

NIFTY 50 (NSE):

- 50 constituent stocks chosen on market cap and liquidity (impact cost).
- Base date: November 3, 1995 (Base Value: 1,000).
- Calculated using free-float market capitalization (excluding non-promoter/strategic shares); reviewed every 6 months.

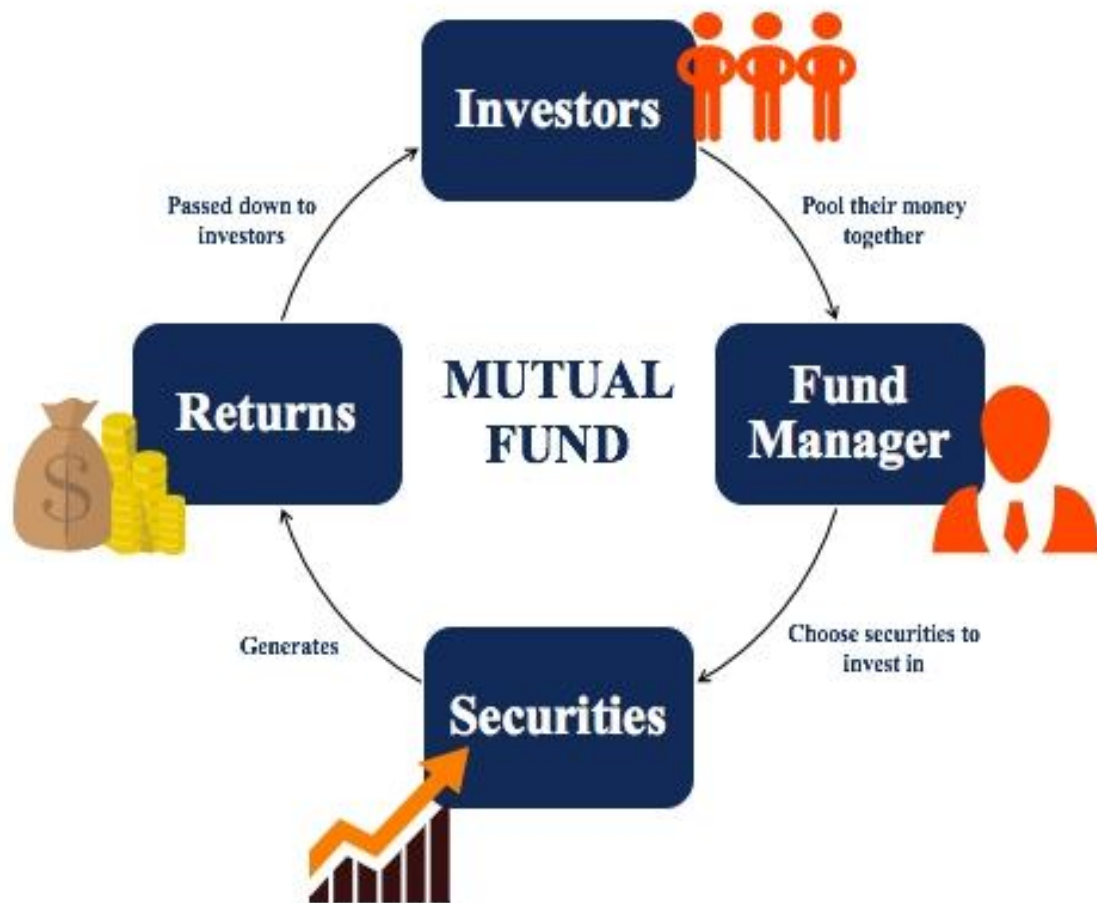
S&P BSE Sensex (BSE):

- 30 sensitive, liquid stocks across specified and non-specified groups representing key industries.
- Base date: April 1, 1979 (Base Value: 100; launched in 1986 at 598.53).
- Transitioned from full market cap to free-float market cap weighting on September 1, 2003.

Classification of Secondary & Thematic Indices in India

- **Broad-Based Market Cap:** Nifty 100, Nifty 200, Nifty 500, Nifty Midcap 100, and Nifty Smallcap 100 (offer wider representation than benchmark 30/50 baskets).
- **Sectoral Indices:** Track specific industrial sectors (e.g., Nifty Bank, Nifty FMCG, Nifty Pharma).
- **Thematic & Corporate Group:** Track targeted economic themes (Nifty Commodities, Nifty PSE) or specific corporate conglomerates (e.g., Tata Group index).

Mutual Funds:



Concept of Mutual Fund

Many investors with common financial objectives pool their money

Investors, on a proportionate basis, get mutual fund units for the sum contributed to the pool

The money collected from investors is invested into shares, debentures and other securities by the fund manager

The fund manager realizes gains or losses, and collects dividend or interest income

Any capital gains or losses from such investments are passed on to the investors in proportion of the number of units held by them

TYPES OF MUTUAL FUNDS

Classification by Structure & Operations (Functional)

1] Open-Ended Funds:

- Allow continuous purchase and redemption at the daily Net Asset Value (NAV).
- Have unlimited capitalization and no fixed maturity period, offering the highest liquidity.

2] Close-Ended Funds:

- Open for subscription only during the New Fund Offer (NFO) and have a fixed maturity date.
- After the NFO, units must be listed and traded on recognized stock exchanges for liquidity.

3] Interval Funds:

- Combine features of open-ended and close-ended funds without a defined maturity date.
- Permit purchases and redemptions only during pre-specified windows (e.g., monthly or annually) at NAV-based prices

By Ownership:

- **Public Sector:** Sponsored by public sector entities or banks.
- **Private Sector:** Sponsored by private institutions.

Types of Mutual Fund Schemes (Portfolio-Based)

Equity Schemes: Aim for capital growth by investing primarily in stocks.

- *Categories:* Growth, Aggressive, Flexicap, Multicap, Contra, ELSS (tax-saving), Dividend Yield, and Sectoral/Thematic funds.

Debt Schemes: Focus on regular income and capital preservation.

- *Categories:* Bond Funds (corporate/govt bonds), Gilt Funds (government securities), and Liquid/Money Market Funds (short-term treasury bills, CPs).

Hybrid / Balanced Schemes: Strategic mix of equity (for growth) and debt (for stability) to balance risk and reward.

Specialized Schemes:

- **Index Funds & ETFs:** Low-cost, passively managed funds mirroring market indices.
- **Fund of Funds (FoF):** Invest in units of other mutual fund schemes.
- **Quant Funds:** Data-driven, mathematical rule-based portfolio selection.

Advantages of Investing in Mutual Funds:

- **Professional Management:** Managed by skilled fund managers backed by research teams, eliminating the need to pick individual stocks.
- **Instant Diversification:** Spreads money across multiple companies and asset classes, reducing single-asset concentration risk.
- **Economies of Scale & Low Cost:** Lower transaction costs via pooled funds; regulatory caps ensure expense ratios remain within prescribed limits (e.g., maximum 2.50% for equity).
- **High Liquidity:** Easy exit via daily repurchases in open-ended schemes or exchange trading in close-ended/ETFs.
- **Operational Convenience & Small Outlay:** Start investing with small amounts via Systematic Investment Plans (SIPs) without handling physical share certificates or transfer hassles.
- **Strict Regulation & High Transparency:** Regulated by SEBI with mandatory periodic portfolio disclosures and daily NAV publication.
- **Tax Efficiency & Higher Potential Returns:** Offers avenues like ELSS for tax deductions under Section 80C, while mutual funds do not pay internal capital gains tax when rebalancing portfolios.
- **Flexibility:** Easy switching between schemes and options (Growth, Dividend Payout, Dividend Reinvestment, and Systematic Withdrawal Plans)