Market wisdom
INVESTOR EMPOWERMENT SERIES
LESSON NO. 6 • FROM THE HOUSE OF ASIT C. MEHTA INVESTMENTS

The First Step

Lots of investors want to take part in equity markets but do not know where to start. Some know something about the markets and there are others who are completely ignorant. Some take great pride in saying I do not invest in stock market. I have written in past as to why the Indian saver cannot ignore equity investments. To repeat, falling interest rates and withdrawal of tax concessions on income generated out of government and bank savings coupled with rising inflation has necessitated participation in equity markets. Equity investments have a potential of generating highest revenue compared to other financial investment options. Knowledge of course is the first requisite.

To begin with reading about the markets is the first requirement. Start reading the share market page in the newspapers. There is a summary of what happened during the day on the stock prices page that gives you a fair idea of the market activity. Business channels on the television also make you familiar about the markets. If you are working during the day, then watch the market report, which is broadcast by most channels in the evening. Initially it may sound very boring. It can be made interesting if you focus on 2-3 stocks.

Just pick names that are familiar to you such as Reliance, Infosys etc. You may also be working for a company or bank or supplying to any company then, select such names. Housewives identify by reading the labels displaying the manufacturing company name on the packaged product they buy. Students can look at the company stocks that they have done research projects in. In short there are enough company names available around us. Maintain a journal or a bdiary and write down these company names. To make it more interesting, predict the stock price for the next day, whether it will go up or down and why. Spend 15 minutes daily and write down whether your predictions were right or wrong and why.

If you do this for 6 months on a continuous basis then you would have sufficient knowledge to experiment with the market. Do not commit any money at this stage. Assume that you have Rs.1 lac and note it in your diary as capital. Make buy decisions with this money in the 2-3 stocks that you have been studying. Make a note of it in the diary by looking at the closing prices take buy sell decisions. Each time you make or lose money write down why it happened. There are several analysis of leading company stocks available on business channels. official web site of Bombay Stock exchange – BSE Ltd, which captures results and news about companies. During this period there has to be intensive self-learning. Try to analyze why your decision was correct or otherwise. In a rising market you will be very successful often, that does not mean you are a great stock picker. Learning will happen only if you analyze the reasons for rise or fall in prices. Doing this on regular basis for 3 months equips you to start committing money.

In order to start trading on the exchange three accounts are necessary, a Trading account with a broker, a Beneficial Owner account with a Depository Participant and Bank account. It is advisable to go for an online trading account rather then an off line account with a broker directly. It is possible to trade for one share also if you have a web trading account. Most of you would have a bank account. However, for online trading a Bank with either online banking or core banking facilities is necessary for hassle free trading. Hence if your bank does not offer such services then a new account would be essential. Most online brokers have tie-ups with Banks for online transfers, once you select a broker look up for the banks which have links with the broking site, open account with such a bank. I have already written about Broker selection, which should be referred to in order to select the right broker.

The account opening Form of the broker has four components. The Know Your Client (KYC) Form, separate agreements for trading on BSE and NSE, Risk Disclosure Document and certain power of attorneys that are given. Ensure you read the power of attorney carefully and you are authorizing only for delivering shares to exchange on your behalf against your sale trades and not for any thing else. The KYC form captures your contact details and your financial worth. This Form is also accompanied with Proof of your identity, proof of your residence and Permanent Account Number (PAN) card. Proof of identity can be given by submitting a copy of your Passport, Voters card etc. You need to get your photograph attested by your banker. Proof of address is ration card, latest electricity bill etc. All documents should be produced in original for verification.

The next document is a set of agreements between the broker and client. This agreement has to be separately signed for BSE and NSE. Both agreements are identical and formats prescribed by SEBI. There is also a separate agreement for Depository operation between the Depository Participant and the Beneficial owner. If you are working through a sub-broker then there is a tripartite agreement between the broker, sub-broker and client. This agreement allows you to do only cash market trades; in case you want to deal on derivatives market then a bipartite agreement is required. All these agreements have to be stamped. Confusing?????? Sorry these are in your interest, though there is scope for simplification.

You have a choice of opening your epository account with an entity who specializes only in rendering depository services or with the broker with whom you are about to register. This choice may not be available and invariably you will be asked to open depository account with the broker if you opt for online (internet based) transaction facility. It is easy to maintain, simpler and hassle free if the depository account is with the broker as broker will provide additional services of delivering shares to the exchange on your behalf.

Make sure you read the risk disclosure document before signing and submitting to the broker. This document will explain the different risk involved with your transaction for which you will be responsible. There is an inherent risk of price variation (volatility) of the securities you have dealt in, risk due to low liquidity in a particular company, risk due to more than normal difference between a person wanting to buy and another wanting to sell. The document also explains certain risk mitigation measures that can be used by you.

On submitting the completed set of document the broker will scrutinize and if found everything in order will allot a code normally referred to as client code to you. You may need to furnish this code every time you want to transact. In case you have opted for Internet based account you will also be allotted a password against your login id that will be mapped to your client code. Normally you will be forced to change the password immediately on the first log in. You must take care not to part with your log in ID and password to anybody including any person from your broking office to avoid misuse of your account.

Having got your client code you can start transacting in the stock market. However you need to ensure you have paid the requisite margin money as stipulated by your broker to place any transaction. Initially you start with placing orders in small quantity between 1 to 10 shares. Once you have understood the system in full you may gradually increase the size of your transaction. On mastering investing in equity cash segment then you may gradually look at derivative segment to gear your capital and for hedging your portfolio.

Happy Investing!!!
In the next article I will cover how transactions (trades) are settled.

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