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Market Wisdom

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A Beginner's Guide to Investing in Shares

Share markets are either the most favored or the most hated entity, depending on their status. A rising market is characterized by the build up of a herd mentality. If the index goes up continuously for 15 days, there is a sudden spurt in interest in buying. If the market falls drastically, calls from brokers are avoided. When the markets are range bound there is interest but it is limited to general update on markets and not on transactions.

Investors tend to follow herd mentality.

They buy when markets are substantially high expecting it to increase further and sell in desperation when markets drop expecting it to drop further. They avoid investments in companies when they are available at a good price out of fear of prices dropping further.

Logically one should book profits in an over heated market while pick up bargains when the prices have crashed.

Many believe that stock market is a place for speculation.

Thus, due to misconceptions about investments in shares, most of the people keep away from the market.

But can they afford to stay away? NO - and the reasons are not far to seek.

In India, in the absence of worthwhile social security schemes and reliable medical insurance cover, so commonplace in the developed countries, we have to build a nest egg for old age.

Savings have to cover daily expenses, long-term family obligations, such as the education of children or marriage, and medical emergencies. It is no wonder then that India's saving rate is as high as 25-27% of the GDP, one of the highest in the world.

The catch is that the interest earned on savings has to be higher than the rate of inflation. If not, real wealth gets devalued over time. The interest rate curve has been falling rapidly. Over the past few years, the rates of interest earned from banks and various government schemes have dropped substantially.

It is in such a scenario that stock markets come to the rescue. Stocks have consistently provided higher returns than fixed income savings avenues. They provide the power to beat inflation. However, we hear stories all the time about people losing in the stock markets. Where are the gains? Perhaps, one has to question our attitude towards share investments. Do we perceive shares as investments? Or a form of lottery with a jackpot rounds the corner?

Any investment proposal needs to be evaluated against the returns it will provide over a specific time frame. However, when shares are bought, investors do not target specific levels of returns nor do they consider the risks. The share market is not the place to look for a windfall. However, over the long - term, share markets have normally provided returns averaging around 15% to 20%. Anything more than this should be considered abnormal. There are times when share prices climb even higher - but the ones who really benefit are those who cash in on their gains. Don't belittle the 15% - 20% annual gain that shares have been giving. Over time - and with compounding - it makes a huge difference. Money can be made on the share markets only if targets are set - and a stop loss limit. For example: if an investor wishes to earn a return of 30% annually, the portfolio may be rotated thrice a year, with a 10% target profit each time the investor enters and exits the market. In the same way, if there is a 10% loss, one must exit the share. With such targets, it is difficult to make sizeable losses. One could try his theory out on a mock portfolio.

Even if the profits are not targeted, the stop loss must be set, even if he purchases are for delivery.

The availability of a Demat facility makes entry and exit extremely easy.

Investors who have speculative tendencies should dabble in the options market, rather then be day traders in the cash market. Options bought help you to limit your losses since the maximum amount one can lose is the premium on options, and not the entire capital. Option writing (or selling) is to be done by markets savvy participants and not by general investors.

The portfolio has to be structured on the basis of how frequently you require the income flows and the capital return. The composition of the portfolio also depends on your age, status in life, other sources of income, risk bearing capacity, etc. It's wise not to put all your eggs in the share market alone, as it can, at times, be the most risky investment. Persons with fewer social obligations can afford to put more money in the share market, whereas a senior citizen could allocate just 5% of his wealth to shares. Every one needs to spend time to build a portfolio that suits their individual needs. Lastly, a word of caution about the advice given by brokers.

Every one actively seeks advice from brokers. However, unless the broker is a registered portfolio advisor, he will not be tracking your portfolio. He will merely give you a view on the market, certain segments of businesses and on the stocks that are the current favorites. The broker's view is essentially a short-term view and not comprehensive portfolio approach. He is too close to the market and is affected by short-term price movements and changes in sentiment. In the absence of a full-fledged research department, the broker is unable to do in-depth study and provide a long-term view about different stocks.

In such a situation, it would be advisable to track your own stocks. Do not expect your broker to give you the signals. It is your money that is at stake. You must manage it by setting - and sticking to -the buy and sell targets. Even if a share has been bought on a broker's advice, it is necessary to dispose it when you have achieved your targeted return. Set small goals, because they are not difficult to achieve.

Please remember the advice about profit and stop loss. Most of the money lost in shares markets is due to greed. Similarly, investors are afraid to book a loss. We all have impossible aspirations of earning big money, quick money and effortless money. We do not sell because we want to wait for the highest price. But few are able to sell at the top - getting the timing exactly right is almost impossible! Similarly investors are afraid to book a loss that has already occurred. So they let things drag out - and then they sell at a much bigger loss. Sometimes, they wait so long that the shares become worthless. Remember that no complex or sophisticated study is needed to operate prudently and successfully in the stock market. Investors must keep their emotions in check. What's really needed is a lot of common sense.

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About Us

Asit C. Mehta Investment Interrmediates Ltd. (ACMIIL) was established in the year 1986 with a view to offer a one-stop solution to Indian entities for their financial services needs. The company is jointly promoted by noted stock market professionals Mr. Asit C. Mehta and Mrs. Deena A. Mehta, and is a part of the Mumbai-based Nucleus Group of Companies.

The 'Firsts' to our credit

- One of the first limited liability Companies to acquire membership on Bombay Stock Exchange (BSE).
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- One of the first private VSAT network users.
- First to utilize the franchisee business model for Associates.
- First to achieve the ISO quality certification for business processes from SGS. Currently we are "ISO 9001:2008" certified company.
- First to receive a CRISIL grading for quality of operations and services. Currently we are at the highest broker quality grading "BQ1".
- Company Managing Director Mrs. Deena A. Mehta was the first lady to be elected to the governing board of the BSE and first and only lady to be the President of BSE.
- Mrs. Deena A. Mehta is also currently the First lady as the Trading Member in the BSE Governing Board (post corporatization).

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