Pragati
Level 2 of Financial Literacy Program

Basics of Capital Markets

Investor Awareness Program
Who should go through this module?

• Hello, I am Pragati from Patna. Working in Delhi for an MNC from last 3 years.
• I am 28 years old and married recently.
• Invested my savings in FDs and Gold so far.
• Target: To buy a house in Delhi after 5 years.
• Now exploring more advanced investment avenues. I know the basics, now want to learn more about capital markets, de-mat, broker, stocks investments.
## Agenda

- Capital Markets and its structure
- Primary & Secondary Markets and Active v/s Passive Investing
- Investing in Securities Market
- Know your Broker
- Account opening and other documentation for investing
- Important aspects of clients dealing with their brokers
- Myth busters
What is meant by Capital Market?

Capital market is a place where buyers and sellers indulge in trade (buying/selling) of financial securities like bonds, stocks, etc. The trading is undertaken by participants such as individuals and institutions. In India the capital markets is governed by Securities and Exchange Board of India - SEBI
• Formed as an administrative body under Ministry of Finance in 1988

• Autonomous Regulator for Securities Market through the Act of Parliament

• Various Acts administered
  • SEBI Act, 1992
  • Depositories Act, 1996
  • Securities Contract Regulation Act, 1956
  • Various provisions under Companies Act
Structure of Indian Capital Market

- Investors
- Stockbrokers, Investment Bankers, Mutual Funds etc
- Companies/ Social Enterprises/PSU’s
- Exchanges/Clearing corporations and Depositories
# Primary Markets v/s Secondary Markets

<table>
<thead>
<tr>
<th>Features</th>
<th>Primary Market</th>
<th>Secondary market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Securities issued first time to public</td>
<td>Trading of already issued and listed securities</td>
</tr>
<tr>
<td><strong>Price determination</strong></td>
<td>Range is decided by Company in consultation with Merchant bankers</td>
<td>Supply and demand forces of market</td>
</tr>
<tr>
<td><strong>Key intermediaries</strong></td>
<td>Merchant bankers, Bankers, RTA</td>
<td>Stockbrokers, DP</td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td>Raise capital for expansion, diversification</td>
<td>Trading of securities and Liquidity to investors</td>
</tr>
</tbody>
</table>
Active Investing & Passive Investing

Active Investing:
1. You work for income - Aims to beat markets
2. Involves buying and selling shares
3. Outperform index
4. Exit at your convenience
5. Less tax efficient and high fees

Passive Investing:
1. Money works for you - Aims to track markets
2. Involves holding ETF / MF’s
3. Less likely to outperform index
4. Transparency - know the stocks in index
5. Lower fees & advantage of capital gains tax
Returns from different Classes in last 30 years

Past Performance may or may not sustain in the future
Source: ICRA MFIE, MCX, Bloomberg, MOSPI.
Please note that investment in equities carries high risk.
Past Performance may or may not sustain in the future. Source: NSE website. Please note that investment in equities carries high risk.
How to Invest in Securities Market?

- Demat Account
- Bank Account
- Trading Account* (*Non-Mandatory in case of IPO)

• Account can be opened be carried out through offline and online mode.
• Ensure that you choose to provide nomination in all account or opt out of nomination.
Know Your Broker

Background Verification

• Registration Details, regulatory actions initiated by SEBI/Exchanges and complaints against the Stock-Broker (Refer SEBI & NSE Website)

Other Details

• Modes of trading – Online (Trading Platform), offline (Branch Details)
• Brokerage and Other Key Charges
• Customer Services - Range of Facilities Offered like Mutual Fund, IPO etc
• Advisory & Research Facilities
• Tools for Education/Learning
IMPORTANT

Documentation for your trading and dealing with Broker
Account Opening Form (AOF) and other details

- Can be opened - offline as well as online.
- Account Opening Form has two type of documents - Mandatory and Voluntary documents.

**Documents required**
- Proof of Identity – PAN, Aadhar
- Proof of Address - Online - signature image, camera

- Copy of account Opening Form
- UCC
- Address & Contact Details
- User id and password
- Complaint Details
- Contract Note & Statement
- Weekly balance
What do I Receive on & After Account Opening?

Communication from Exchange
- Welcome email
- Free SMS & Email Alerts
- Weekly Balance (Funds & Securities)

What do I do with this information?
- Read & understand the doc
- Verify documents
- Report discrepancy
How does a Secondary Market Function?

Modes of Order Placement

• Visit to broker’s Office.
• Trade via Phone Call (Call via registered mobile Number only)
• Through an email to Stockbroker.
• By using Stockbroker’s website / app on mobile (Online)

Broker is required to maintain recordings of order placement such as voice recordings / email / written communication, etc.
Contract Note

- Contract Note is an evidence of the trade done through stock broker.

- It must be signed and issued within 24 hours of execution

- Must contain
Pledging of Securities by client/broker for Margin

1. Margin pledge request by client / Stockbroker

2. Investor receives link by email & SMS

3. Click the link, authenticate & receive OTP

4. Confirm pledge after checking details
Demat Debit and Pledge Instruction (DDPI)
Running Account Authorization of Funds and Settlement

WHAT

- Voluntary Authorization by Client to the Stockbroker (in writing) to maintain a running account of funds instead of bill-to-bill settlement.

- Settlement can be done as per client mandate on a monthly / quarterly basis.

- W.E.F Oct 2022, settlement will be done on first Friday of every month/every quarter.

- In case of no trade within last 30 calendar days, stockbroker must return the credit balance within 3 working days.

- Running account of securities is not allowed. Stockbroker to transfer shares with 24 hours of payout.

- For margin purposes, use the "Margin Pledge" mechanism.
Important aspects of clients dealing with their brokers

1. Contract note must be provided within 24 hours of trade
2. Monthly / Quarterly settlement on first Friday
3. No trade in last 30 days, stockbroker must return the funds
4. Running account of securities not allowed & for funds - Voluntary
5. Stockbroker to transfer shares with 24 hours of payout
6. For margin purposes, use the "Margin Pledge" mechanism
Famous sayings of famous investors

• Look at quality businesses and not just stocks
• Are you willing to own a stock for 10 years? If no, then don’t own it even for 10 minutes
• Check thousands of stock and look for very high bargains
• Scrutinise how well the management is using the resources
• Always stay away from hot stocks
• Get rid of the weeds and water the flowers— not the other way around
• Market timing is a practical and emotional impossibility. Since you cannot predict the behaviour of the markets, you must learn to predict and control your behaviour
Demystifying - Securities Market

**Myth**

- Stock Market is Gambling
- What goes up must come down and vice versa
- Buy What’s In The News

**Reality**

- Gambling transfers wealth from a winner to loser. Investing increases overall wealth
- Trend consists of a series of advances and retreats, resulting in a net increase over time. Don’t try to time the market
- By the time you hear the news, professional trading organizations have react faster than you can log into your account
To know more about securities market........

investor.sebi.gov.in/index.html

Saarthi App

www.nseindia.com
Thank You!