

Learn How to Make Money in Equity

And this is how I ~~made~~ make money in equity

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Chapter 1 Introduction

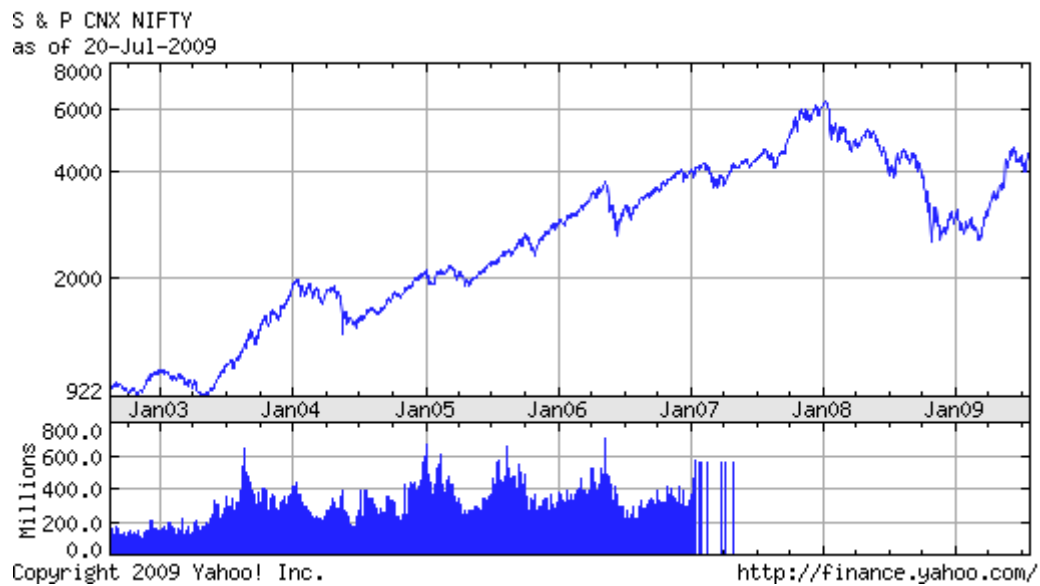
First of all I would like to clarify that this e-book is not just another e-book about trading, investment or any stock tips but this is something where I have shared you how to become an effective investor and to an extent trader. I am not from any finance or MBA background but I am a B.Tech in Information Technology and am a software person by profession and have been doing investment in stock market and have learned the art of investing by being into the market for quite some time now. The procedure I have laid in this e-book has worked for me and is working for me and it is bound to work for many including you as well. All you have to do is learn the art of investing and earning.

You would find lots of e-books which are selling for some few single digit \$ to some tens of thousands of dollars to provide information like the one discussed here This e-book is however free but it doesn't mean it's of zero value. Used properly it can be of value 1 million and you can consider yourself lucky to have it for free.

Let's get into the business end. I will be concentrating mainly on equity markets in India as I normally do investment in them and I prefer to do normally cash based trades. I try to avoid [commodities](#), bonds, future and options trading, [call and put option](#) and [derivative trading](#) but if you would like to get the idea about them you can go through my blog.

First thing you would need is a DEMAT Account and I would suggest you read the [Review of major stock brokers](#) and get a DEMAT Account which suits your needs as soon as you can. You can do without a DEMAT account if you only prefer to do Mutual Fund investing manually through a local agent but having a DEMAT account even for Mutual Funds is preferable as that would give you power to sell and buy at your own time and avoid the manual paperwork.

Nifty



[What is Nifty](#) explains it all but I would quote it here as well.

Nifty is an index or an indicator of the performance of the companies listed in national stock exchange situated in Delhi. Nifty constitutes of 50 [listed companies](#) and the change in the Nifty index (Up or down) indicates the trend in the majority of the stocks.

Nifty is a joint holding of National Stock Exchange (NSE) and India Index Services and Products Limited (IISL) and Nifty accounts for 70% of total market capitalization.

Sensex



Again [What is Sensex](#) explains it all and I quote

Sensex is an index or an indicator of the financial performance of the companies listed in Bombay stock exchange situated in Bombay. Sensex constitutes of 30 [listed companies](#) and when Sensex goes down it signifies that majority of the companies' stock prices have fallen down and vice -versa.

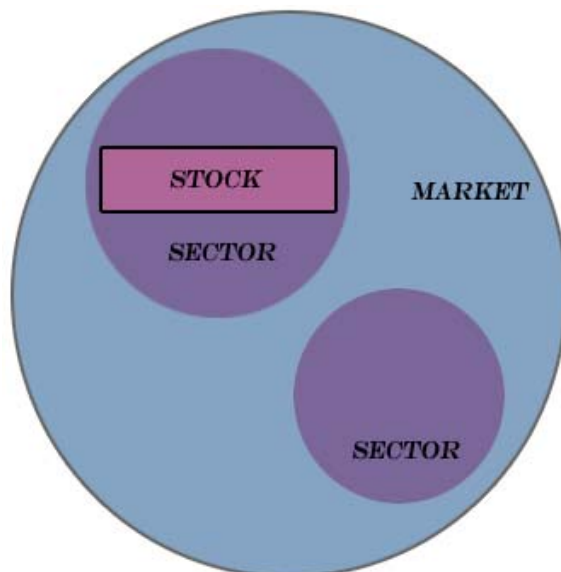
For an understanding of other major Jargons in stock market you can read [Stock Market Terms](#) where I have tried to put all the related terminologies at one place.

Chapter 2 Stock Selection Tips

After getting some very basic ideas of the stock market terms we would directly move into stocks. First thing in earning money from equity is selection of some good stocks or funds. Normally people would say that selection of your stocks would determine how much money you make but actually this is not true. My Definition is “The risk factor you can incorporate into your selection of stock/funds determines how much money you can make out of them”.

From Chapter 1 we can surely tell that there are 30 companies listed under Sensex and 50 Under Nifty and we can select the list of companies under Sensex and Nifty as one of investment list. This is normally done by many Indices funds to invest in only listed companies but then there are other parameters as well which can help us.

So to understand the market let us first understand the diagram below. It represents how and when a stock can move.



From the diagram it's clear that if your stock is to move up or down the sector in which the stock lies has to move up or down respectively. Again for the sector to move up or down the market has to move up or down in the same manner. It's very difficult for a sector to be performing quite well **consistently** while rest of the market does not. On some days this happens but the chances of that are very rare.

Sector-al Performance

The first and the most important thing when it comes to investing in India are determining the sectors and areas where there could be good outperformance.

Future Plans and Growth Potential

The second touchstone I prefer to use is how good the company plans when it comes to future expansion and how aggressive they are in taking the growth path.

Past performance

Try to get the past performance about the company and try to get the idea about the earnings per share (EPS), Book Value etc about the company. If we have some knowledge of the past performance of the management then that should also be taken into account when judging the execution of the future plans.

Chapter 3 Select your Stocks

As we understand the first step is to identify better performing sectors for the future. First let's identify all the sectors.

Broad List of Sectors

We need to identify sectors first and so if we have the complete broad list of sectors that should help. Here is the broad list of sectors in alphabetical order.

1. Automobiles
2. Banking
3. Cement
4. Electricals
5. Finance
6. Infrastructure
7. IT Services
8. Media and Entertainment
9. Oil Exploration
10. Pharmaceuticals
11. Power
12. Real Estate
13. Refineries
14. Retail
15. Telecom

Now your next target is to identify the sectors which can give better returns. As the world currently and mostly the developed western countries are still in bad economic shape so we should concentrate on sectors which are more dependent on local demand and expansion. I would name some of my favourites. Few of my favourites are "Media and Entertainment" and then I have preference for "Automobiles" preferably 2 wheeler companies and then "Infrastructure" and then to and extent "Power" sector.

Chapter 4 Mutual Fund Selection Tips

Mutual Fund selection is quite different from the Stock selection and this is because the Mutual Fund managers have done all the hard work of selecting the stock. Here you need to concentrate on a different aspect.

Is the Fund Investing Rightly

The first and the most important part of selecting a mutual fund is that the mutual fund should invest rightly. What I mean here is if the fund is a large cap fund then it should invest in large cap companies and not look for opportunities in Midcap and vice versa. Use valueresearchonline.com to get the idea as to where the fund is investing and see if that complies with the fund agreement.

Diversify your Portfolio

The second important factor in selecting the fund is not dependent on the fund but on your own portfolio and selection. There is a misconception among many investors that investing in different funds diversifies the portfolio but that's actually not true. If you have funds which are investing in different sectors and stocks that is in the real sense diversification.

Past Performance of Fund Manager

When selecting the fund the third most important parameter to look at is how the fund manager performed over the years and how it **outperformed** from its peers.

Past Performance of the Fund

When selecting the fund past performance of the fund comes into picture only after the performance of the fund manager. You should try to avoid a fund when it's in NFO period and you do not have the knowledge of Fund manager's performance.

All the necessary information you need about the fund / fund managers can be found at valueresearchonline.com

Chapter 5 Select your Mutual Funds

Selecting a mutual fund is more or less like selecting a stock but the variation to the list is less frequent when it comes to mutual fund than in stocks. I would suggest you some of the best funds which are tested over time.

Best Funds

1. DSP Blackrock Mutual Fund
 - a. DSPBR LYNCH T.I.G.E.R Fund
 - b. DSPBR Equity
2. Fidelity Fund Management Private Limited
 - a. Fidelity Equity Fund
 - b. Fidelity International Opportunities Fund
3. ICICI Prudential Mutual Fund
 - a. ICICI Prudential Services Industries
 - b. ICICI Prudential Infrastructure
4. Reliance Mutual Fund
 - a. Reliance Growth Fund
 - b. Reliance Vision Fund
5. SBI Funds Management PVT LTD
 - a. SBI Magnum Sector Funds Umbrella Contra¹
6. Sundaram BNP Paribas Mutual Fund
 - a. Sundaram BNP Paribas Select Midcap
7. Birla Sun Life Asset Management Company LTD
 - a. Birla Mid Cap
8. HDFC Asset Management Company Limited
 - a. HDFC Top 200 Fund
9. TATA Mutual Fund
 - a. TATA Infrastructure Fund

¹ = Minimum investment amount is 2000 Rupees. Rest are all 5000 Rupees.

If you prefer to make a one time investment into the above funds they have a minimum requirement of 5000 Rupees. The number of funds you select depends on your investment budget and risk appetite. You can select as many of the above funds as you like or you can use the above list or can even make a subset of the above list or add more in your investment portfolio.

Fund Name	Min Period in Months	Min Amt in Rupees
DSPBR LYNCH T.I.G.E.R Fund	6	1000
DSPBR Equity	6	1000
Fidelity Equity Fund	10	500
Fidelity International Opportunities Fund	10	500
ICICI Prudential Services Industries	6	1000
ICICI Prudential Infrastructure	6	1000
Reliance Growth Fund	6	1000
Reliance Vision Fund	6	1000
SBI Magnum Sector Funds Umbrella Contra	12	500
Sundaram BNP Paribas Select Midcap	12	250
Birla Mid Cap	6	1000
HDFC Top 200 Fund	12	500
TATA Infrastructure Fund	5	1000

Above table is for systematic investment plan (SIP) which tells you what is the minimum amount you should be investing in SIP and for how many minimum months.

Chapter 6 Start Your Investment

After reading through so many chapters this is the time where we start to lose money. Why I say lose is because we are learning and so if we lose the money to start with we would have good knowledge of things. If we make money, you should consider yourself lucky and if you loose some consider it as the fees to some institution to learn stock investment in a practical way.

The investment should be such that you invest very small amount (probably the minimum possible) in your entire list of stocks and funds selected in the previous steps. This investment is not for making money but to understand the stock market. When you have some money invested in stocks you would concentrate more on its moves and read news about the upcoming events of the company.

Minimum investment for investing in any stock is either 1 unit of share or 500 to 1000 Rs per stock depending on your broker's minimum. Normally it's 500 Rs for most of them.

I would show mutual fund investment with an example using the table in Chapter 5. Assuming we are investing in all the 13 of the suggested funds for the minimum possible amount.

Orthodox SIP

If you start a Systematic Investment your per month investment would be 10250 for first 5 months, 9250 for next month, 2250 for next 4 months and 1250 for last couple of months which makes a total sum of Rs 72000 over a span of 12 months.

Non SIP

If you do direct investment then your investment would be Rs 62000 ($12 \times 5000 + 2000$) for investing in all the funds in the list.

My Special SIP

As we have selected 13 funds and we are planning to do some investment over a span of time I select one fund each month and do a Non-SIP investment into that fund.

E.g.:- You invest in Tata Infrastructure Fund in First month for a minimum amount of Rs. 5000. Then in second fund you select Sundaram BNP Paribas Select Midcap fund and so on and continue for 13 months.

Chapter 7 Watch your Investment

The main aim of this e-book is to teach you your own way of investing and this is the main way of doing it. As I have mentioned you should do some investing and start the learning process. An important tool is to use [Google Finance](#) / [Yahoo Finance](#) to create your portfolio for stocks and use [valueresearchonline.com](#) to create portfolio for your Mutual Fund Investment.

Equity Portfolio

Here is a screenshot of Yahoo portfolio for stocks.

Symbol	Last Trade	Change	Shrs	Price Paid	Holdings Value	Day's Value Change	Day's Range	52-wk Range
ESSAROIL.NS	6:29am ET	135.70 ↓ 3.80	150		20,355.00 INR	↓ 570.00 INR ↓ 2.72%	132.50 - 142.35	54.00 - 246.70
NETWORK18.NS	6:26am ET	96.30 ↓ 1.25	200		19,260.00 INR	↓ 250.00 INR ↓ 1.28%	95.00 - 99.00	58.80 - 215.00
RNRL.NS	6:29am ET	77.85 ↓ 2.10	325		25,301.25 INR	↓ 682.50 INR ↓ 2.63%	77.10 - 81.90	34.70 - 112.45
SESAGOA.NS	6:30am ET	227.15 ↓ 6.15	80		18,172.00 INR	↓ 492.00 INR ↓ 2.64%	224.55 - 235.45	60.15 - 362.00
\$\$\$CASH		-	0	-	-		-	-
Total					83,088.25 INR	↓ 1,994.50 INR ↓ 2.34%		

Mutual Fund Portfolio

Here is a screenshot of a valueresearchonline portfolio for mutual funds.

Fund/Stock/Fixed-Asset	NAV/Price (per unit) (Rs)	Change From Previous NAV/Price (Rs)	(%)	Units/Shares (Nos)	Market Value (Rs)	Portfolio Weight (%)	Rating
Fidelity India Spl Situations-G	13.243 (23/07/09)	0.21	1.64			25.04	★★★
Franklin India Prima-G	185.9418 (23/07/09)	2.97	1.62			22.07	★★
Reliance Vision-G	204.1829 (23/07/09)	4.48	2.24			26.85	★★★★
Sundaram BNP Paribas Select Midcap Reg-G	101.3359 (23/07/09)	2.09	2.10			26.04	★★★★
Fund Portfolio Total :		1,684.32	1.92		89,473.57		
Portfolio Total :		1,684.32	1.92		89,473.57		

Now you should start observing the performance of your portfolios and try to find out if there is any upcoming news for any particular stock. By observing my portfolios I have blacklisted some of the funds like the one you see in the screen shot. Franklin India Prima was one of the best performing fund for me for quite sometime but now its not one of the better ones and so it has been replaced with some better funds.

Chapter 8 Common Mistakes of Investors

Want to make quick money

There are lots of people who actually get into stock market to make some really quick money. Over time I have even met many people who opened demat account in January 2008 to apply for Reliance Power IPO and are still sitting on with the stock but have forgotten the market. I would not say that I did not apply for the IPO but have come out of it just before the bonus share allotment with minimal possible loss I could handle.

I would like to share you one interesting email as well. It stated

I have X amount of money that I would like to have it invested in Equity and how can I double it in next 6 months?

I replied that if I knew that why on earth I would tell you. I would just start doubling it for me.

You should not be into equity for quick money making.

Copying what someone did

I see many investors are into equity investments because his friend has made some good money out of it, so trying hands on it as well and see if it works for him as well. This is the biggest investment mistake any new investor does. He tries to follow what someone else did and in the process loses a very big chunk of money.

Tries to Time the Market

You have to accept the fact that even if you are into trading and investment for your whole life you will not be able to time the market and so do not try to attempt it. Anybody who tries timing the market is seen losing more money than they gain.

Blindly believes his Stock Broker

I have seen many investors just do what is told by the stock broker and also I have seen many stories ([Read this](#)) where brokers are only concerned about the turnover and not how clients could make more money. They prefer to have traders who trade heavily than investors who don't trade that frequently. I advise them to take the decision based on knowledge and follow them wisely. Always have list of stocks and invest in stocks that you track and not in any stock which is suggested to you.

Give up after first failure

Users tend to blame “luck” or become sceptical about it with reasons like “This is not my cup of tea”. In chapter 6 I gave a valid reason which would make you feel better about your initial losses.

If we make money, you should consider yourself lucky and if you loose some consider it as the fees to some institution to learn stock investment in a practical way.

Not Reading shabbir.in

Last but definitely not the least, you may not be fond of reading but any new investor should be a good reader and should give time to read and understand about equity market investments. If you Google for some of the common investment terms you would land up at shabbir.in and so if you keep reading shabbir.in that would mean that you tend to invest after understanding.

Chapter 9 Qualities of Successful Investors

Invest on their own

At times you should not follow your brokers because they tend to give you tips for trading and not for investment because the more you trade the more profit they make. So get the **stock ideas** from them and build on your list of stocks but trade in them wisely.

Avoid news based investment

Any upcoming news is most likely to be already factored into the stock because you are still not that fast to get the news before it breaks out. So try not to invest in something where there are chances of news based movement. If you are invested in that stock well and good else don't think about it.

Follows Strict Stop Loss and Targets

Any successful investor does not love the stock he has invested in and at times he has to come out of the stock. Weather it's going up at 20% per day or coming down at same rate. You have to be brave to leave it on both the front.

They are investors, not traders

Investor is the one who always believes in the long term goal of the company and then invests in it and does not concentrate more on the short term Goal. In short term there is always a chance of loosing money if you are not a professional trader.

Chapter 10 Miscellaneous

Further Reading

You can look at my following Articles for getting more ideas about stocks.

[Fundamental and Technical Analysis](#) – Everyday when you watch TV for Financial news you specially hear couple of terms very frequently aka Fundamental and Technical analysis and this article explains them in a very newbie terminology for every one to refer to.

[DCF to calculate fair value of share price](#) - The discounted cash flow (or DCF) approach describes a method of valuing a project, company, or financial asset using the concepts of the time value of money.

[80C Tax Saving Mutual Funds](#)- Here you can find all the funds where you can invest to save your Tax. These are all Equity based ELSS Funds.

[Full tax saving without investing one lac](#) - You can save taxes on the Rs 1 lakh limit (the limit under Section 80C) yet invest much less than that? Sounds impossible, doesn't it? I have done the same last year and will be doing the same this year. Check out how.

[Investment Performance Measurement](#) – It is one of the better books when it comes to investment performance management and is read and followed by many beginners to intermediate level investors. It has very good customer reviews as well as one of the best sellers in Amazon.

My Disclaimer

My blog shabbir.in should not be used for getting trading tips but you can use it to get an idea about the equity market, stocks and investments. I would suggest you read my [Disclaimer](#) and I quote.

I'm one of several internet enthusiasts who trade in stocks, commodities and mutual funds. I usually handle lots of trading and discuss them here which I hold currently or in the past, so in those areas I'm more likely to make sense and less likely to say something stupid things. If I post something here that you find helpful as you build or manage your portfolio, that's wonderful. But when it comes to crisis situation remember it's my personal blog.

Any investment ideas I share in the blog are provided by me for informational purposes only and do not constitute specific financial advice. The blog is intended to provide general information only and does not attempt to give you advice that relates to your specific circumstances. You should discuss your specific requirements and situation with a qualified financial adviser. I share them **if and only if** I invest in them. I do not perform any extensive research on any company but just go with their numbers available in public domain. The publication of blog is after the investment / trades done by me and so you may not have the same price which is the suggested price at times.

Remember I only discuss about those stocks which I or one of my family members holds and I do not talk about stocks just at random like many experts you see on television.

More Questions

You can read more [about me](#) and contact me at my email if you have further questions. It may not be possible to reply individually at times but I would definitely use them to update my blog with answer to your questions.

If you wish to contact me

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