



first step to investing in the
*share
market*



Why should I put my hard earned money into shares when I am not sure of a return? If there's a science to investing then why do we call investing a risk? And if it's not a risk, then why do people end up losing money from their investments in shares? In this booklet we have tried to answer the questions you might have about investing in shares. When is investing in shares a risk and when does it become a science? How can you mitigate risks? And more...

More importantly, we've tried to explain some basic concepts that most investors take for granted but that are crucial knowledge for a person just entering into the financial jungle. So concepts like risk premium, dividend, stock split etc have been explained in a simple manner for the benefit of the first-timers. Not only that this handy booklet also seeks to educate the would-be investors in the various aspects of share trading, both offline and online.

We hope the booklet shall succeed in satisfying your desire for knowledge of the share market as well as in lending you a helping hand as you take your FIRST STEP into the world of investing.

Tarun Shah
CEO—Sharekhan

80 years of **TAMING** the BULLS & the BEARS



Sharekhan is the retail arm of SSKI, an organization with more than eight decades of trust and credibility in the stock market. In the year 2000 we were one of the pioneers of online trading in India. Our website - sharekhan.com was the first and most popular content-rich portal on the Indian stock market. Today with a large network of share shops, cutting-edge online trading solutions and a toll-free DialnTrade number, we reach out to our customers like no one else.

CORE SERVICES

- Equity & Derivatives Trading on BSE & NSE ■ Depository Services ■ IPO Services
- Online Trading (Integration of online trading + bank account + demat account)
- Commodities Trading on MCX and NCDEX ■ Portfolio Management Services
- Fundamental Research ■ Technical Analysis

SSKI

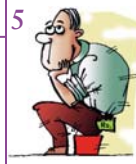
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CONTENTS

5



1: Why must I invest in shares?

- ❖ Invest to create wealth
- ❖ Shares—the best investment option
- ❖ Benefits of share investing are many

9



2: How do I buy and sell shares?

- ❖ Invest through primary and secondary markets
- ❖ A beginner's guide to the stock market
- ❖ Placing an order to buy and sell shares

21



3: How do I select the right shares?

- ❖ Science of investing in shares
- ❖ Components of fundamental research
- ❖ Learning to judge an IPO

29



4: How can I minimise risks and maximise returns?

- ❖ Types of risk involved in investing in shares
- ❖ Reducing risk
- ❖ Become a successful investor

37



5: How can I benefit from online trading?

- ❖ Using your computer to trade
- ❖ Trading online is convenient
- ❖ Benefits of trading on sharekhan.com

PLUS 10 pages of trading jargon



Why must I invest in shares?

This booklet is distributed as part of the Sharekhan First Step to Investing Program.

It is meant for private circulation ONLY and is not for sale.

First Step to Investing in the Share Market is meant to introduce new investors to the stock market. It is not intended to be taken as the basis for an investment decision!

IN THIS CHAPTER:

- ❖ Invest to create wealth
- ❖ Shares—the best investment option
- ❖ Benefits of share investing are many

Why need I invest?

The basic question “Why need I invest?” merits attention before we move on to the bigger question of why one should invest in shares. Simply put, you want to invest in order to create wealth. While investing is relatively painless, its rewards are plentiful. To understand why you need to invest, you need to realise that you lose when you just save and do not invest. That is because the value of the rupee decreases every year due to inflation. For example, if you ran a household within a budget of Rs100,000 in 2000, to run the same household today (assuming the same set of expenses) you would probably need Rs125,000—that’s Rs25,000 added to your budget because of inflation! Thus you need to generate an additional Rs25,000 and that can be possible only by

INFLATION: general rise in prices and wages caused by an increase in the money supply and demand for goods, and resulting in a fall in the value of money. Inflation occurs when most prices rise by some degree across the economy.



INVESTING your hard-earned money.

So what are the various investment options?

One can invest in various financial instruments like equities (popularly referred to as *shares*), bank fixed deposits, National Savings Certificates etc as well as in gold, real estate et al. Out of these shares give best return on investment.

Why shares?

Historically shares have outperformed all the other investment instruments and given the maximum returns in the long run (see the table on page 7). In the twenty-five-year period of 1980-2005 while the other instruments have barely managed to generate returns at a rate higher than the inflation rate (7.10%), on an average shares have given returns of about 17% in a year and that does not even take into account the dividend income from them. Were we to factor in the dividend income as well, the shares would have given even higher returns during the same period.

Are there any other benefits of investing in shares?

Dividend income: investments in shares are attractive as much for the

appreciation in the share prices as for the dividends their companies pay out.

Tax advantages: shares appear as the best investment option if you also consider the unbeatable tax benefits that they offer. *First*, the dividend income is tax-free in the hands of investors. *Second*, you are required to pay only a 10% short-term capital gains tax on the profits made from investments in shares, if you book your profits within a year of making the purchase. *Third*, you don't need to pay any long-term capital gains tax on the profits if you sell the shares after holding them for a period of one year. The capital gains tax rate is much higher for other investment instruments: a 30% short-term capital gains tax (assuming that you fall in the 30% tax bracket) and a 10% long-term capital gains tax.

Easy liquidity: shares can also be made liquid anytime from anywhere (on sharekhan.com you can sell a share at the click of a mouse from anywhere in the world) and the investments can be realised in just two working days.

Considering the high returns, the tax advantages and the highly liquid nature, shares are the best investment option to create wealth. 

RETURNS ON DIFFERENT TYPES OF INVESTMENT BETWEEN 1980 AND 2005

Stock Market

17% p.a

Bank Fixed Deposits

9% p.a

Gold

5.7% p.a

During this time
Inflation grew at

7.1%* p.a

* From 1982 to 2005

Source: Data compiled from the RBI
handbook of Statistics, NCDEX

Disclaimer: Investments in equity related securities involves a high degree of risk. Please read the Risk Disclosure Document as prescribed by Sebi before investing.

OPENING AN ACCOUNT WITH SHAREKHAN

1 Call
1-600-22-7500 or
39707500
OR email
info@sharekhan.com

2 Our representative will
contact you and introduce
you to our services

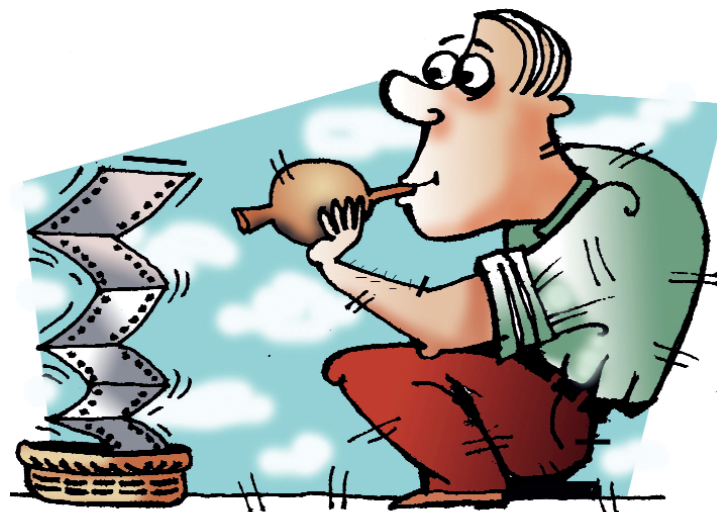
3 He will answer your
questions and will also
help you in filling the
account-opening form

4 Soon after submitting the
form, you will get an
Account-opening Kit
with details on how
to operate your account

To open an account with us you could also visit any of our 250 share shops
across 123 cities in India

*Shares are the best investment option for individual investors
due to the following benefits:*

- 1) Possibility of high returns
- 2) Easy liquidity
- 3) Unbeatable tax benefits
- 4) Income from dividends



How do I buy and sell shares?

IN THIS CHAPTER:

- ❖ Invest through primary and secondary markets
- ❖ A beginner's guide to the stock market
- ❖ Placing an order to buy/sell shares

What are the different ways in which I can invest in shares?

There are basically two ways in which you can invest in shares:

1) Purchase shares from the primary market (ie IPOs)

The first time that a company's shares are issued to the public, it is by a process called the initial public offering (IPO). In an IPO the company offloads a certain percentage of its total shares to the public at a certain price.

Most IPOs these days do not have a fixed offer price. Instead they follow a method called the book-building process, where the offer price is placed in a band or a range with the highest and the lowest value (refer to the newspaper clipping on this page).

The public can bid for the shares at any price in the band specified. Once the bids come in, the company evaluates all the bids and decides on an offer price in that range. After the offer price is fixed, the company either allots its shares to the people who had applied for its shares or returns them their money.

2) Trade in the secondary market, ie stock exchanges

Once the offer price is fixed and the shares are issued to the people, stock exchanges facilitate the trading of shares for the general public. Once a stock is listed on an exchange, people can start trading in its shares. In a stock exchange the existing shareholders sell their shares to anyone who is willing to buy them at a price agreeable to both parties. Individuals cannot buy or sell shares in a stock exchange directly, they have to execute their transactions through authorised members of the stock exchange who are also called *stock brokers*.

ALLAHABAD BANK
www.allahabadbank.com

BID/ISSUE OPENS TODAY
BID/ISSUE CLOSES APRIL 12, 2005

PRICE BAND: Rs. 75 to Rs. 82
PER EQUITY SHARE OF FACE VALUE RS. 10 EACH

The issue is at 7.5 times of the Face Value at the lower end of the Price Band and 8.2 times at the upper end of the Price Band.

Application Size: In Multiples of 75 Equity Shares

President of the Bank: President of India, acting through the Ministry of Finance, Government of India.
Equity Shares of the Bank offered through the Real Time Public Auctions are proposed to be listed at the National Stock Exchange of India (NSE) and the Central Stock Exchange (CSE) Limited (CSE).

Every IPO highlights the price band as part of the book-building process

DIFFERENCE BETWEEN PRIMARY AND SECONDARY MARKETS

In the *primary market* securities are issued to the public and the **proceeds go to the issuing company**. *Secondary market* is a term used for stock exchanges, where stocks are bought and sold after they are issued to the public.



PRIMARY MARKET



Companies allocate shares to individuals and those who get the shares become part owners of the company

SECONDARY MARKET



Companies get themselves listed on popular stock exchanges like BSE and NSE

How does the stock market function?

In order to understand how the stock market operates, you should have knowledge about the role of following institutions / organisations:

- a. Stock exchanges,
- b. Brokers,
- c. Registrars,
- d. Depositories and their participants, and
- e. Securities and Exchange Board of India (Sebi)

a. Stock exchanges

A stock exchange is the marketplace where companies are listed and where the trading happens. There are different stock exchanges in the country, the pre-dominant being the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).

b. Brokers

A stock exchange functions through its members called brokers. If you want to buy or sell a share, you contact a broker. Each stock exchange has a limited set of brokers and these brokers contact each other using trading terminals to find out who is interested in the share you want to buy or sell. Brokers have

terminals linked to the BSE or the NSE and they directly purchase or sell shares using these terminals. The entire transaction happens electronically or through websites like www.sharekhan.com.

Brokers may also authorise a sub-broker to conduct the transactions on behalf of them.

Since brokers are providing a service they charge you for the same. Normally this payment is not a flat rate, but a commission of the transaction value. Brokerages normally range from 0.5% to 1% for delivery-based transactions and from 0.10% to 0.25% for intra-day transactions.

BROKERAGE RATES ON SHAREKHAN.COM

0.5 %
for delivery-based
transactions

0.1 %
for intra-day
transactions

c. Registrars

The registrar for each company maintains records of all the shareholders of the company and the number of shares that they own. Whenever an ownership changes takes place, the registrar updates the shareholders database.

d. Depositories and their participants

Depositories are organisations that hold shares of investors, on request, in electronic form through a registered depository participant (DP). It can be compared with a bank as it holds securities in an account, transfers securities between accounts on the instruction of the account holder, facilitates the transfer of ownership without the account holder needing to handle securities and makes the safekeeping of shares easy.

The agent through which a depositories interfaces with the investor is known as a depository participant.

You can create a demat account with a DP, who will keep an account of all the shares you own. This is much like the banking system, where you just create an account and have a passbook which

PRIMER

NSDL/CDSL: the National Securities Depository Ltd (NSDL) and the Central Depository Securities Ltd (CDSL) are like Banks in the sense that they maintain records of inward/outward and holding of securities much like Banks handle money. **DP:** depository participants are like branches of Depositories facilitating transactions processing for depositories.

updates you on the money you own and the transactions you have made. In your demat account you own shares in an electronic format and your account gets updated as you buy and sell shares.

e. Sebi

The regulatory body that governs all stock market transactions is the Securities and Exchange Board of India. Sebi forms rule and regulations that govern transactions in securities market and that the stock exchanges and other intermediaries follow all such rules and regulations set by it and/or the government.

Sebi also looks into investor complaints against companies. It is quasi-judicial and can try cases and pass judgments against any market participants. It also looks into mergers and acquisitions of companies.

You can Call 1800-22-7500 or SMS “Share” to 3636 to open a Sharekhan FirstStep Account.

As a FirstStep customer you will receive full version of this booklet and other helpful resource like online trading demo CD, easy-to-understand research and investment advice, seminar on the basics of stock market and assistance on how you can go about building a strong portfolio.

