SUBJECT -FINANCIAL MARKETS AND SERVICES CLASS-B.COM 5TH SEM.

BY: Nivedita Sharma

Assistant professor Deptt. of commerce

GOVT. COLLEGE FOR GIRLS

ONLINE STOCK TRADING

Online stock trading is a facility based on trading of stocks.

The investors can easily trade the shares by means of an online website .

No interference from stock brokers.

BSE and NSE stock exchanges are the ones where most of the companies of online stock trading India deal in. there are two trading platforms available for online equity trading.

1. INSTALLABLE SOFTWARE BASED STOCK TRADING TERMINALS

Advantages

Requirement of software to be installed on investors computer as provided by stock brokers

Fast order execution.

Retrieval of information like stock market charts, live data, alerts, stock market news etc.

DISADVANTAGES

Location constraint as it requires trading terminal software.

High speed internet connection

Trading terminals are not available for low volume share traders.

2. WEB (INTERNET)-BASED TRADING APPLICATION

Doesn’t require any additional software installation.

Investor can access from around the world through normal internet connection.

ADVANTAGES OF ONLINE STOCK TRADING

Real time stock trading without involvement of stock broker

Displays transparent information of past and present of company

Investment in IPO, mutual funds and bonds become easy.

Easy access to demat account, bank account balance and trading history
Provides online tools like market watch, graphs and recommendations to do analysis of stocks.

Can email alerts.

Customer service through email

Secures transactions

DISADVANTAGES OF ONLINE STOCK TRADING

Lack of internet awareness and computer technology

Not so-user-friendly software/site

High brokerages

Requirement of demat account

Online trading account

PROCEDURE OF ONLINE STOCK TRADING

Log on to stock brokers website

Register as client

Fill in application form and client-broker agreeement form

TYPES OF ORDERS

1. Market order
2. Limit order
3. Stop loss order

FUNCTIONARIES OF STOCK EXCHANGES

1. Jobbers
2. Brokers
3. Sub-brokers
4. Tarawaniwalas
5. Portfolio consultants
6. Market makers
7. Institutional Investors

DIFFERENCE BETWEEN JOBBERS & BROKERS

JOBBERS	BROKERS
Specialize in certain types of the securities.	Specialize in all types the securities.
Motto is profit	commission
Buys for him and sell it to the brokers if the share prices are high	Buys and sell on behalf of the investors

DUTIES OF BROKER

GENERAL DUTIES

1.High integrity

2. Due skill and care

3. Do not indulge in Manipulation and frauds

4. Malpractices

5. Compliance with statutory requirements

DUTY TOWARDS THE INVESTOR

1. execution of orders

2. Issue of contract note

3. No breach of trust

4. Don't involve in the transaction with the sole motive of earning commission

5.Fairness to the clients

6. Investment advice

7. Investment advice in which he or his family member is substantially interested.

8. Competent staff who render fair services to his clients.

DUTIES OF BROKER

DUTIES TOWARDS OTHER SUB-BROKER

1.Conduct of dealings

2. Protection of clients interests

3. Transactions with stock brokers

4. No advertisements without the permission of stock exchange

5. Do not induce clients by unfair means

6. No misleading statements and returns.

General Obligations and responsibilities

1. Every broker should keep and maintain register of transactions, journal, cashbook, ledger, bank pass book, member's contracts books etc. for atleast 5 years.

2. Appoint compliance officer for monitoring the compliance of the act, rules, regulations, instructions etc. issued bu SBI/central govt.

3. Shall furnish books and other documents to the inspection authority as required by them.

SUSPENSION OR CANCELLATION OF BROKER

1.lif he is found indulging in manipulatios.

2. violates provisions of SCRA and regulations

Sub-Broker
Working under the brand of Main Broker
Not allowed to appoint Sub-broker
Sharing of Brokerage revenue with main Broker
No source of other income

DUTIES OF SUB-BROKER

SAME AS THAT OF A BROKER

TARAWANIWALAS

Acts both as jobber as well as broker.

He make transactions on his own behalf like a jobber and also acts as broker on behalf of public.

Indulges in malpractices to earn profit.

Sell their securities to their cliets when prices are higher and VV.

PORTFOLIO CONSULTANTS

Deals with portfolio construction, formulation of investment strategy, evaluation and regular monitoring of portfolio.

Skilled and expertise

Advises his clients to undertake investments and manage the same.

Shall possess Certificate granted by SEBI

Registration fees: Rs. 5 Lakhs

Renewal fees: Rs. 2.5 Lakhs

Valid for 3 years

On failure to pay fees leads to suspension of RC.

Portfolio Manager

#1 - Contrive a personalized investment plan rather than suggesting a similar plan.

#2 - Be able to make good decisions at the right time.

#3 - Keep in touch with the client and keep him/her updated on a regular basis.

#4 - Be transparent and honest with the client.

#5 - Keep himself updated with the latest changes in the financial field.

#6 - Educate the investor about the types of investments available, the returns expected.

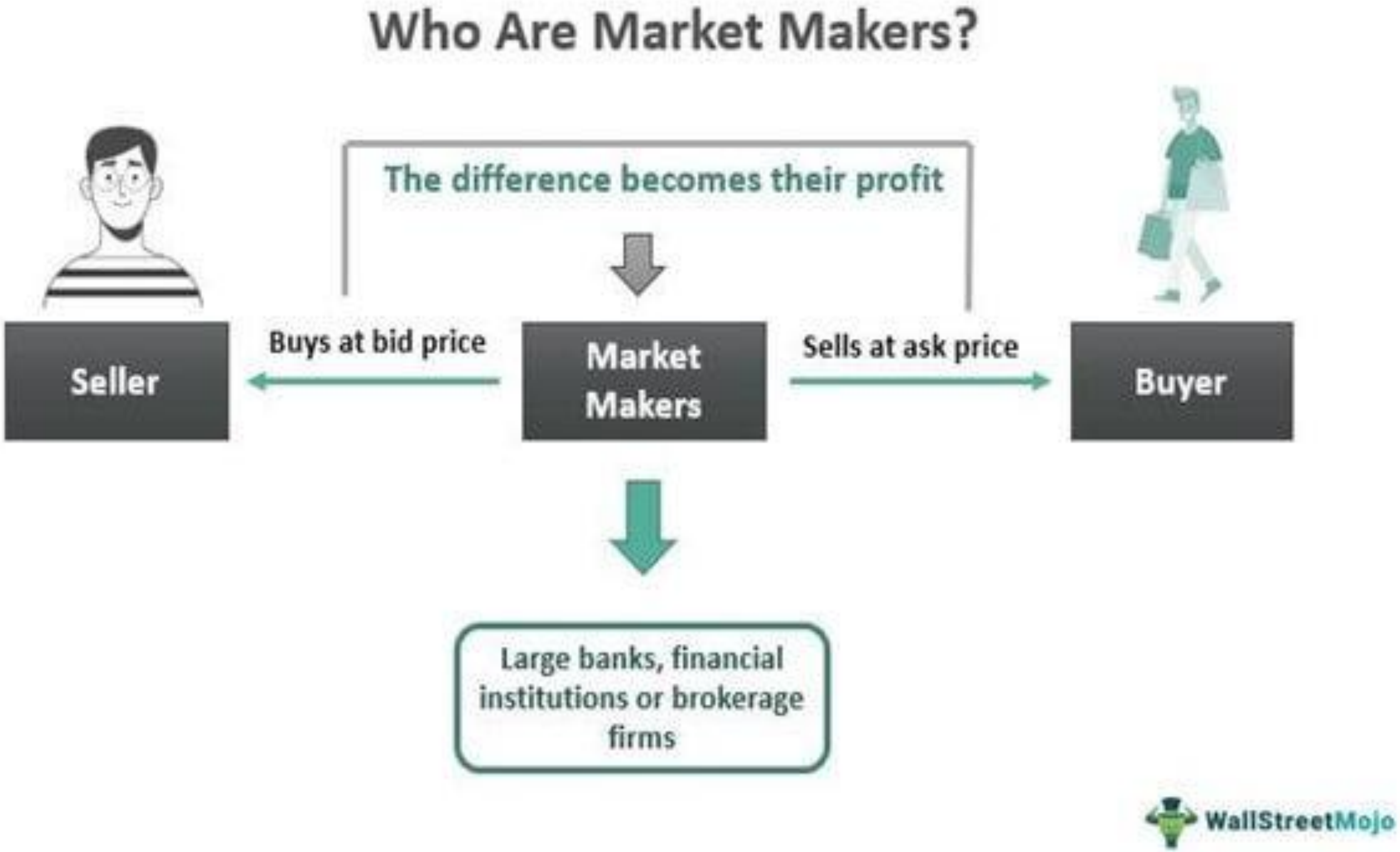
Roles and Responsibilities

Market Maker

[ˈmär-kət ˈmā-kər]

A firm or individual who actively quotes two-sided markets in a particular security, providing bids and offers (known as asks) along with the market size of each.

Investope


Who Are Market Makers?
The difference becomes their profit
Seller
Buys at bid price
Market Makers
Sells at ask price
Buyer
Large banks, financial institutions or brokerage firms
WallStreetMojo


Market Making Process
Market Makers
Represent both buy side and sell side of a market.
They connect with securities' sellers to know the bid price
Market makers sell their inventory and complete the order.
They sell the same shares at an ask price, which is higher than what they bought them for
The difference between the ask price and bid price becomes their earning
This way, the market remains efficient, active, and balanced.
WallStreetMojo


seller
INVESTOR A
100 shares
bid price
$25.00
MARKET
MAKER
keeps
$0.03/share
100 shares
ask price
$25.03
buyer
INVESTOR B

INSTITUTIONAL INVESTORS

MEANING

These are organizations that pool together funds from people and other bigger entities.

IMPORTANCE

- Investor benefits from Economies of Scale
- The investors enjoys higher returns
- They are Prime Source of Capital for Company

LIMITATION

- They buy and sell in bulk and hence can manipulate price of security.
- Few forms of institutional investors can face liquidity

TYPES OF INVESTORS

- Mutual Funds
- Hedge Funds
- Endowment Fund
- Commercial Banks
- Pension Funds
- PE Funds
- Insurance Companies

RETAIL INVESTORS

- Retail investors are individuals investing in the market through traditional means or brokerage firms.
- Institutional investors too invest in similar products, but their volume is significantly higher.

eFinanceManagement.com

Types of Investors

- Individual Investors
  - Invest for personal financial goals (retirement, house)
- Institutional Investors
  - Paid to manage other people's money
  - Trade large volumes of securities
  - Include: banks, life insurance companies, mutual funds, pension funds

Types of speculators

1. *BULL*
2. *BEAR*
3. *STAG*
4. *LAME DUCK*

Speculator

Types

Bulls: Individuals who are classified as "bulls" means they are expecting the price to increase in value.

Bears: Bears are the opposite of bulls when it comes to speculation and financial markets in general.

Lame Duck: You don't want to be considered a lame duck as a speculator.

Stag: Stags are a different type of speculator in which they expect to profit on very short-term price changes.

❖BULL {TEJIWALA}

He is speculator who expects the future raise in price of securities he buys the securities to sell them at future date at the higher price.

He is called as bull because his activities resembles as a bull , as the bull tends to throw its victims up in the air through its horns. In simple the bull speculator tries to raise the price of securities by placing a big purchase orders.

STAG {DEER}

He operates in new issue of market . He is just like a bull speculator . He applies large number of shares in the issue market only by paying , application money , allotment money. He is not a genuine investor because , he sells the allotted securities at the premium and makes profit. In simple he is cautious in his dealings . He creates an artificial rise in prices of new shares and makes profits.

❖BEAR {MANDIWALA}

He is speculator who expects future fall in prices , he does an agreement to sell securities at future date at the present market rate .

He is called as bear because his altitude resembles with bear , as the bear tends to stamp its victims down to earth through its paws . In simple the bear speculator forces of prices of securities to fall through his activities.

❖STAG {DEER}

He operates in new issue of market . He is just like a bull speculator . He applies large number of shares in the issue market only by paying , application money , allotment money. He is not a genuine investor because , he sells the alloted securities at the premium and makes profit. In simple he is cautious in his dealings . He creates an artificial rise in prices of new shares and makes profits.

❖LAME DUCK

- He is speculator when the bear operator finds it difficult to deliver the securities to the consumer on a particular day as agreed upon , he struggles as a lame duck in fulfilling his commitment .

- This happens when the prices do not fall as expected by the bear and the other party is not willing to postpone the settlement to the next period.

FACTORS INFLUENCING PRICES ON STOCK EXCHANGE

1. Financial position of company
2. Demand and supply position.
3. Role of financial institutions
4. Lending rates
5. Trade cycles
6. Speculation activities
7. Govt. control

WEAKNESSES OF STOCK EXCHANGES IN INDIA

1. Lack of professionalism
2. Domination of Financial Institutions
3. Poor liquidity
4. Domination of big operations
5. Less floating stocks
6. Speculative trading

STEPS TO IMPROVE WORKING OF STOCK EXCHANGES

- To modify listing agreement to provide for payment of interest by companies to investors from 30th day after the closure of public issue.
- Bad delivery cell procedure helped to standardise norms
- To institute buy-in or auction procedure being followed by NSE
- To set up clearing houses
- Disallowed from renewing contracts in cash group of shares from one settlement to another.
- Inter exchange market surveillance set up
- BSE and other exchanges (screen based) allowed to expand terminals to locations where no stock exchanges exist.
- Both short and long sales will have to be disclosed to the exchange at the end of each day.
- Stock lending has been approved in which short sellers could borrow securities through an intermediary before making such sales. Intermediary should have minimum net worth 50 crores.

IMPORTANT INDICES IN INDIA

1. BSE Sensex (BSE-Sensitive Index)
2. S & P CNX Nifty
3. S & P CNX 500
4. BSE 500
5. BSE 100
6. BSE 200/Dollex
7. BSE IT (Information technology)
8. BSE CG (Capital Goods)
9. BSE FMCG (Fast Moving Consumer Goods)
10. S & P CNX Defty etc.

What is full form of Sensex and what does it mean?

SENSEX stands for Stock Exchange Sensitive Index, which is a combination of two words Sensitive & Index. The analyst Deepak Mohoni coined the term Sensex for stock market. Basically, Sensex is an official index that showcase the performance of different companies that are listed in BSE (Bombay Stock Exchange) and analyse the performace of Indian market. The valuse of Sensex described the movement of market and any investor can easily identify the ups & downs of their shares as follows:

- **Low value of Sensex**: Share price is decreasing
- **High value of Sensex**:Share price is increasing

There are 30 companies listed under the stock exchange market and are chosen on the basis of overall financial well being & performances.

Objectives of Sensex

The major objectives of SENSEX has been listed below;

1. **Sensex act as a benchmark:** Its acts a benchmark for fund managers and investors to compare the growth of their funds in BSE as Sensex provides a complete and balanced data of all the sectors
2. **Sensex is used for measuring the Indian Market Movement:** BSE has been a good indicator that reflects the Indian market movements along with sentiments of traders, investors, and speculators since long time.
3. **Sensex for an index-based derivative products**: Mostly all investors and traders in India refers to S&P BSE Sensex for investing and trading as the accurate data and representation about the companies of Sensex. The term Sensex is also called with another name Liquid Contract in the Indian Market.

How Sensex is calculated?

Initially, Sensex used the weighted market capitalisation methodology and later on shifted to 'Free Float market capitalization' methodology on September 1, 2003. Free-float is that percentage of total shares that is issued by the company that are readily available for trading in the market. It excludes shares held by promoters, government etc. Market capitalisation represents the valuation of a company. It is determined by multiplying the price of their stocks with the number of shares issued by that company. Market capitalisation = price * quantity

Free-float market capitalisation = market capitalisation * free float factor

Steps to calculate SENSEX

1. Firstly, the 30 companies are selected on the basis of various quantitative and qualitative criteria including total market capitalisation, free float market capitalisation, sectoral representation etc. These companies will be from all major sectors including Banking, IT, FMCG.
2. Then the market capitalisation and free-float market capitalisation of each of the 30 companies is calculated
3. After multiplying the market capitalization with the free-float factor, we get free-float market capitalization.
4. The free-float market capitalisation of the 30 companies is added all together and that is the total free-float market capitalisation.
5. The formulae for calculating Sensex: Sensex = (total free-float market capitalisation/ Base market capitalisation) * Base index value.

Full form of S & P CNX NIFTY?

- CNX stands for CRISIL NSE Indices.
- CNX ensures common branding of indices, to reflect the identities of both the promoters, i.e. NSE and CRISIL.
- Thus, 'C' stands for CRISIL, 'N' stands for NSE and X stands for Exchange or Index.
- The S&P prefix belongs to the US-based Standard & Poor's Financial Information Services.

FEATURES OF S & P CNX NIFTY

- Also known as Nifty Fifty
- Owned and managed by India Index Services and Products Ltd. (IISL)
- IISL have consulting and licensing agreement with Standard & Poor's (S & P) who are world leaders in index services.
- The research that led up to s & p CNX NIFTY is well-respected internationally as a pioneering effort in better understanding how vto make a stock market index.

THANK YOU