FINANCIAL MARKETS

Introduction

Financial Intermediation = process of allocating funds from saving surplus units (E.g. households) to saving deficit units (e.g. industries, government etc).

• Alternatives = Banks or Financial markets
Financial Markets are the institutional arrangements by which savings generated in the economy are channelised into avenues of investment by industry, business and the government. It is a market for the creation and exchange of financial assets.

Functions of Financial Market

1. Mobilization of savings and channelising them into the most productive uses:

• Facilitates transfer of savings from the savers to the investors.

• Financial markets help people to invest their savings in various financial instruments and earn income and capital appreciation.

• Facilitate mobilization of savings of people and their channelisation into the most productive uses.

2. Facilitate Price Discovery:

• Price of anything depends upon the demand and supply factors.

• Demand and supply of financial assets and securities in financial markets help in deciding the prices of various financial securities; where business firms represent the demand and the households represent the supply.

3. Provide liquidity to financial assets:

• Financial markets provide liquidity to financial instruments by providing a ready market for the sale and purchase of financial assets.

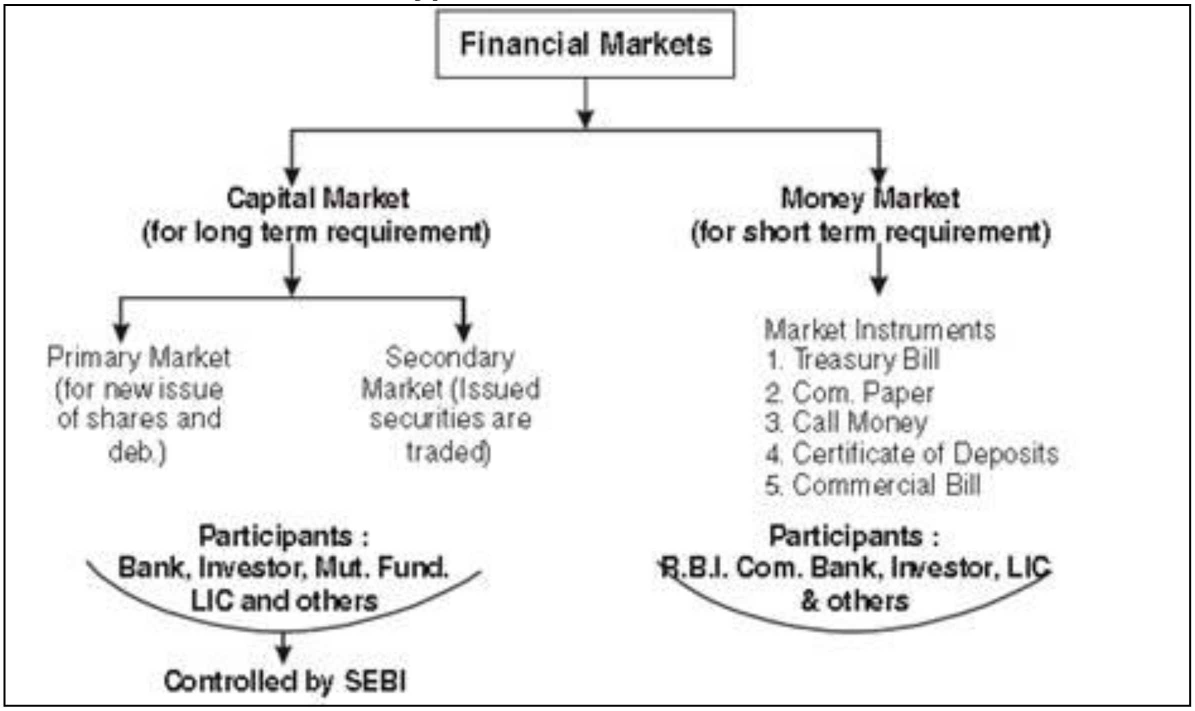
• Whenever the investors want, they can invest their savings into long term investments and whenever they want, they can sell the investments/ instruments and convert them into cash.

4. Reduce the cost of transactions:

• By providing valuable information to buyers and sellers of financial assets, it helps to saves time, effort and money that would have been spent by them to find each other.

• Also investors can buy/sell securities through brokers who charge a nominal commission for their services. This way financial markets facilitate transactions at a very low cost.

Types of Financial Markets



MONEY MARKET

Market for financial securities with maturity period of less than one year.

• Mkt for low risk, unsecured and short term debt instruments that are highly liquid are traded everyday.
• No plysical location bye conducted over the telephone and the internet.
• Helps to:

- raise short term funds
- Temporary deployment of funds .

The main instruments of money market are as follows:

I. Treasure Bills: They are issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds. They are issued at a price which is lower than their face value and arc repaid at par. They are available for a minimum amount of Rs.25000 and in multiples thereof. They are also known as Zero Coupon Bonds. They are negotiable instruments i.e. they are freely transferable.

2. Commercial Paper: It is a short term unsecured promissory note issued by large credit worthy companies to raise short term funds at lower rates of interest than market rates. They are negotiable instruments transferable by endorsement and delivery with a fixed maturity period of 15 days to one year.

3. Call Money: It is short term finance repayable on demand, with a maturity period of one day to 15 days, used for interbank transactions. Call Money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio as per RBI. The interest rate paid on call money loans is known as the call rate.

4. Certificate of Deposit: It is an unsecured instrument issued in bearer form by Commercial Banks & Financial Institutions. They can be issued to individuals. Corporations and companies for raising money for a short period ranging from 91 days to one year.

5. Commercial Bill: It is a bill of exchange used to finance the working capital requirements of business firms. A seller of the goods draws the bill on the buyer when goods are sold on credit. When the bill is accepted by the buyer it becomes marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill maturity.

CAPITAL MARKET

Facilities and institutional arrangements through which long term securities are raised and invested- both debt and equity.
• Nature of Capital Markets:
a. Important component of Financial markets b. Two segments(primary and secondary) c. 2 forms(organized and unorganized) d. long term securities e. Satisfies long term requirements of funds f. Performs trade-off functions g. Creates dispersion in business ownership h. Helps in capital formation i. Creates liquidity
• Features Of Capital Market Instruments:
a. Provide long term funds
b. Lesser outlay required as unit value of instruments is low
c. Duration more than 1 year
d. Liquidity
e. Lower safety
f. Higher expected returns as compared to short term securities

The capital market can be divided into two parts:

1. Primary Market

2. Secondary Market

Primary Market
• New issues markets
• Transfers investible funds from savers to entrepreneurs.
• Funds used for setting up new projects, expansion, diversification, modernization of existing projects, mergers and take overs etc.

Methods of Floatation of New Issues in Primary Market

1. Offer through Prospectus: It involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.

2. Offer for Sale: Under this method, securities are offered for sale through intermediaries like issuing houses or stock brokers. The company sells securities to intermediary/broker at an agreed price and the broker resells them to investors at a higher price.

3. Private Placements: It refers to the process in which securities are allotted to institutional investor and some selected individuals.

4. Rights Issue: It refers to the issue in which new shares are offered to the existing shareholders in proportion to the number of shares they already possess.

5. e-IPOs: It is a method of issuing securities through an on-line system of stock exchange. A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an e-initial public offer. SEBI's registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company.

Secondary Market

1.Refers to a market where existing securities are bought and sold.

2.The company is not involved in the transaction at all. It is between two investors.
Features of Secondary market are: 1) Creates liquidity 2) Fixed location 3) Comes after primary market 4) Encourages new investment

Difference between Primary Market and Secondary Market

Basis	Primary Market	Secondary Market
Securities	Only new securities are traded	Existing securities are traded
Price of Securities	Prices of securities are determined by the management of the company.	Prices are determined by the forces by the demand and supply of the securities.
Purchase and Sale	Securities are sold to investors directly by the company or through intermediary.	Investors exchange ownership of securities.
Place of Market	There is no fixed geographical location.	Located at specified places.
Medium	Only buying of securities takes place.	Both buying and selling of securities can take place.

Stock Exchange/Share Market

A Stock Exchange is an institution which provides a platform for buying and selling of existing securities. It facilitates the exchange of a security i.e. share, debenture etc. into money and vice versa. Following are some of the important functions of a Stock Exchange:

a) Gives liquidity and marketability to existing securities
b) Pricing of securities(dd and ss)
c) Safety of transactions(membership = regulated + dealings well defined)
d) Contributes to economic growth (ensures that savings are channelized to most productive investment avenues)
e) Spreading of equity cult(ensures wider share ownership)
f) Provides scope for speculation (in a restricted and controlled environment)

Trading Procedure on a Stock Exchange

1. Selection of Broker: in order to trade on a Stock Exchange first a broker is selected who should be a member of stock exchange as they can only trade on the stock exchange.

2. Placing the order: After selecting a broker, the investors specify the type and number of securities they want to buy or sell.

3. Executing the order: The broker will buy or sell the securities as per the instructions of the investor.

4. Settlement: Transactions on a stock exchange may be carried out on either cash basis or carry over basis (i.e. badla). The time period for which the transactions are carried forward is referred to as accounts which vary from a fortnight to a month. All transactions made during one account are to be settled by payment for purchases and by delivery of share certificates, which is a proof of ownership of securities by an individual. Earlier trading on a stock exchange took place through a public outcry or auction system which is now replaced by an online screen based electronic trading system. Moreover, to eliminate, the problems of theft, forgery, transfer, delays etc. an electronic book entry from a holding and transferring securities has been introduced, which is called process of de materialisation of securities.

Difference between Capital and Money Market

Basis	**Capital Market**	**Money Market**
Participants	Financial Institutions, Banks, Corporate Entities, foreign investors and individuals.	RBI, Banks Institutions and finance companies.
Instruments traded	Equity shares, bonds preferences and debentures, call money etc.	Treasury Bills, Trade Bills commercial paper
Investment Outlay	Does not necessarily require a huge financial outlay.	Entails huge sum of money as the instruments are quite expensive.
Duration	Deals in medium and long term securities having a maturity period of one year.	Deals in short term funds having a maturity period upto one year.
Liquidity	Securities are less liquid as money market securities.	Money markets instruments are highly liquid
Expected	High return	Low return
Safety	Capital Market Instruments are riskier both with respect to return and repayment.	Money market instruments are generally much safer with a minimum risk of default.

Depository Services and DEMAT Accounts: Keeping in the mind the difficulties to transfer of shares in physical form, SEBI has developed a new system in which trading in shares is made compulsory in electronic form Depository services system and D-Mat Account are very basis of this system.

Depository Services: Just like a bank keeps money in safe custody for customers, a depository also is like a bank and keeps securities(e.g. shares, debentures, bonds, mutual funds etc.) in electronic form on behalf of the investor. In the depository a securities account can be opened, all shares can be deposited, they can be withdrawn/ sold at any time and instruction to deliver or receive shares on behalf of the investor can be given**.** At present there are two depositories in India: NSDL. (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.). which are known as “Depository Participants”. (DPs)

Services provided by Depository

Dematerialisation (usually known as demat) is converting physical certificates to electronic form. Rematerialisation, known as remat, is reverse of demat, i.e getting physical certificates from the electronic securities.

Transfer of securities, change of beneficial ownership.

_ Settlement of trades done on exchange connected to the Depository. Now a days on-line paper-less trading in shares of the company is compulsory in India. Depository services is the name of that mechanism. In this system transfer of ownership in shares take place by means of book entry without the physical delivery of shares. When an investor wants to deal in shares of any company he has to open a Demat account. There are four players who participate in this system.

1. The Depository: A depository is an institution which holds the shares of an investor in electronic form. There are two depository institutions in India these are NSDL and CDSL.

2. The Depository Participant: He opens the account of Investor and maintains securities records.

3. The Investor: He is a person who wants to deal in shares whose name is recorded

4. The Issuing Company: That organization which issues the securities. This issuing company sends a list of the shareholders to the depositories.

Benefits of Depository Services

• Sale and Purchase of shares and stocks of any company on any stock Exchange.
• Saves time.
• Lower transaction costs
• Ease in trading.
• Transparency in transactions.
• No counterfeiting of security certificate
• Physical presence of investor is not required in stock exchange.
• Risk of mutilation and loss of security certificate is eliminated.

Demat Account

Demat (Dematerialized) account refers to an account which an Indian citizen must open with the depository participant (banks, stockbrokers) to trade in listed securities in electronic form. The securities are held in the electronic form by a depository.

Benefits of Demat Account

1. Reduces paper work.
2. Elimination of problems on transfer of shares such as loss, theft and delay.
3. Exemption of stamp duty when transfer of shares.
4. The concept of odd lot stand abolished.
5. Increase liquidity through speedy settlement.
6. Attract foreign investors and promoting foreign investment.
7. A single demat account can hold investments in both equity and debt instruments.
8. Traders can work from anywhere.
9. Automatic credit into demat account for shares arising out of bonus/split/consolidation % merger.
10. Immediate transfers of securities.
11. Change in address recorded with a DP gets registered with all companies in which investor holds securities eliminating the need to correspond with each of them.

Opening of Demat Account

A Demat account is opened on the same lines as that of a bank account. Prescribed account opening forms available with the DP, need to be filled in. Standard agreement is to be signed by the client and the DP, which details the rights and obligation of both parties. Along with the form, the client is required to attach photograph, attested copies of residence proof and proof of identity need to be submitted.

Securities and Exchange Board of India (SEBI)

SEBI was established by Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was given a statutory status on 30 January1992 through an ordinance which was later replaced by an Act of Parliament known as the SEBI Act, 1992. It seeks to protect the interest of investors in new and second hand securities.

Objectives of SEBI

1. To regulate stock exchange and the securities market to promote their orderly functioning.

2. To protect the rights and interests of investors and to guide & educate them.

3. To prevent trade mal practices such as internal trading.

4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.

Functions of SEBI

1. Protective Functions :a) Prohibit fraudulent & unfair trade practices in secondary market (e.g. Price rigging & misleading statement) **.b)** Prohibit insider trading. **c)** Educate investors Promote fair practice & code of conduct in securities market

2.Development Functions : a) Promotes training of intermediaries of the securities market . b) Investor education c) Promotion of fair practices code of conduct of all SRO‘s. d) Conducting research & publish information useful to all market participants

3. Regulation Functions : a) Registration of brokers and sub brokers & other players in the mkt. b)) Registration of collective investment schemes & mutual funds. c) Regulation of stock bankers & portfolio exchanges & merchant bankers.

What are Securities & Types of Securities?

Securities refer to an investment that can be freely traded in the market and provides a right or claim on an asset and all future cash flows generated by that asset.

According to Securities Contracts Regulation Act, 1956, *"securities include shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate."*

Classification of Securities

Securities can be divided into Corporate Securities and Government Securities on the **basis of source of issue**.

According to Securities Contracts Regulation Act 1956, a Government Security refers to a *"security created and issued, whether before or after the commencement of this Act, by the Central Government or State Government for the purpose of raising public loans and having one of the forms specified in clause (2) of section 2 of the Public Debt Act, 1944."* While a corporate security refers to a security which is created and issued by an incorporated company or a body corporate.

On the **basis of return**, securities can be divided into Fixed Income and Variable Income Securities.

Types of Securities

• **Equity Shares –** A company`s share capital is divided into a number of equal and indivisible units of fixed amount, each of which is called a share. Shares which do not carry any preferential rights in repayment of capital (payment of principal amount) and dividend payments (payment of interest) are equity shares. The rate of dividend is not fixed and varies depending upon the profitability, financial position and business objectives of a company. The owners of equity shares are the owners of the company and have voting rights in the management of the company.

• **Preference Shares –** Shares which carry preferential rights in respect of dividend payment and repayment of capital are preference shares. These shares carry a fixed rate of divided and preference over equity shareholders in dividend payment and payment of capital at the time of liquidation of the company. They generally do not carry any voting rights.

• **Non-voting Shares –** These shares are entitled to the same stream of benefits as equity shares but carry higher dividends as they do not have any voting rights. On non-payment of dividend for 2 years these are automatically converted into voting shares.

• **Right shares –** These shares are offered as additional shares after the original issue to the existing shareholders of the company. Existing shareholders can subscribe to these in proportion of their existing holdings. These are issued to finance fund requirements of the company in times of need. They are usually offered at a discount. These can be issued only after two years of the formation of the company or one year after the first share allotment, whichever is earlier.

• **Sweat Equity Shares –** These are equity shares that are issued by a company to its board of directors and/or employees at a discount or for consideration other than cash, for providing managerial or technical know how or for providing/making available some intellectual property rights or value additions; to the company. They form a part of the existing equity share capital of the company.

• **Bonus Shares –** Bonus shares are issued for free to existing shareholders of the company by converting the reserves/profits of the company into share capital. It involves capitalization of the reserves of the company. These are issued for providing capital gains to shareholders out of company profits, when the business is in a profitable position.

• **Bonds & Debentures –** These are long term debt instruments consisting of a promise by the issuer to pay a stipulated stream of cash flows in the future to the person holding the security. E.g. Govt. Securities, Savings Bond, PSU bonds, debentures of Private companies. They are used to raise medium and long term capital funds from the public. Such a security comprises of periodic interest payments over the life of the instrument and principle payment at time of its redemption.

• **Share Warrant –** It is a document issued by a public company that provides the right to the bearer/holder of the document to buy a specified number of shares at a specified time. The bearer does not enjoy the same benefits as equity share holders. Share Warrants can be freely traded in the market but require a prior approval of the central government before it is issued.

Equity Market Meaning & Definition of equity share

Mark Twain once divided the world into two kinds of people:

those who have seen the famous Indian monument, the Taj Mahal, and those who haven't. The same could be said about investors.

There are two kinds of investors: those who know about the investment opportunities in India and those who don't. India may look like a small dot to someone in the U.S., but upon closer inspection, you will find the same things you would expect from any promising market. Here we'll provide an overview of the Indian stock market and how interested investors can gain exposure.

The BSE and NSE

Most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has been in existence since 1875. The NSE, on the other hand, was founded in 1992 and started trading in 1994. However, both exchanges follow the same trading mechanism, trading hours, settlement process, etc. At the last count, the BSE had about 4,700 listed firms, whereas the rival NSE had about 1,200. Out of all the listed firms on the BSE, only about 500 firms constitute more than 90% of its market capitalization; the rest of the crowd consists of highly illiquid shares.

Almost all the significant firms of India are listed on both the exchanges. NSE enjoys a dominant share in spot trading, with about 70% of the market share, as of 2009, and almost a complete monopoly in derivatives trading, with about a 98% share in this market, also as of 2009. Both exchanges compete for the order flow that leads to reduced costs, market efficiency and innovation. The presence of arbitrageurs keeps the prices on the two stock exchanges within a very tight range.

Trading Mechanism

Trading at both the exchanges takes place through an open electronic limit order book, in which order matching is done by the trading computer. There are no market makers or specialists and the entire process is order-driven, which means that market orders placed by investors are automatically matched with the best limit orders. As a result, buyers and sellers remain anonymous. The advantage of an order driven market is that it brings more transparency, by displaying all buy and sell orders in the trading system. However, in the absence of market makers, there is no guarantee that orders will be executed.

All orders in the trading system need to be placed through brokers, many of which provide online trading facility to retail customers. Institutional investors can also take advantage of the direct market access (DMA) option, in which they use trading terminals provided by brokers for placing orders directly into the stock market trading system.

Settlement Cycle and Trading Hours

Equity spot markets follow a T+2 rolling settlement. This means that any trade taking place on Monday, gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm, Indian Standard Time (+ 5.5 hours GMT), Monday through Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk, by serving as a central counterparty.

Market Indexes

The two prominent Indian market indexes are Sensex and Nifty. Sensex is the oldest market index for equities; it includes shares of 30 firms listed on the BSE, which represent about 45% of the index's free-float market capitalization. It was created in 1986 and provides time series data from April 1979, onward.

Another index is the S&P CNX Nifty; it includes 50 shares listed on the NSE, which represent about 62% of its free-float market capitalization. It was created in 1996 and provides time series data from July 1990, onward.

Market Regulation

The overall responsibility of development, regulation and supervision of the stock market rests with the Securities & Exchange Board of India (SEBI), which was formed in 1992 as an independent authority. Since then, SEBI has consistently tried to lay down market rules in line with the best market practices. It enjoys vast powers of imposing penalties on market participants, in case of a breach.

Primary and Secondary Market

Primary Market

Primary market is the place where new shares or bonds are issued. Hence primary market is also called as new issue market. In primary market company sells the shares to investors to generate the fund. In primary market the trading is directly between investors and company. Here the price of share is decided by company and is fixed. In primary market investors can only buy shares, they cannot sell them. Shares purchased in primary market are sold in secondary market. In primary market company can raise the fund by three types that is public issue, private placement or right issue.

Secondary Market

Secondary market is also called as After market. Stock exchange is the secondary market. The stock exchange is the medium through which the exchange of shares, Equities takes place between the seller and the buyer. Secondary market is the place where most of the trading takes place. The trading of shares and capital in secondary market takes place between the buyer and the seller, company is not involved in transactions. The price of share is decided by demand and supply of the shares and price keeps on fluctuating. In secondary market no new stocks are issued, only trading of stocks is there.

Equity Shares

Equity shares are the main source of finance of a firm. It is issued to the general public. Equity shareholders do not enjoy any preferential rights with regard to repayment of capital and dividend. They are entitled to residual income of the company, but they enjoy the right to control the affairs of the business and all the shareholders collectively are the owners of the company.

Features of Equity Shares

1. They are permanent in nature.
2. Equity shareholders are the actual owners of the company and they bear the highest risk.
3. Equity shares are transferable, i.e. ownership of equity shares can be transferred with or without consideration to other person.
4. Dividend payable to equity shareholders is an appropriation of profit.
5. Equity shareholders do not get fixed rate of dividend.
6. Equity shareholders have the right to control the affairs of the company.
7. The liability of equity shareholders is limited to the extent of their investment.

Advantages of Equity Shares

Equity shares are amongst the most important sources of capital and have certain advantages which are mentioned below:

1. **Advantages from the Shareholders' Point of View**

(a) Equity shares are very liquid and can be easily sold in the capital market.

(b) In case of high profit, they get dividend at higher rate.

(c) Equity shareholders have the right to control the management of the company.

(d) The equity shareholders get benefit in two ways, yearly dividend and appreciation in the value of their investment.

1. **Advantages from the Company's Point of View:**

(a) They are a permanent source of capital and as such; do not involve any repayment liability.

(b) They do not have any obligation regarding payment of dividend.

(c) Larger equity capital base increases the creditworthiness of the company among the creditors and investors.

Disadvantages of Equity Shares:

Despite their many advantages, equity shares suffer from certain limitations. These are:

1. **Disadvantages from the Shareholders' Point of View:**

(a) Equity shareholders get dividend only if there remains any profit after paying debenture interest, tax and preference dividend. Thus, getting dividend on equity shares is uncertain every year.

(b) Equity shareholders are scattered and unorganized, and hence they are unable to exercise any effective control over the affairs of the company.

(c) Equity shareholders bear the highest degree of risk of the company.

(d) Market price of equity shares fluctuate very widely which, in most occasions, erode the value of investment.

(e) Issue of fresh shares reduces the earnings of existing shareholders.

1. **Disadvantage from the Company's Point of View:**

(a) Cost of equity is the highest among all the sources of finance.

(b) Payment of dividend on equity shares is not tax deductible expenditure.

(c) As compared to other sources of finance, issue of equity shares involves higher floatation expenses of brokerage, underwriting commission, etc.

Different Types of Equity Issues:

Equity shares are the main source of long-term finance of a joint stock company. It is issued by the company to the general public. Equity shares may be issued by a company in different ways but in all cases the actual cash inflow may not arise (like bonus issue).

The different types of equity issues have been discussed below:

1. **New Issue:**

A company issues a prospectus inviting the general public to subscribe its shares. Generally, in case of new issues, money is collected by the company in more than one installment— known as allotment and calls. The prospectus contains details regarding the date of payment and amount of money payable on such allotment and calls. A company can offer to the public up to its authorized capital. Right issue requires the filing of prospectus with the Registrar of Companies and with the Securities and Exchange Board of India (SEBI) through eligible registered merchant bankers.

2. **Bonus Issue:**

Bonus in the general sense means getting something extra in addition to normal. In business, bonus shares are the shares issued free of cost, by a company to its existing shareholders. As per SEBI guidelines, if a company has sufficient profits/reserves it can issue bonus shares to its existing shareholders in proportion to the number of equity shares held out of accumulated profits/ reserves in order to capitalize the profit/reserves. Bonus shares can be issued only if the Articles of Association of the company permits it to do so.

Advantage of Bonus Issues:

From the company's point of view, as bonus issues do not involve any outflow of cash, it will not affect the liquidity position of the company. Shareholders, on the other hand, get bonus shares free of cost; their stake in the company increases.

Disadvantages of Bonus Issues:

Issue of bonus shares decreases the existing rate of return and thereby reduces the market price of shares of the company. The issue of bonus shares decreases the earnings per share.

Rights Issue:

According to Section 81 of The Company's Act, 1956, rights issue is the subsequent issue of shares by an existing company to its existing shareholders in proportion to their holding. Right shares can be issued by a company only if the Articles of Association of the company permits. Rights shares are generally offered to the existing shareholders at a price below the current market price, i.e. at a concessional rate, and they have the options either to exercise the right or to sell the right to another person. Issue of rights shares is governed by the guidelines of SEBI and the central government.

Rights shares provide some monetary benefits to the existing shareholders as they get shares at a concessional rate—this is known as value of right which can be computed as:

Value of right = Cum right market price of a share – Issue price of a new share / Number of old shares + 1

Advantages of Rights Issue:

Rights issues do not affect the controlling power of existing shareholders. Floatation costs, brokerage and commission expenses are not incurred by the company unlike in the public issue. Shareholders get some monetary benefits as shares are issued to them at concessional rates.

Disadvantages of Rights Issue:

If a shareholder fails to exercise his rights within the stipulated time, his wealth will decline. The company loses cash as shares are issued at concessional rate.

Sweat Issue:

According to Section 79A of The Company's Act, 1956, shares issued by a company to its employees or directors at a discount or for consideration other than cash are known as sweat issue. The purpose of sweat issue is to retain the intellectual property and knowhow of the company. Sweat issue can be made if it is authorized in a general meeting by special resolution. It is also governed by Issue of Sweet Equity Regulations, 2002, of the SEBI.

Advantages of Sweat Issue:

Sweat equity shares cannot be transferred within 3 years from the date of their allotment. It does not involve floatation costs and brokerage.

Disadvantage of Sweat Issue:

As sweat equity shares are issued at concessional rates, the company loses financially.

Instruments and Players in Debt Market: Government Securities, PSU Bonds, Corporate Bonds

Securities are financial instruments that represent a creditor relationship with a corporation or government. Generally, they represent agreements to receive a certain amount depending on the terms contained within the agreement.

Fixed-income securities are investments where the cash flows are according to a predetermined amount of interest, paid on a fixed schedule.

Fixed Income securities offer a predictable stream of payments by way of interest and repayment of principal at the maturity of the instrument. The debt securities are issued by the eligible entities against the moneys borrowed by them from the investors in these instruments. Therefore, most debt securities carry a fixed charge on the assets of the entity and generally enjoy a reasonable degree of safety by way of the security of the fixed and/or movable assets of the company.

The Debt Market is the market where fixed income securities of various types and features are issued and traded. Debt Markets are therefore, markets for fixed income securities issued by Central and State Governments, Municipal Corporations, Govt. bodies and commercial entities like Financial Institutions, Banks, Public Sector Units, Public Ltd. companies and also structured finance instruments.

Debt Markets in India and all around the world are dominated by Government securities, which account for between 50 – 75% of the trading volumes and the market capitalization in all markets. Government securities (G-Secs) account for 70 – 75% of the outstanding value of issued securities and 90-95% of the trading volumes in the Indian Debt Markets.

Government Securities - "G-Secs"

"G-Secs" in India currently have a face value of ` 100/- and are issued by the RBI on behalf of the Government of India. All G-Secs are normally coupon (Interest rate) bearing and have semi-annual coupon or interest payments with tenure of between5to30years.This may change according to the structure of the Instrument.

The Zero Default Risk is the greatest attraction for investments in G-secs so that it enjoys the

greatest amount of security possible. The other advantages of investing in G- Secs are:

- Greater safety and lower volatility as compared to other financial instruments.

- Variations possible in the structure of instruments like Index linked Bonds, STRIPS
- Higher leverage available in case of borrowings against G-Secs.
- No TDS on interest payments.
- Tax exemption for interest earned on G-Secs. up to Rs.3000/- over and above the limit of Rs.9000/- under Section 80L.
- Greater diversification opportunities.

PSU Bonds

Public Sector Undertaking Bonds (PSU Bonds): These are Medium or long term debt instruments issued by Public Sector Undertakings (PSUs). The term usually denotes bonds issued by the central PSUs (ie PSUs funded by and under the administrative control of the Government of India). Most of the PSU Bonds are sold on Private Placement Basis to the targeted investors at Market Determined Interest Rates. Often investment bankers are roped in as arrangers to this issue. Most of the PSU Bonds are transferable and endorsement at delivery and are issued in the form of Usance Promissory Note.

Corporate Bonds

Corporate bonds are issued by corporations and usually mature within 1 to 30 years. These bonds usually offer a higher yield than government bonds but carry more risk. Corporate bonds can be categorized into groups, depending on the market sector the company operates in. They can also be differentiated based on the security backing the bond or the lack of security.

A corporate bond is a type of debt security that is issued by a firm and sold to investors. The company gets the capital it needs and in return the investor is paid a pre-established number of interest payments at either a fixed or variable interest rate. When the bond expires, or “reaches maturity,” the payments cease and the original investment is returned.

The backing for the bond is generally the ability of the company to repay, which depends on its prospects for future revenues and profitability. In some cases, the company’s physical assets may be used as collateral.

Corporate bonds sometimes have call provisions to allow for early prepayment if prevailing interest rates change so dramatically that the company deems it can do better by issuing a new bond.

Investors may also opt to sell bonds before they mature. If a bond is sold, the owner gets less than face value. The amount it is worth is determined primarily by the number of payments that still are due before the bond matures.

Investors may also gain access to corporate bonds by investing in any number of bond-focused mutual funds or ETFs.

Benefits of corporate bond funds

- **Components of corporate bonds**

Corporate bond funds invest predominantly in debt papers. Companies issue debt papers, which include bonds, debentures, commercial papers, and structured obligations. All of these components carry a unique risk profile, and the maturity date also varies.

- **Price of the bond**

Every bond has a price, and it is dynamic. You can buy the same bond at different prices, based on the time you choose to buy. Investors should check how it varies from the par value it will give information about the market movement.

- **Par Value of the bond**

This is the amount the company (bond issuer) pays you when the bond matures. It is the loan principal. In India, a corporate bond's par value is usually Rs 1,000.

- **Coupon (interest)**

When you buy a bond, the company will payout interest regularly until you exit the corporate bond or the bond matures. This interest is called the coupon, which is a certain percentage of the par value.

- **Current Yield**

The annual returns you make from the bond is called the current yield. For example, if the coupon rate of a bond with Rs 1,000 par value is 20%, then the issuer pays Rs 200 as the interest per year.

- **Yield to Maturity (YTM)**

This is the in-house rate of returns of all the cash-flows in the bond, the current bond price, the coupon payments until maturity and the principal. Greater the YTM, higher will be your returns and vice versa.

- **Tax-efficiency**

If you are holding your corporate bond fund for less than three years, then you must pay short-term capital gains tax (STCG) based on your tax slab. On the other hand, Section 112 of the Indian Income Tax mandates 20% tax on long-term capital gains. This applies to those who hold the bond for more than three years.

- **Exposure & allocation**

Corporate bond funds, sometimes, do take small exposures to government securities as well. But they do so only when no suitable opportunities in the credit space are available. On average, corporate bond funds will have approximately 5.22% allocation to sovereign fixed income.

Types of corporate bonds

Convertible bonds: You can convert these bonds into predefined stocks at your disposal. So, if at any point in time, you feel that stocks are likely to give you better returns than bonds, you can convert them into shares.

Non-convertible: As the name suggests, these bonds cannot be converted into stocks. These will be plain bonds purchased from a corporation for some time.

Types of corporate bond funds.

Type One: Type one corporate bonds invest in high-rated companies; public sector unit (PSU) companies and banks.

Type Two: Type two corporate bonds invest in slightly lower rated companies such as ‘AA- ‘and below.

DEBT MARKET IN INDIA

There are different kinds of Debt Instruments available in India such as;
Below given are the important debt instruments available in India:

- Bonds
- Certificates of Deposit
- Commercial Papers
- Debentures
- FD
- G – Secs (Government Securities)
- National savings Certificate (NSC)

Bonds

A Bond is simply an 'IOU' in which an investor agrees to lend money to a company or government in exchange for a predetermined interest rate. If a business wants to expand, one of its options is to borrow money from individual investors. The company issues bonds at different interest rates and sells them to the public. Investors purchase them with the understanding that the company will pay back their original principal with some interest that is due by a set date (this is known as the "maturity"). The interest a bondholder earns depends on the strength of the corporation.

For example, a blue chip is more stable and has a lower risk of defaulting on its debt. Sometimes some big companies issue bonds and they may only pay 7% interest, but some other small companies may pay you 10%. A general rule of thumb when investing in bonds is that "the higher the interest rate, the riskier the bond."

Following are allowed to issue bonds:-

1. Governments
2. Municipalities
3. Variety of institutions
4. Corporations

There are many types of bonds, each having diverse features and characteristics. Bonds and stocks are both securities, but the major difference between the two is that stockholders have an equity stake in the company (i.e., they are owners), whereas bondholders have a creditor stake in the company (i.e., they are lenders). Another difference is that bonds usually have a defined term, or maturity, after which the bond is redeemed, whereas stocks may be outstanding indefinitely.

Returns in Bonds Returns is depends on the nature of the bonds that have been purchased by the investor. Bonds may be secured or unsecured. Firstly, always check up the credit rating of the issuing company before purchasing the bond. This gives you a working knowledge of the company's financial health and an idea about the risk considerations of the instrument itself. Interest payments depend on the health and credit rating of the issuer. Therefore, it is essential to check the credit rating and financial health of the issuer before loosening up the bond. If you do invest in bonds issued by the top-rated Corporates, there is no guarantee that you will receive your payments on time.

Risks in Bonds In certain cases, the issuer has a call option mentioned in the prospectus. This means that after a certain period, the issuer has the choice of redeeming the bonds before their maturity. In that case, while you will receive your principal and the interest accrued till that date, you might lose out on the interest that would have accrued on your sum in the future had the bond not been redeemed. Always remember that if interest rates go up, bond prices go down and vice-versa.

Buying and Holding of Bonds Investors can subscribe to primary issues of Corporates and Financial Institutions (FIs). It is common practice for FIs and corporates to raise funds for asset financing or capital expenditure through primary bond issues. Some bonds are also available in the secondary market. The minimum investment for bonds can either be Rs 5,000 or Rs 10,000. However, this amount varies from issue to issue. There is no prescribed upper limit to your investment. The duration of a bond issue usually varies between 5 and 7 years.

Selling of Bonds Selling bonds in the secondary market has its own drawbacks. First, there is a liquidity problem which means that it is a tough job to find a buyer. Second, even if you find a buyer, the prices may be at a sharp discount to its intrinsic value. Third, you are subject to market forces and, hence, market risk. If interest rates are running high, bond prices will be down and you may well end up incurring losses. On the other hand, Debentures are always secured.

Liquidity of a Bond: Selling in the debt market is an obvious option. Some issues also offer Put and Call option.

- **In Put option,** the investor has the option to approach the issuing entity after a specified period (say, three years), and sell back the bond to the issuer.
- **In Call option,** the company has the right to recall its debt obligation after a particular time frame.

Debenture

A debenture is similar to a bond except the securitization conditions are different. A debenture is generally unsecured in the sense that there are no liens or pledges on specific assets. It is defined as a certificate of agreement of loans which is given under the company's stamp and carries an undertaking that the debenture holder will get a fixed return (fixed on the basis of interest rates) and the principal amount whenever the debenture matures.

In finance, a debenture is a long-term debt instrument used by governments and large companies to obtain funds. The advantage of debentures to the issuer is they leave specific assets burden free, and thereby leave them open for subsequent financing. Debentures are generally freely transferrable by the debenture holder. Debenture holders have no voting rights and the interest given to them is a charge against profit.

Debentures vs. Bonds

Debentures and bonds are similar except for one difference bonds are more secure than debentures. In case of both, you are paid a guaranteed interest that does not change in value irrespective of the fortunes of the company. However, bonds are more secure than debentures, but carry a lower interest rate. The company provides collateral for the loan. Moreover, in case of liquidation, bondholders will be paid off before debenture holders.

A debenture is more secure than a stock, but not as secure as a bond. In case of bankruptcy, you have no collateral you can claim from the company. To compensate for this, companies pay higher interest rates to debenture holders. All investment, including stocks bonds or debentures carry an element of risk.

Commercial Papers

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. It was introduced in India in 1990 with a view to enable highly rated corporate borrowers/ to diversify their sources of short-term borrowings and to provide an additional instrument to investors. Subsequently, primary dealers and satellite dealers were also permitted to issue CP to enable them to meet their short-term funding requirements for their operations. CP can be issued in denominations of Rs.5 lakh or multiples thereof. Amount invested by a single investor should not be less than Rs.5 lakh (face value). It will be issued foe a duration of 30/45/60/90/120/180/270/364 days. Only a scheduled bank can act as an Issuing and Paying Agent IPA for issuance of CP.

Features of Commercial Papers

Following are the important features of commercial papers

- They are unsecured debts of corporates and are issued in the form of promissory notes, redeemable at par to the holder at maturity.
- Only corporates who get an investment grade rating can issue CPs, as per RBI rules.
- It is issued at a discount to face value
- Attracts issuance stamp duty in primary issue
- Has to be mandatorily rated by one of the credit rating agencies
- It is issued as per RBI guidelines
- It is held in Demat form
- CP can be issued in denominations of Rs.5 lakh or multiples thereof. Amount invested by a single investor should not be less than Rs.5 lakh (face value).

- Issued at discount to face value as may be determined by the issuer.
- Bank and FI's are prohibited from issuance and underwriting of CP's.
- Can be issued for a maturity for a minimum of 15 days and a maximum upto one year from the date of issue.

Types	Issuers	Instruments
Government Securities	**Central Government:**	1. Zero Coupon bonds. 2. Coupon bearing bonds. 3. Treasury bills. 4. Floating rate bonds. 5. STRIPs.
	State Government:	1. Coupon bearing bond.
Public sectors bonds	Government agencies, statutory bodies, public sector undertakings	1. Debentures. 2. Government guaranteed bonds. 3. Commercial papers. 4. PSU bonds.
Private sector bonds	**Corporates:**	1. Debentures. 2. Commercial papers. 3. Fixed floating rate. 4. Zero coupon bonds. 5. Inter-corporate deposits.
	Bank:	1. Certificate of debentures. 2. Debentures. 3. Bonds.
	Financial Institutions:	1. Certificate of deposits. 2. Bonds.

Definition, Types and Key Differences Between IPO and FPO

When it comes to stock market investments, the term IPO and FPO are two major fundamentals that every investor must know before entering into the stock market.
IPO (Initial Public Offering) and FPO (Follow on Public Offer) are the major concepts that companies used for their own purpose to raise capital from the equity market.
Every beginner who is looking to invest in IPO must have a basic knowledge about these two fundamentals that are widely used in the stock market.
This article will give you a detailed explanation of the difference between IPO and FPO.

What is an IPO?

IPO stands for Initial Public Offering, is a process in which a private company goes public by issuing shares to the general public for the first time.
The company which offers its shares to the public is called an "issuer," and it does with the guidance of several investment banks. Once the IPO is done, the company's shares are traded in an open market.
The primary reason for a private company going to the public is to raise money. By selling its shares in an open market, the company can collect and raise funds to grow its business successfully.

There are two different types of IPO:

- **Fixed Price Issue**

Fixed price issue means the company sets a fixed price of all their shares and mentions it in the offer document.
In this type of IPO, all investors know the price of a particular share decided by the company before the company enters into public. They pay the total fixed price while subscribing to the IPO of a specific company.

- **Book Building Issue**

The book-building issue means the company does not fix the price, but it has price bands. The price is discovered only after generating and recording the demand of an investor.

What is an FPO?

FPO stands for Follow on Public Offer, is a process by which the company already listed on the stock exchange issues shares to the existing shareholders of the company or to new investors.
The reason behind the company performing an FPO is to expand its equity base. The

company uses FPO only after the company has started the process of an IPO to make their shares available to the public and to raise capital for their business.
In simpler words, FPO is a further issue while IPO is the first issue. The FPO is raised for two intentions:

- **To reduce the debt which is existing in a company**
- **To raise additional capital for a company**

Types of FPO

There are two types of FPO

- **Dilutive FPO**

In dilutive FPO, the additional number of shares are issued by the company, but their price value of the company's share still remains the same. This decreases the share price as well as the reduction in earnings per share.

- **Non-Dilutive FPO**

Non-Dilutive FPO means the shareholders of the company sell their private shares in the market. Applying this method increases the number of shares available to the investors while it does not increase the number of shares for the company.

Key Difference between IPO and FPO

There are three major differences that will help you understand the difference between IPO and FPO.

- **IPO VS FPO – Objective**

The objective of an IPO is to raise capital from investors by selling its shares to the general public to grow and expand its business.
Once the company has done its IPO and achieved the goal of growing their business, they may need additional funds, and that's where FPOs are issued for a company.
The primary objective of a company to issue FPO is to expand its equity base.
However, FPO can also be used to reduce the shareholdings of a promoter.

- **IPO VS FPO – Performance**

Performance is a major difference between FPO and IPO because it tells how much knowledge or information an investor knows about a company before buying allotted shares.
In IPO, investors have to go through a preliminary document by a company known as the red herring prospectus.
They do not have any major guidance or track record about a company in which they are investing. Thus, they make a perception based on management debt on the books,

market interest, and more to subscribe to an IPO.
In FPO, investors know all the essential information about a company along with a track record of what the market interest was like and how was the company's performance after an IPO.
However, investors get a signal of whether the stocks are worth investing in or not through sales of equity stakes.

- **IPO VS FPO – Profitability**

IPO can give higher returns for an investor and turn out to be a profitable one than FPOs because investors take part in the starting growth of the company.
FPOs tend to have less risk than IPOs since all the information has been available to the investor about the company.
Another benefit is investors get a chance to analyze the past performance of a company, and they can make an assumption about the company's growth before investing.
FPOs are less profitable than IPOs because, at this stage, the company is in the stabilization phase.

FAQS

- **Is IPO profitable than FPO?**

1. Is IPO profitable than FPO? IPO can give higher returns for an investor and turn out to be a profitable one than FPOs because investors take part in the starting growth of the company.
FPOs tend to have less risk than IPOs since all the information has been available to the investor about the company.

- **What does Non-Dilutive FPO mean?**

Non-Dilutive FPO means the shareholders of the company sell their private shares in the market. Applying this method increases the number of shares available to the investors while it does not increase the number of shares for the company.

- **What is the primary objective of IPO?**

The primary objective of an IPO is to raise capital from investors by selling its shares to the general public in order to grow and expand their business.

Final Thoughts

All, in the end, IPO means the share issued by the company are available to the general public. While FPO means the first-time issue of shares listed on the stock exchange to the existing shareholders of the company or to new investors.
These differences will make your vision on investment clear and keep you on the right

track, as it is the first two simple fundamentals that every new stock investor must learn in the stock market.

Investing in MUTUAL FUNDS

Mutual funds are investment vehicles that pool money from many different investors to increase their buying power and diversify their holdings. This allows investors to add a substantial number of securities to their portfolio for a much lower price than purchasing each security individually.

Different Types of Mutual Funds and Its Benefits.

Mutual funds offer one of the most comprehensive, easy and flexible ways to create a diversified portfolio of investments. There are different types of mutual funds that offer different options to suit investors diverse risk appetites. Let us understand the different types of mutual funds available currently in the market to help you make an informed investment decision.

Broadly, any mutual fund will either invest in equities, debt or a mix of both. Further, they can be open-ended or close-ended mutual fund schemes.

> Open-ended funds

In an open-ended mutual fund, an investor can invest or enter and redeem or exit at any point of time. It does not have a fixed maturity period.

> Close-ended funds

Close-ended mutual funds have a fixed maturity date. An investor can only invest or enter in these type of schemes during the initial period known as the New Fund Offer or NFO period. His/her investment will automatically be redeemed on the maturity date. They are listed on stock exchange(s).

Let's take a look at the various types of equity and debt mutual funds available in India:

1. Equity or growth schemes

These are one of the most popular mutual fund schemes. They allow investors to participate in stock markets. Though categorised as high risk, these schemes also have a high return potential in the long run. They are ideal for investors in their prime earning stage, looking to build a portfolio that gives them superior returns over the long-term. Normally an equity fund or diversified equity fund as it is commonly called invests over a range of sectors to distribute the risk.

Equity funds can be further divided into three categories:

> Sector-specific funds:

These are mutual funds that invest in a specific sector. These can be sectors like infrastructure, banking, mining, etc. or specific segments like mid-cap, small-cap or large-cap segments. They are suitable for investors having a high risk appetite and have the potential to give high returns.

> Index funds:

Index funds are ideal for investors who want to invest in equity mutual funds but at the same time don't want to depend on the fund manager. An index mutual fund follows the same strategy as the index it is based on.

For example, if an index fund follows the BSE Index as the replicating index and if it has a 20% weightage in let's say Stock A, then the index fund will also invest 20% of its assets in Stock A.

Index funds promise returns in line with the index they mirror. Further, they also limit the loss to the proportional loss of the index they follows, making them suitable for investors with a medium risk appetite.

> Tax saving funds:

These funds offer tax benefits to investors. They invest in equities and are also called Equity Linked Saving Schemes (ELSS). These type of schemes have a 3 year lock-in period. The investments in the scheme are eligible for tax deduction u/s 80C of the Income-Tax Act, 1961.

2. Money market funds or liquid funds:

These funds invest in short-term debt instruments, looking to give a reasonable return to investors over a short period of time. These funds are suitable for investors with a low risk appetite who are looking at parking their surplus funds over a short-term. These are an alternative to putting money in a savings bank account.

3. Fixed income or debt mutual funds:

These funds invest a majority of the money in debt - fixed income i.e. fixed coupon bearing instruments like government securities, bonds, debentures, etc. They have a low-risk-low-return outlook and are ideal for investors with a low risk appetite looking at generating a steady income. However, they are subject to credit risk.

4. Balanced funds:

As the name suggests, these are mutual fund schemes that divide their investments between equity and debt. The allocation may keep changing based on market risks.

They are more suitable for investors who are looking at a combination of moderate returns with comparatively low risk.

5. Hybrid / Monthly Income Plans (MIP):

These funds are similar to balanced funds but the proportion of equity assets is lesser compared to balanced funds. Hence, they are also called marginal equity funds. They are especially suitable for investors who are retired and want a regular income with comparatively low risk.

6. Gilt funds:

These funds invest only in government securities. They are preferred by investors who are risk averse and want no credit risk associated with their investment. However, they are subject to high interest rate risk.

NOTE : For Further Detailed study on the Subject of MUTUAL FUND, you can visit the Following URL/Link. ➔ https://www.investopedia.com/terms/m/mutualfund.asp

QUESTION : Write the Advantages & Dis-advantages of MUTUAL FUNDS ?

ANSWER : the Advantages & disadvantages of Mutual Funds are as below:-

Benefits of Mutual Funds

Risk reduction

As mutual funds are managed professionally it reduces the risk factor. Also, they are invested in a huge number of companies. Thus, the risk factor is reduced more.

Diversification

There are a large number of investors that has savings with them. Thus, these small savings are brought together and a mutual fund is created. So, this can be used to buy the share of many different companies. Also, because of this diversification, the investment ensures capital appreciation and regular return.

Tax advantage

There are many schemes in a mutual fund that provide a tax advantage under the new income tax act. So, the liability of paying the tax of an investor is also reduced. This can be possible only when he/she invests in mutual funds.

Investor protection

Mutual funds are monitored and regulated by the SEBI. Thus, it provides better protection to its investors. Also, this makes sure that there is no legal obligation for the investors.

Disadvantages of Mutual Funds

Although mutual funds can be beneficial in many ways, they are not for everyone.

1. **No Control over Portfolio**. If you invest in a fund, you give up all control of your portfolio to the mutual fund money managers who run it.

2. **Capital Gains**. Anytime you sell stock, you're taxed on your gains. However, in a mutual fund, you're taxed when the fund distributes gains it made from selling individual holdings even if you haven't sold your shares. If the fund has high turnover, or sells holdings often, capital gains distributions could be an annual event.

3. **Fees and Expenses**. Some mutual funds may assess a sales charge on all purchases, also known as a "load" this is what it costs to get into the fund. Plus, all mutual funds charge annual expenses, which are conveniently expressed as an annual expense ratio this is basically the cost of doing business. The expense ratio is expressed as a percentage, and is what you pay annually as a portion of your account value. The average for managed funds is around 1.5%. Alternatively, index funds charge much lower expenses (0.25% on average) because they are not actively managed. Since the expense ratio will eat directly into gains on an annual basis, closely compare expense ratios for different funds you're considering.

4. **Over-diversification**. Although there are many benefits of diversification, there are pitfalls of being over-diversified. Think of it like a sliding scale: The more securities you hold, the less likely you are to feel their individual returns on your overall portfolio. What this means is that though risk will be reduced, so too will the potential for gains. This may be an understood trade-off with diversification, but too much diversification can negate the reason you want market exposure in the first place.

5. **Cash Drag**. Mutual funds need to maintain assets in cash to satisfy investor redemptions and to maintain liquidity for purchases. However, investors still pay to have funds sitting in cash because annual expenses are assessed on all fund assets, regardless of whether they're invested or not. According to a study by William O'Reilly, CFA and Michael Preisano, CFA, maintaining this liquidity costs investors 0.83% of their portfolio value on an annual basis.

SYSTEMATIC INVESTMENT PLAN

A systematic investment plan (**SIP**) is an investment vehicle offered by many mutual funds to investors, allowing them to invest small amounts periodically instead of lump sums. The frequency of investment is usually weekly, monthly or quarterly.

In SIPs, a fixed amount of money is debited by the investors in bank accounts periodically and invested in a specified mutual fund. The investor is allocated a number of units according to the current Net asset value. Every time a sum is invested, more units are added to the investors account.

The strategy claims to free the investors from speculating in volatile markets by dollar cost averaging. As the investor is getting more units when the price is low and fewer units when the price is high, in the long run, the average cost per unit is supposed to be lower.

SIP claims to encourage disciplined investment. SIPs are flexible; the investors may stop investing a plan anytime or may choose to increase or decrease the investment amount. SIP is usually recommended to retail investors who do not have the resources to pursue the active investment.

Benefit:

Power of compounding

Compounding occurs when the returns you earn on your investments start earning returns. This is a simple concept in theory. But its practical implications are substantial.

When you invest regularly through SIPs, your returns get reinvested. Over time, this result in a snowball-effect, that may increase your potential returns manifold. An ideal way to maximise this gain is to invest for an extended period. This also means you may benefit by investing as early as possible.

Rupee cost averaging

Rupee cost averaging is a concept where you purchase more units when the Net Asset Value (NAV) of the fund is low, and lesser units when the NAV is high. Essentially, it averages out your purchasing costs over the tenure of the investment period. You don't need to worry about how to time the market when you invest through a SIP.

Low initial investment

You can invest in mutual funds through a SIP with just Rs. 500 per month. This can be an affordable way to invest each month without hurting your wallet. You can increase your monthly investment amount with a rise in your income via SIP step-up feature. Mutual fund houses allow investors to top up their SIPs on a regular basis. So, even if you start with Rs. 500 or Rs. 1,000 every month, you can invest more over the years. This strategy can help you reach your investment goals at a faster rate.

Convenience

SIP can be a convenient mode of investing. Like most investors, you may not have the time for extensive market research and analysis to adjust or balance your portfolio. So, once you pick a good fund, you can give standing instructions to the bank and let the SIP take care of your monthly investments.

Difference Between A Broker And A Sub Broker.

When talking about the share market and investments, you have come around terms like the Difference between a Broker and a Sub Broker—remembering that you cannot directly invest in the securities. It would help if you had a median to do so. The intermediates are the one who has the authority to purchase and sell the stocks securities on behalf of the client in the share market via stock exchanges.

They registered with the Securities Exchange Board of India (SEBI). SEBI registers the mediators. For the services they provide, they charge some commission or fees, which are the brokerage charges. These are governed and looked under by the various regulations, including the SEBI Act, 1992, Securities Contract Regulations, 1956, etc.

What Is a Stockbroker?

A best stock broker can be related to the registered stock broking firm or an individual in the share market. They are responsible for buying and selling the stock on behalf of the client and charging some brokerage charges. They act as the essential link between the investors and the stock exchange by facilitating the transactions.
On the theory of this, there are different types of stock brokers in the market who are into the transaction between the links.

● **Full-Service Stockbrokers**: they are the one who provides comprehensive or complete services to the client. The services provided by them include advisory assistance. They help the investor gain insight into the market and the opportunities they may get in the share market and their investments.

Usually, their fees are based on the entire amount involved in the trade execution and the services provided. These are the ones who are well settled in the market and are experienced players. They have a range of networks offices/ branches across the country.

● **Discount Brokers**: These are some of the most famous in the business who charge comparatively lower fees for the trade execution and charge way less than full-time service brokers. They charge a flat fee for the trade or the lowest percent for the transaction that is going to take place. The service provided by the discount brokers includes the trade execution and doesn't include the advisory and the research, which are usually offered by the full-time service broilers. These are affordable, and just services are more diminutive.

● **Brokers Charging Flat Brokerage**: These are stockbrokers who have gained well-known popularity in the digital world. While everyone is accessing the market digitally, they have the upper hand for the same. They mix the traditional full-time service broker and the discount stock brokers who charge a flat rate brokerage fee.

What is a Sub-Broker?

Talking about the central branch, the sub-broker, the sub-broker is the broker's agent who usually works with the client on their behalf. They are links between the broking firm and the client. The stockbroker usually gives the sub-broker different duties such as providing services and client management.

They receive a commission or the fees or the charges for the services they provide by the stockbroker. The stockbroker can look for the vast network of operations in the country and use the link. The stockbroker connects with the different Sub-brokers and explores and points to the clients from other parts of the county. This is the complete information about the sub-broker working.

Here are the key difference between a broker and a sub broker in the market.

● **Broker Vs. Sub-Broker Function**: Now, talking about the significant difference between a stockbroker function in individuality or independently, the sub-broker is the mediator link between the client and the stockbroking firm. A sub-broker kept to make a wide connection and help expand the business further in different states, so in short, they make an expanded client base for the stock breaking firms.

Stockbrokers usually act as the depository participant (DPS) of the National Stock Exchange's (NSEs)-promoted National Securities Depositories Ltd (NSDL) or the Bombay Stock Exchange's (BSEs)-enabled Central Depositories Securities Ltd (CDSL). Also, the vital thing to note is that both the depositories maintain the stocks and securities in an electronic format. Also, another thing to be noted is that a sub-broker cannot be a DP.

● **Broker Vs. Sub-Broker Registration**: A stockbroker is the one who is registered with SEBI. Initially, the sub-broker had to be registered with the SEBI, the market regulator, but after 2018, the rule was discontinued for the sub-broker as a category for registration.

The circular issued in August 2018 stated that the sub-brokers had to migrate to the category of 'Authorised Person.' the authorized person can be an individual or the firm or the other entities the stockbroker appoints. The sub-broker can also access trading established by the stockbroker.

● **Broker Vs. Sub-Broker Revenue Sharing**: Sub-brokers have a lot of golf responsibilities, which helps them earn a higher share of revenue generated via the clients. The stockbroker gets a small percentage of income but has overall access to the large ravine, which is caused by the scores and connections of the sub-brokers.

● **Broker Vs. Sub-Broker Brokerage**: stockbroker charges the direct brokerage from the cl9inest via the transaction they make. Stockbrokers charge direct brokerage fees from clients. On the other hand, sub-brokers are not allowed to set direct payments from the clients. On the other hand, the Sub-brokers get the specific portion of the revenue, which is decided by both the parties and the revenue from the stockbrokers.

● **Broker Vs. Sub-Broker Importance**: stockbroker plays an essential role in the stock market by providing sufficient liquidity to the clients. They have a crucial role in the capital market chain.

On the other hand, the sub-brokers are the crucial players for the stockbroker who helps expand their business as they are settled in different parts of the country. They help in developing the business. So the stockbroker makes the opportunities for the new people to enter the financial market as agents by providing access to the stockbroking firm's cutting-edge trading tools and other services. Sub-brokers are the ones who give the deposit fees to the stockbroker.

Conclusion – Difference Between a Broker and a Sub Broker

They conclude the article on the note that it is essential to have complete knowledge of the sub-broker and brokers when you invest in the stock market. They both have different roles and working techniques. They have some standard features attached but vary in a lot more sense. While beginning with the investment, always look for a reliable financial partner. Always see the features they provide, such as the all-in-one trading platform to invest in different stock market options, brokerage cashback, and zero Demat AMC for up to a year.

PROCESS OF BECOMING A CAPITAL MARKET INVESTOR

Before jumping into action, expect a learning period as you learn the basics of investing that you'll need to manage some or all of your portfolio.

As a novice independent investor, you can take things gradually, managing just some of your investments yourself so you can become familiar with the process.

Step 1: Understand investment principles.

- How does the stock market work?
- What do the major stock market indexes represent?
- What's the difference between a share, a bond and an investment fund security?

These are just some of the basic concepts you'll need to learn.

Understanding their features, risks involved, liquidity and potential returns will make it easier to choose the investments that are right for you.

As an independent investor, you're the one in charge. Make sure you have the skills and time needed to:

- Choose your investments
- Watch the markets
- Review your portfolio's asset allocation
- Deal with market ups and downs

Curious to learn more about trading basics? - This link will open in a new window.

Step 2: Determine how involved you want to be in your investments.

- Do you want to monitor your investments day to day or stay on top of the latest news?
- Do you expect to make a number of transactions a month, a day?

Determining your level of involvement will help you decide what types of investment products will meet your needs.

For instance, trading specific securities will require a bigger investment of your time, in terms of research and monitoring. That's not the case if you rely on the expertise of portfolio managers to choose investment funds, exchange-traded funds (ETFs) or index funds.

Each type of investment has different features; that's why it's so important to have a solid grasp of Step 1 before choosing your investments.

Step 3: Open an online brokerage account.

Whether you're a novice or seasoned investor, or passive or very active, choose the trading platform that offers the features that will work best for you in helping you trade effectively, based on your market knowledge and trading frequency.

Step 4: Identify your investor profile and investment strategy.

- Why are you investing (goal, horizon)?
- What are you looking for from our investments: income or growth?
- Do you a good level of tolerance for stock market fluctuations?

Having a good understanding of who you are as an investor will help you make investment decisions based on your investor profile. It's also a great way to avoid knee-jerk reactions to fluctuations and stop yourself from acting out of emotion and making the wrong decisions.

Step 5: Build your portfolio.

Diversification - Cet hyperlien s'ouvrira dans une nouvelle fenêtre. adapted to your situation is about choosing investments across multiple asset classes, management styles, economic sectors and geographic regions, in line with your objectives, investment profile and risk tolerance level.

Diversifying your portfolio will make it more resistant to market fluctuations. If one asset class underperforms, others won't necessarily drop in value, as they all evolve in different contexts.

Brokerage firms often offer model portfolios adapted to many profiles. They can help guide your strategy.

Don't forget to take into account transaction and management fees for certain types of products.

Step 6: Stay on top of what's happening.

Stay up to date and do your homework. Many expert studies and analyses are available on brokerage platforms. They also offer tools and training.

Step 7: Invest.

Perform transactions. Stick to your strategy. Beware of the know-it-all friend. Be patient. Forget trying to get rich overnight, and don't underestimate the power of your emotions.

Step 8: Manage your portfolio.

Investing is just the beginning. Portfolio management and market monitoring should now be part of your regular routine.

Next up: Rebalance your portfolio if necessary, especially after major fluctuations, and determine the sale price and when to sell, based on your strategy.

FURTHER READING :- https://www.indiainfoline.com/business-partners/what-is-sub-broker

process of becoming a capital market investor –

1. https://www.investopedia.com/investing/steps-successful-investment-journey/
2. https://blogues.desjardins.com/advicecentre/2019/03/8-steps-to-becoming-an-independent-investor.php