

A Beginner's Guide to **INVESTING**

A SIMPLIFIED BOOK FOR STARTERS



AKHILESH DUBEY

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*Dedicated to Readers,
Students, Philosophers & Teachers.*

Preface

Judging by the fact that readers will be taking the troubles to navigate through this book, our guess is that you don't need much convincing about the wisdom of investing. However, we hope that quest for **knowledge/information about the art/science of investing will end here.**

"Knowledge is an essential rule for to be powerful".

It is common knowledge that money has to be invested wisely. If you are a novice at investing, terms such as stocks, bonds, futures, options, open interest, yield, P/E ratio may sound Greek and Latin. Relax. It takes years to understand the art of investing. You're not alone in the quest to crack the jargon.

To start with, take your investment decisions with as many facts as you can assimilate. But, understand that you can never know everything. Learning to live with the anxiety of the unknown is part of investing. Being enthusiastic about getting started is the first step, though daunting at the first instance.

That's why this investment course begins with a dose of encouragement and with the fundamentals; With enough time and a little discipline, you are all but guaranteed to make the right moves in the market. Patience and the willingness to invest your savings across a portfolio of securities tailored to suit your age and risk profile will propel your revenues and cushion you against any major losses. Investing is not about putting all your money into the "Next big thing," hoping to make a killing. Investing isn't gambling or speculation; it's about taking reasonable risks to reap steady rewards.

Investing is a method of purchasing assets in order to gain profit in the form of reasonably predictable income (dividends, interest, or rentals) and appreciation over the long term.

Akhilesh K Dube

Contents

+ BASICS OF SHARES	09
+ TRADING OF SHARES	14
+ ONLINE TRADING & IPO	30
+ PORTFOLIO	37
+ MUTUAL FUNDS	41
+ RATIO ANALYSIS	49
+ TIPS FOR SUCCESS	56
+ ACHIEVING SUCCESS WITH “LABH PRAPTI” TECHNIQUE	61
+ FAQ _s	81
+ STOCK MARKET TERMS	104

1

BASICS OF SHARES

Definition of Shares

Shares represent units of ownership in a corporation or entity.

Share Certificate is a document issued by a company, which entitles its holder to be one of the owners of the company.

Evidence of ownership that represents an equal proportion of a firm's capital. It entitles its holder (the shareholder) to an equal claim on the firm's profits and an equal obligation for the firm's debts and losses.

Types of Shares

1. Ordinary Shares
2. Preference Shares

(1) **Ordinary shares** (common stock), which entitle the shareholder to share in the earnings of the firm as and when they occur, and to vote at the firm's annual general meetings and other official meetings.

(2) **Preference shares** (preference stock), which

BASICS OF SHARES

In finance a **share** is a unit of account for various financial instruments including stocks, mutual funds, limited partnerships, etc. In British English, the usage of the word **share** alone to refer solely to stocks is so common that it almost replaces the word stock itself.

In simple words, a share or stock is a document issued by a company, which entitles its holder to be one of the owners of the company. A share is issued by a company or can be purchased from the stock market.

By owning a share one can earn a portion and selling shares one get capital gain. So, your return is the dividend plus the capital gain. However, it may also run a risk of making a capital loss, one has sold the share at a price below your buying price.

A company's stock price reflects what investors think about the stock, not necessarily what the company is "worth". For example, companies that are growing quickly

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entitle the shareholder to a fixed periodic income (interest) but generally do not give him or her voting rights.

Share/Stock Holder

Individual, group, or organization that holds one or more shares in a firm, and in whose name the share certificate is issued. It is legal for a firm to have only one shareholder. Also called stockholder.

Broker

Person who serves as a trusted agent or intermediary in commercial negotiations or transactions. Brokers are usually licensed professionals in fields where specialized knowledge is required, such as finance, insurance, and real estate. Their rate of compensation (called brokerage or commission) is determined according to custom of the particular trade or by law, and is computed commonly either as a fixed percentage of the value of the transaction or on a sliding scale (higher the value, lower the percentage).

often trade at a higher price than the company might currently be "worth." Stock prices are also affected by all forms of company and market news. Publicly traded companies are required to report quarterly on their financial status and earnings. Market forces and general investor opinions can also affect share price.

Quick Facts on Stocks and Shares

- Owning a stock or a share means an individual is a partial owner of the company, and gets voting rights in certain company issues.
- Over the long run, stocks have historically averaged about 10% annual returns. However, stocks offer no guarantee of any returns and can lose value, even in the long run.
- Investments in stocks can generate returns through dividends, even if the price falls.

How does one trade in shares?

Every transaction in the stock exchange is carried out through licensed members called brokers.

To trade in shares, one has to approach a broker. However, since most stock exchange brokers deal in very high volumes, they generally do not entertain small investors. These brokers have a network of sub-brokers who provide them with orders. The general investors should identify a sub-broker for regular trading in shares and place his order

Basics of Shares

Investments

Investments Money committed or property acquired for future income.

Trade off between risk and reward while aiming for incremental gain and preservation of the invested amount (principal). In contrast, speculation aims at 'high gain or heavy loss,' and gambling at 'out of proportion gain or total loss.' Two main classes of investment are ;

(1) Fixed income investment such as bonds, fixed deposits, preference shares, and

(2) Variable income investment such as business ownership (equities), property ownership. In economics, investment means creation of capital or goods capable of producing other goods or services. Expenditure on education and health is recognized as an investment in human capital, and research and development in intellectual capital.

Return on investment (ROI) is a key measure of a firm's performance.

Return on Investments (ROI)

Earning power of assets measured as the ratio of the net income (profit less depreciation) to the average capital employed (or equity capital) in a firm or project. Expressed usually as a percentage, it is a measure of the profitability which (while not taking the time value of money into account) indicates whether or not a firm is using its resources in an efficient manner.

for purchase and sale through the sub-broker. The sub-broker will transmit the order to his broker who will then execute it .

INVESTMENTS BASICS

These days, you can't retire without using the returns from investments. You can't count on your social security checks to cover your expenses when you retire. It's barely enough for people who are receiving it now to have food, shelter and utilities. That doesn't account for any care you may need or in the even that you need to take advantage of such funds much earlier in life. It is important to have your own financial plan. There are many kinds of investments you can make that will make your life much easier down the road.

The following are brief descriptions for beginning investors to familiarize themselves with different kinds of investment options:

Life Insurance

Life Insurance policies are another kind of investment that is fairly popular. It is a way to ensure income for your family when you die. It allows you a sense of security and provides a valuable tax deduction.

Stocks / Shares

Stocks/Shares are a unique kind of investment because they allow you to take partial ownership in a company. Because of this, the returns are potentially bigger and they have a history of being a wise way to invest your money.

A Beginner's Guide to Investing

For example, if the ROI of a firm (in the long run) is lower than its cost-of-capital then the firm will be better off by liquidating its assets and depositing the proceeds in a bank. Also called rate of return, or yield.

Investment Options

A. Physical assets like real estate, gold/jewellery, commodities etc.

B. Financial assets such as fixed deposits with banks, small saving instruments with post offices, insurance/provident/pension fund etc. or securities market related instruments like shares, bonds, debentures etc.

Bonds

A bond is basically a promise note from the government or a private company. You agree to give them a set amount of money as a loan and they keep it for a set number of years with a predetermined amount of interest. This is typically a safe bet and one that is a good investment for a first time investor because there is little risk of losing your money.

Mutual Funds

Mutual funds are a kind of investment that are based on the gains and losses of a shareholder. Basically one person manages the money of several or many investors and invests in a list of various stocks to lessen the effect of any losses that may occur.

Money Market Funds

A good short-term investment is a Money Market Fund. With this kind of investment you can earn interest as an independent shareholder.

Annuities

If you are interested in tax-deferred income, then annuities may be the right kind of investment for you. This is an agreement between you and the insurer. It works to produce income for you and protect your earning potential.

Brokered Certificates of Deposit (CDs)

CDs are a kind of investment where you deposit money for a set amount of time. The

Basics of Shares

Real Estate

Real estate investing involves the purchase, ownership, management, rental and/or sale of real estate for profit. Improvement of realty property as part of a real estate investment strategy is generally considered to be a sub-speciality of real estate investing called real estate development. Real estate is an asset form with limited liquidity relative to other investments. It is also capital intensive (although capital may be gained through mortgage leverage) and is highly cash flow dependent. If these factors are not well understood and managed by the investor, real estate becomes a risky investment. The primary cause of investment failure for real estate is that the investor goes into negative cash flow for a period of time that is not sustainable, often forcing them to resell the property at a loss or go into insolvency. A similar practice known as flipping is another reason for failure as the nature of the investment is often associated with short term profit with less effort.

Sources and acquisition of investment property

- A. Market listings (through a Multiple Listing Service or Commercial Information Exchange)
- B. Real estate agents
- C. Wholesalers (such as bank real estate owned departments and public agencies)
- D. Public auction (foreclosure sales, estate sales, etc.)
- E. Private sales

good thing about CDs is that you can take the money out at any time without paying a penalty fee. We all know life isn't predictable, so this is a nice feature to have in your option.

Real Estate

Real Estate is a tangible kind of investment. It includes your land and anything permanently attached to your piece of property. This may include your home, rental properties, your company or empty pieces of land. Real estate is typically a smart and can make you a lot of money over time.

2

TRADING OF SHARES

Demat Account

In India, a demat account, the abbreviation for dematerialised account, is a type of banking account which dematerializes paper-based physical stock shares.

The dematerialised account is used to avoid holding physical shares: the shares are bought and sold through a stock broker. This account is popular in India. The Securities and Exchange Board of India (SEBI) mandates a demat account for share trading above 500 shares. As of April 2006, it became mandatory that any person holding a demat account should possess a Permanent Account Number (PAN), and the deadline for submission of PAN details to the depository lapsed on January 2007.

Procedure

1. Fill demat request form (DRF) (obtained from a depository participant or DP with whom your depository account is opened).

TRADING IN SHARES

Though the company is under obligation to offer the securities in both physical and demat mode, one have the choice to receive the securities in either mode.

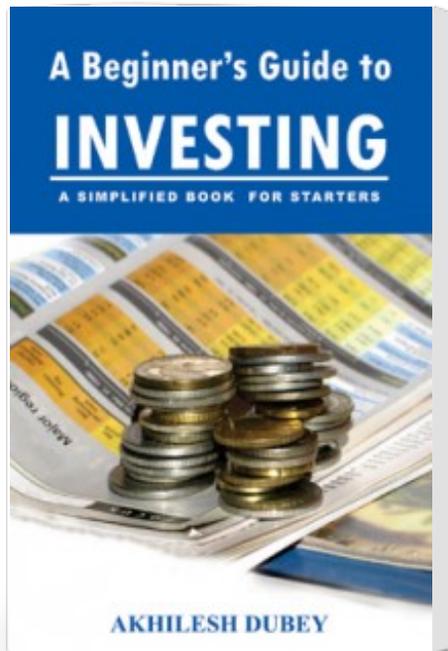
If one wishes to have securities in demat mode, need is to indicate the name of the depository and also of the depository participant with whom you have depository account in your application.

It is, however desirable to hold securities in demat form as physical securities carry the risk of being fake, forged or stolen.

Just open an account with a bank if you want to save your money, make cheque payments etc. Nowadays, you need to open a demat account if you want to buy or sell stocks.

So it is just like a bank account where actual money is replaced by shares. You have to approach the DPs (remember, they are like bank branches), to open your demat account. Let's say Mr. Anirudh's portfolio of shares

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