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B.COM HONOURS	SEMESTER 1	CALICUT UNIVERSITY	COURSE CODE: COM1FM105(2)

STOCK MARKET FUNDAMENTALS

EXAM REVISION NOTES

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MODULE I

1. SECURITIES MARKET ARCHITECTURE: PRIMARY VS. SECONDARY MARKETS

Securities Market Architecture: Primary vs. Secondary Markets: The securities market constitutes the financial nervous system of modern industrial capitalism. In macroeconomics, economic growth is fundamentally determined by the efficiency with which a nation mobilizes idle household savings and channels them into productive, long-term corporate capital investments.

The Secondary Market: Liquidity Price Discovery Platform: The Secondary Market (the stock exchange) is the marketplace where previously issued financial securities are continuously bought and sold between public investors.

- **Continuous Liquidity:** Despite not providing direct corporate funding, the secondary market is absolutely indispensable to the primary market.

Pre-requisites to Invest in the Stock Market: The 3-in-1 Account Ecosystem: Prior to the mid-1990s, the Indian stock market operated via physical share certificates. This manual ecosystem was crippled by severe operational risks, including bad deliveries, counterfeit certificates, physical theft, postal transit delays, and transfer stamp duties.

Depository Infrastructure in India: NSDL vs. CDSL: In India, dematerialized holdings are administered by two central statutory depositories licensed and monitored by SEBI:

- **National Securities Depository Limited (NSDL):** Established in August 1996, NSDL is India's first depository, promoted by the National Stock Exchange (NSE), IDBI Bank, and UTI.
- **Central Depository Services (India) Limited (CDSL):** Established in February 1999, CDSL was promoted by the Bombay Stock Exchange (BSE) alongside leading public sector banks.
- **Depository Participants (DPs):** Retail investors cannot open accounts directly with NSDL or CDSL.

Step-by-Step Procedure for Opening Demat Trading Accounts: Regulatory frameworks enforced by SEBI, the Reserve Bank of India (RBI), and the Prevention of Money Laundering Act (PMLA) impose rigorous customer due diligence requirements on market intermediaries to safeguard the capital markets against illicit money laundering, terrorism financing, and retail investor fraud.

Transition from Physical PoA to DDPI (Demat Debit and Pledge Instruction): A critical historical point of vulnerability for retail investors in India was the traditional Power of Attorney (PoA).

- **Statutory Scope:** ; Strictly Limited amp; Explicit: Restricted exclusively to specific, designated transactional operations.
- **Authorized Debit Actions:** ; Limited strictly to: (1) Debiting shares to satisfy exchange settlement obligations for executed sales, and (2) Pledging/re-pledging shares for margin requirements.
- **Mandatory Nature:** ; Completely Voluntary: Investors can choose not to sign DDPI and instead authorize daily sales via CDSL/NSDL T-PIN and OTP.
- **Misuse Vulnerability:** ; Extremely low; automated depository validation blocks any transfer outside exchange settlement clearing corporations.

Direct Equity vs. Mutual Funds: 1. , purchasing 50 shares of TCS or Reliance).

- **Mechanism:** , purchasing 50 shares of TCS or Reliance).
- **Control amp; Ownership:** Control amp; Ownership: The investor is a direct legal shareholder holding voting rights, receiving dividends directly, and making autonomous buy/sell decisions.
- **Risk amp; Return:** Risk amp; Return: High return potential (multi-baggers) paired with high unsystematic (company-specific) risk.
- **Mechanism:** Capital from millions of retail savers is pooled into an Asset Management Company (AMC) and managed by professional fund managers across a diversified portfolio of 40–80 stocks.
- **Diversification:** Instant reduction of unsystematic risk.

Regulatory Governance: SEBI The SCORES Redressal Architecture: The credibility and structural integrity of the securities market depends fundamentally on the efficacy of its regulatory framework.

Quasi-Legislative, Quasi-Executive, and Quasi-Judicial Powers: SEBI is a uniquely powerful regulatory institution combining all three classical state functions:

- **Quasi-Legislative:** , SEBI ICDR Regulations, SEBI LODR Regulations, SEBI Prohibition of Insider Trading Regulations).
- **Quasi-Executive:** Conducts audits, inspections, investigations, and search-and-seizure operations into market transactions and suspect broker trading books.
- **Quasi-Judicial:** Conducts formal enforcement hearings, issues binding cease-and-desist orders, impounds unlawful profits, and levies heavy monetary penalties.

Calicut University Examination Bank: Questions Solutions: The following curated question-solution sets reflect the exact academic standards, conceptual depth, and analytical rigor prescribed by Calicut University for COM1FM105 (2): Stock Market Fundamentals (Module I: Introduction to Securities Market).

Part B: Short Essay / Conceptual Questions (5 Marks Each)

- Maintained with an RBI-regulated commercial banking institution.
- Holds physical legal tender currency; provides liquidity for share purchases via instant payment gateways (UPI, IMPS, Net Banking).
- Directly receives electronic corporate credit disbursements, such as dividends and interest payments.
- , Zerodha, Groww).
- Provides the software user interface (web/mobile app) connecting to the stock exchanges (NSE and BSE).

SEBI: Architecture of Securities Regulation and Investor Governance: The Securities and Exchange Board of India (SEBI) was established as a statutory body under the Securities and Exchange Board of India Act, 1992, responding to the Harshad Mehta securities scam of 1992, which exposed severe regulatory fragmentation in the Indian capital markets.

- **Quasi-Legislative Authority:** Under Section 30 of the SEBI Act, the Board is empowered to formulate statutory regulations without prior parliamentary approval.
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR): Enforces continuous corporate governance on listed companies.
- SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT): Prohibits trading based on Unpublished Price Sensitive Information (UPSI).
- **Quasi-Executive Authority:** Under Sections 11 and 11C, SEBI inspects broker books, orders forensic audits, subpoenas phone records, inspects digital servers, and conducts dawn raids and search-and-seizure operations against suspected market manipulators.
- **Quasi-Judicial Authority:** Under Section 15I, SEBI Adjudicating Officers conduct quasi-judicial hearings, issuing cease-and-desist orders, impounding unlawful gains, disgorging profits, and levying monetary penalties running into hundreds of crores of rupees.

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MODULE II

1. PRIMARY MARKET MECHANICS & PUBLIC ISSUE FRAMEWORKS

Primary Market Mechanics Public Issue Frameworks: The primary capital market is the institutional channel through which corporate enterprises transition from private entities into publicly traded corporations, or through which established public companies raise incremental long-term equity capital.

Modes of Public Issue Pricing: Fixed Price vs. Book Building: In modern Indian primary markets, the pricing of an IPO is executed either through a traditional fixed-price mechanism or through dynamic market price discovery via book building:

- **Pricing Determination:** ; Price is discovered dynamically based on demand bids submitted by investors within a designated Price Band.
- **Price Band Limits:** ; Comprises a Floor Price (minimum bid) and a Cap Price (maximum bid).
- **Demand Visibility:** ; Demand is tracked in real-time on stock exchange terminals as bids are entered continuously into the electronic order book.
- **Cut-off Price Option:** ; Retail Individual Investors (RIIs) can tick the Cut-off Option, agreeing to purchase shares at whatever final price is discovered by institutional bidding.

The Hierarchy of Statutory Disclosure Documents (Prospectus): To ensure investor protection, Indian corporate law mandates strict disclosure documents across successive stages of public issuance:

- **Red Herring Prospectus (RHP):** The updated prospectus filed with the Registrar of Companies (ROC) after incorporating SEBI's observations.
- **Final Prospectus:** Filed with ROC immediately following the conclusion of the bidding period.
- **Shelf Prospectus amp; Abridged Prospectus:** Shelf Prospectus amp; Abridged Prospectus: A Shelf Prospectus allows public financial institutions or banks to make multiple non-convertible debenture issues over a 1-year period without filing a new prospectus each time.

Basis of Allotment, Reservation Quotas Grey Market (GMP): SEBI ICDR regulations mandate strict proportional quotas to ensure equitable allocation across investor categories in a book-built IPO:

- **Qualified Institutional Buyers (QIB):** Minimum 50% of Net Issue; Mutual funds, foreign portfolio investors (FPIs), insurance companies, banks, and pension funds.
- **Non-Institutional Investors (NII / HNI):** Minimum 15% of Net Issue; High-net-worth individuals and corporate treasuries applying for amounts exceeding ₹2,00,000.
- **Retail Individual Investors (RII):** Minimum 35% of Net Issue; Individuals, Hindu Undivided Families (HUFs), and NRI retail investors applying for an aggregate value not exceeding ₹2,00,000.

The Twin Pillars of Indian Securities Trading: BSE vs. NSE: " It is Asia's oldest stock exchange. Trading Platform: Migrated from the physical "open outcry" trading ring to the electronic BOLT (BSE Online Trading) system in 1995.

- **Heritage:** " It is Asia's oldest stock exchange.
- **Trading Platform:** Migrated from the physical "open outcry" trading ring to the electronic BOLT (BSE Online Trading) system in 1995.
- **Listed Universe:** Over 5,300+ listed companies (the largest listed universe globally).
- **Benchmark Index:** S amp;P BSE SENSEX (Sensitivity Index), introduced in 1986 with base year 1978–79 = 100, tracking 30 premier, financially sound large-cap companies.
- **Modern Pioneer:** Incorporated in 1992 and recognized in 1993 following the recommendations of the Pherwani Committee to dismantle regional stock exchange cartels.

Global Benchmark Market Indices: To contextualize domestic trends against global macroeconomic liquidity flows, investors track international indices:

- **United States:** Dow Jones Industrial Average (DJIA) (price-weighted 30 blue-chips), S amp;P 500 (broad market standard), and NASDAQ Composite (technology-weighted).
- **Europe:** FTSE 100 (United Kingdom), DAX 40 (Germany), and CAC 40 (France).
- **Asia-Pacific:** Nikkei 225 (Japan), Hang Seng (Hong Kong), Shanghai Composite (China), and KOSPI (South Korea).

Deconstructing the Market Watch: LTP, OHLC, and Market Depth: Core Price Attributes: LTP (Last Traded Price): The exact price at which the most recent trade was matched on the exchange order book.

- **LTP (Last Traded Price):** The exact price at which the most recent trade was matched on the exchange order book.
- **Open Price:** The equilibrium price discovered during the 9:00 AM to 9:08 AM Pre-Market Call Auction.
- **High amp; Low:** High amp; Low: The absolute highest and lowest executed prices during the current trading session.
- **Close Price:** In India, the closing price is not the last trade at 3:30 PM; it is the Volume-Weighted Average Price (VWAP) of all trades executed during the final 30 minutes (3:00 PM to 3:30 PM).
- **Bid:** The price a buyer is willing to pay.

Comprehensive Taxonomy of Trading Orders: 1. Market Order: An order to buy or sell immediately at the best available prevailing market price on the exchange order book.

- **2. Limit Order:** An order to buy or sell at a specific stated price or better.
- **3. Stop-Loss Order (SL):** Designed to limit potential losses.
- **4. After Market Orders (AMO):** , between 4:00 PM and 9:00 AM).
- **5. Good-Till-Triggered (GTT) Orders:** A long-term conditional order valid for up to 1 year.

The T+1 Settlement Cycle The Role of Clearing Corporations: In January 2023, India achieved global financial history by becoming the first major economy in the world to successfully transition its entire equity cash market to a T+1 Rolling Settlement Cycle (where T represents the trade execution date).

- **Clearing Corporations:** The settlement process is administered by statutory : the NSE Clearing Limited (NCL) and the Indian Clearing Corporation Limited (ICCL).

Comprehensive Breakdown of Stock Market Transaction Levies: When executing a trade in the Indian equity market, the total cost incurred by an investor comprises the broker's commission plus six non-negotiable statutory government taxes and regulatory fees:

- **1. Brokerage:** ; Stockbroker revenue for execution and software terminal infrastructure.
- **2. Securities Transaction Tax (STT):** ; Central Government (Ministry of Finance).
- **3. Exchange Turnover Charges:** ; Stock exchanges for operating the electronic matching server infrastructure.
- **4. SEBI Turnover Fee:** ; SEBI for market regulation and surveillance funding.

Part A: Short Answer Questions (2 Marks Each)

Part C: Comprehensive Essay Problem Solving (10 / 15 Marks)

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MODULE III

1. SECURITY ANALYSIS & FUNDAMENTAL VALUATION: THE EIC FRAMEWORK

Security Analysis Fundamental Valuation: The EIC Framework: In financial economics and capital market pedagogy, security analysis represents the disciplined intellectual process of estimating the Intrinsic Value of a financial asset to determine whether it is currently underpriced, fairly valued, or overpriced by the broader stock market.

- **EIC Framework:** To systematically evaluate the future cash-generating capacity and risk profile of a corporation, analysts deploy the top-down : evaluating first the broader Economy, followed by the specific Industry, and culminating in the granular analysis of the individual Company.

The EIC Analytical Framework (Top-Down Approach)

- **GDP Growth Rate:** Real economic output expansion.
- **Inflation Rates (CPI/WPI):** Input cost pressures and purchasing power.
- **Interest Rate Reg × (RBI Repo Rate):** Cost of debt capital and discount rates.
- **Fiscal amp; Current Account Deficits:** Fiscal amp; Current Account Deficits: Sovereign stability and currency health.
- **Foreign Direct Investment (FDI/FPI):** Cross-border liquidity inflows.

Financial Ratio Taxonomy Fundamental Company Diagnostics: Financial statement analysis translates audited Balance Sheets, Profit amp; Loss accounts, and Cash Flow statements into standardized mathematical metrics that enable cross-sectional peer benchmarking and historical time-series evaluation.

DuPont Analysis: Deconstructing Return on Equity: Under the classical 3-Factor DuPont Model, Return on Equity (RoE) is mathematically decomposed into three distinct operational drivers to identify the exact source of a company's financial performance:

The Three Foundational Axioms of Technical Analysis: 1. Market Discounts Everything: All known macroeconomic information, company balance sheets, future earnings expectations, and political developments are instantaneously reflected in the current market price of the stock.

- **2. Prices Move in Trends:** Price movements do not behave purely randomly; they follow observable persistent trends (Uptrends - higher highs amp; higher lows; Downtrends - lower highs amp; lower lows; Sideways/Consolidation ranges).
- **3. History Repeats Itself:** Human emotional psychology—fear, panic, greed, hope—remains constant across centuries.

Core Technical Indicators and Oscillators: 1. Moving Averages (SMA amp; EMA): Calculates the average price over a specified period to smooth out short-term price noise and identify underlying trend direction.

- **Simple Moving Average (SMA):** Equal weighting to all days.
- **Exponential Moving Average (EMA):** Assigns greater mathematical weight to recent price data, reacting faster to reversals.
- **Golden Cross:** Short-term 50-day EMA crosses above long-term 200-day EMA (Major Bullish signal).
- **Overbought (RSI ge 70):** Security has experienced rapid upward momentum and may be due for a consolidation or pullback.
- **Oversold (RSI le 30):** Severe selling exhaustion; potential technical bounce zone.

The Anatomy of Total Risk: Systematic vs. Unsystematic Risk: Systematic Risk (Non-Diversifiable): Macro-environmental risks that impact the entire capital market simultaneously.

- **Components:** Interest rate shocks, inflation, wars, pandemics, monetary policy changes.
- **Measurement (Beta - eta):** Measures the volatility/sensitivity of a stock relative to the broader market index.
- **Components:** Factory strikes, management fraud, patent rejections, loss of a key customer.
- **Elimination:** Markowitz proved that by constructing a portfolio of 25 to 30 uncorrelated stocks across diverse economic sectors, unsystematic risk can be mathematically reduced to virtually zero.

Portfolio Revision Strategic Asset Allocation: Constructing a portfolio is not a static one-time event; it requires continuous Portfolio Revision:

- **Asset Allocation:** Distributing wealth across non-correlated asset classes: Equities (growth), Fixed Income / Debt (capital preservation and regular cash flow), Gold (inflation hedge and geopolitical crisis safe haven), and Cash (liquidity).
- **Rebalancing Strategies:** , annually or semi-annually).
- **Threshold-Based Rebalancing:** , if equities surge to 75% of a 60:40 portfolio, sell 15% of equity profits and reinvest into debt).

Corporate Actions: The Dividend Lifecycle: A Dividend is the distribution of a portion of a company's post-tax profits to its shareholders. The dividend execution follows a strict chronological calendar:

- **1. Declaration Date:** The Board of Directors officially announces the dividend per share and fixes the record date.
- **2. Record Date:** The cut-off date established by the company to determine the official list of eligible shareholders registered in the depository records.
- **3. Ex-Dividend Date:** The date on which the stock begins trading without the dividend entitlement.
- **4. Payment Date:** The date on which the dividend cash is credited directly into the investor's linked savings bank account via electronic ECS/NACH transfer.
- **Tax Treatment of Dividends:** Dividends are fully taxable in the hands of shareholders at their applicable personal Income Tax Slab Rates.

Calicut University Examination Bank: Questions Solutions: The following curated question-solution sets reflect the exact academic standards, conceptual depth, and analytical rigor prescribed by Calicut University for COM1FM105 (2): Stock Market Fundamentals (Module III: Fundamental and Technical Analysis).

Part B: Short Essay / Conceptual Questions (5 Marks Each)

- Because transactions are squared-off without physical delivery of shares, it is statutorily defined as Speculative Business Income.
- **slab rates:** Net profits are added to total personal income and taxed at applicable progressive .
- **strictly against speculative profits only:** Loss Restriction: Speculative losses can be set off .
- **Non-Speculative Business Income:** Under Section 43(5)(d), exchange-traded derivatives are explicitly recognized as .
- Net profits are taxed at individual income tax slab rates.

The EIC Framework: Comprehensive Master Architecture: The EIC framework provides a rigorous, top-down analytical architecture for equity research. An equity share does not exist in isolation; its performance is nested within its industry sector, which is in turn nested within the macroeconomic system.

- **Gross Domestic Product (GDP):** The rate of aggregate output expansion.
- **Monetary Policy amp; Repo Rates:** Monetary Policy amp; Repo Rates: The Reserve Bank of India's benchmark policy rate.
- **Inflation Dynamics:** High Consumer Price Index (CPI) inflation erodes consumer discretionary spending and increases raw material input costs.

- **Fiscal Deficit amp; Sovereign Debt:** Fiscal Deficit amp; Sovereign Debt: High deficits crowd out private corporate borrowing and exert upward pressure on bond yields.
- **Foreign Exchange amp; Current Account:** Foreign Exchange amp; Current Account: Fluctuations in the USD/INR exchange rate impact import-heavy sectors (oil refiners, electronics) versus export-oriented sectors (IT services, pharmaceuticals).

MODULE IV

1. INSTITUTIONAL STRUCTURE & WORKING MECHANISM OF MUTUAL FUNDS

Institutional Structure Working Mechanism of Mutual Funds: A Mutual Fund is a financial intermediary that pools financial savings from millions of individual and institutional investors sharing common financial objectives.

The Statutory Three-Tier Architecture of Indian Mutual Funds

- **5 years:** Must satisfy strict SEBI fit-and-proper criteria: carrying on business in financial services for at least with a positive net worth in all 5 preceding years.
- **40% of the net worth:** Must contribute at least of the Asset Management Company (AMC).
- **two-thirds (66.6%):** At least of the trustees must be independent individuals unconnected with the Sponsor.
- Monitors AMC operations, audits compliance with SEBI investment limits, and prevents self-dealing or inter-scheme malpractices.
- **₹50 Crores:** Must maintain a minimum net worth of .

Classification by Structure: 1. Open-Ended Schemes: Units can be purchased and redeemed continuously on any business day directly from/to the AMC at the prevailing day's Net Asset Value (NAV).

- **2. Close-Ended Schemes:** Units are offered strictly during an initial New Fund Offer (NFO) window and cannot be redeemed with the AMC until the maturity date (typically 3 to 5 years).
- **3. Interval Schemes:** A hybrid structural model that combines open-ended and close-ended features.

Investment Styles: Active Management vs. Passive Indexing: , beating the Nifty 50). Operational Reality: Relies on active stock picking, sector rotation, and market timing by fund managers.

- **Goal:** , beating the Nifty 50).
- **Operational Reality:** Relies on active stock picking, sector rotation, and market timing by fund managers.
- **Cost:** 25%).
- **Goal:** , Nifty 50, Sensex) with minimum Tracking Error.
- **Operational Reality:** No active stock picking.

Operational Mechanics: NAV, NFO, Plans, and SIP Dynamics: Entering and managing mutual fund investments requires understanding how fund units are priced, the substantial structural cost differences between distribution plans, and the mathematical mechanics of systematic compounding.

Direct Plan vs. Regular Plan: The Wealth-Eroding Impact of TER: Every mutual fund scheme offers two operational avenues: a Regular Plan and a Direct Plan. Both plans invest in the exact same identical portfolio of stocks managed by the exact same fund manager.

- **Distribution Route:** ; Purchased directly from the AMC (via AMC website, MF Central, or direct platforms like Zerodha Coin, Groww).
- **Commission Structure:** ; Zero commissions paid to any intermediary; zero distribution drag.
- **Total Expense Ratio (TER):** 0% every year).
- **Net Asset Value (NAV):** ; Consistently higher NAV, compounding into substantial long-term wealth divergence.

Post-Investment Operations, Portfolio Diagnostics Taxation: Managing mutual fund wealth over the long term involves utilizing automated withdrawal mechanisms, analyzing risk metrics on fund fact sheets, and managing statutory capital gains tax liabilities.

Automated Portfolio Operations: SWP and STP: Systematic Withdrawal Plan (SWP): Allows an investor to withdraw a fixed Sum of of money on a monthly basis from their accumulated mutual fund corpus by redeeming the exact required number of units.

- **Ideal for Retirees:** Generates predictable monthly cash flow.
- **Superior Tax Efficiency:** Unlike bank FD interest (which is 100% taxable as ordinary income), each SWP withdrawal consists partly of principal capital (tax-free) and partly of capital gains, drastically reducing annual tax outflow.
- **Eliminates Timing Risk:** Prevents investing a huge lump Sum of right at a market peak.
- **Earning Dual Returns:** Uninvested capital earns liquid fund yields (6%–7%) while steadily transitioning into equity compounding.

Statutory Mutual Fund Taxation Framework (Post-Finance Act 2023 2024)

- **Equity-Oriented Schemes (Equity ge 65%):** 5% Flat; LTCG enjoys a statutory annual exemption of up to ₹1,25,000 per financial year under Section 112A.

Part A: Short Answer Questions (2 Marks Each)

Part B: Short Essay / Conceptual Questions (5 Marks Each)

- **Bank Fixed Deposit Interest:** 100% of the interest earned annually is added directly to the retiree's taxable income and taxed at progressive slab rates (up to 30% + cess), regardless of whether it is withdrawn or reinvested.
- **Return of Capital (Principal):** Mutual Fund SWP Cash Flows: Every SWP monthly installment is considered a redemption of units, consisting of two parts: (a) Completely tax-free; and (b) Capital Gains Component: Only the capital gain fraction is taxed.
- **Long-Term Equity Exemption:** 5%.
- **20.0%:** Short-Term Capital Gains (STCG - le 12 Months): Taxed at a flat rate of (increased from 15% in Budget 2024).
- **12.5%:** Long-Term Capital Gains (LTCG - > 12 Months): Taxed at (increased from 10%) on aggregate gains exceeding the enhanced statutory exemption limit of ₹1,25,000 per financial year.

Mutual Funds as Catalysts of Retail Financialization in India: 5 crore unique retail investors to participate in corporate wealth creation through professional intermediation, risk diversification, and low-cost systematic entry.

- **Equity Schemes:** Large Cap (Top 100 stocks, min 80% equity), Mid Cap (101–250 stocks, min 65%), Small Cap (251+ stocks, min 65%), Flexi Cap (unrestricted multi-cap allocation), and ELSS (tax saving under Section 80C with a 3-year lock-in).
- **Debt Schemes:** Categorized by Macaulay duration: Overnight, Liquid (up to 91 days), Corporate Bond (min 80% in AA+ rated paper), and Gilt Funds (investing in sovereign government securities with zero default risk).
- **Hybrid Schemes:** Conservative Hybrid (10%–25% equity), Aggressive Hybrid (65%–80% equity), and Dynamic Asset Allocation (Balanced Advantage Funds utilizing counter-cyclical algorithmic rebalancing).
- **Counter-Cyclical Accumulation:** Because the monthly investment Sum of is invariant, when market valuations drop during bear phases, the SIP automatically accumulates a higher volume of units at discounted NAVs.

- **The Mathematical Power of Compounding:** Reinvesting capital gains over 15 to 25 years produces exponential growth: A = P × ((1 + r)n - 1 / r) × (1 + r).

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