B.Com Honours

Semester II

Calicut University

Essentials of Investment

Course Code: COM2MN105 • Module 4 Notes

1. Direct Equity Investment: Account Setup and Security Analysis

Direct equity investment involves buying ownership shares in publicly traded corporations. It offers the highest historical long-term returns but requires active research, account setups, and portfolio risk management. This final module covers the steps to open Demat and trading accounts, the role of brokerages and depositories, fundamental vs. technical analysis, and portfolio diversification.

Demat and Trading Account Setup

To trade equities in India, an investor must open accounts with a stockbroker (Full Service like ICICI Direct or Discount like Zerodha):

- **Required Documents:** PAN card, Aadhaar card, canceled cheque (bank proof), passport photos, and income proof (for derivative trading).
- **Role of Depositories:** **NSDL** (National Securities Depository Limited) and **CDSL** (Central Depository Services Limited) are the institutions that hold shares in digital form.
- **Role of Depository Participants (DP):** Stockbrokers who act as agents linking the investor to the depositories.
- **Clearing Corporations:** **NSCCL** (NSE Clearing) and **ICCL** (BSE Clearing) guarantee the settlement of all executed trades, ensuring the seller receives cash and the buyer receives shares.

Security Analysis: Fundamental vs. Technical

Investors select stocks using two main analytical approaches:

Fundamental Analysis

Evaluates the company's business model, sales growth, debt levels, management quality, and financial ratios (P/E, P/B, ROE) to find the **intrinsic value** of the stock. Used for long-term investing.

Technical Analysis

Analyzes historical stock price charts and volume patterns to predict future price direction. Uses tools like support and resistance levels, and moving averages. Used for short-term trading.

Portfolio Diversification and Risk Reduction

The most effective tool to manage risk in direct equity is **Portfolio Diversification**—spreading capital across different companies, sectors, and asset classes to reduce unsystematic risk. If an investor owns shares in 20 companies across 5 different sectors (banking, IT, pharma, energy, FMCG), a crash in the IT sector will only affect a small portion of their portfolio. Periodically rebalancing the portfolio ensures it remains aligned with the investor's risk profile.