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B.COM HONOURS	SEMESTER 6	CALICUT UNIVERSITY	COURSE CODE: COM6FS113(1)

STOCK MARKET INVESTMENT AND TRADING

EXAM REVISION NOTES

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MODULE I

INTRODUCTION TO SECURITIES MARKET

Conceptual Boundaries: Investment, Speculation, and Gambling: In financial economics, capital allocation decisions can be categorized into three distinct behavioral paradigms: investment, speculation, and gambling.

Investment vs Trading in the Stock Market: Within the operational framework of secondary equity markets, market participants divide broadly into investors and traders.

Pre-requisites to Invest in the Stock Market: Participating in modern electronic securities markets requires an integrated infrastructure linking the banking sector, the securities depository, and registered trading intermediaries.

Step-by-Step Account Opening Process (Digital e-KYC Flow): In accordance with SEBI circulars on paperless onboarding, opening a combined Demat and Trading account has been fully digitized using India Stack application programming interfaces (APIs):

- **Step 1:** Broker Selection Registration: The client selects a registered stockbroker (traditional full-service broker such as ICICI Securities, HDFC Securities, Sharekhan or discount broker such as Zerodha, Groww, Angel One) and verifies valid SEBI registration credentials.
- **Step 2:** Digital Identity Submission: The applicant inputs mobile number and email address verified via One-Time Passwords (OTPs), accompanied by their Permanent Account Number (PAN).
- **Step 3:** DigiLocker Integration for Aadhaar e-KYC: Through government-certified DigiLocker APIs, the investor consents to retrieve officially valid address documents (Aadhaar, Passport, or Voter ID).
- **Step 4:** Bank Account Verification via Penny Drop: The applicant submits bank account credentials (IFSC, Account Number).
- **Step 5:** In-Person Verification (IPV): To eliminate identity theft and impersonation, the investor undergoes an electronic In-Person Verification (e-IPV).

Regulatory Compliance Architecture: KYC, CKYC, DDPI, and Nomination: The integrity of the capital market depends on stringent Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) standards under the Prevention of Money Laundering Act (PMLA), 2002.

KYC Registration Agencies (KRAs): SEBI introduced the KRA Regulations in 2011 to eliminate repetitive documentation. Entities such as CVL (CDSL Ventures Limited), NDML, CAMSKRA, Karvy, and DOTEX maintain centralized databases of verified capital market investors.

Nomination Framework: Under Section 72 of the Companies Act, 2013, and SEBI circulars governing demat and trading accounts, nomination is a vital legal mechanism that ensures smooth succession and protects surviving family members from protracted legal probate proceedings upon an investor's demise.

- **Mandatory Compliance:** All individual demat account holders must either register a valid nomination or explicitly submit a formal declaration opting out of nomination.
- **Multi-Nominee Slabs:** Account holders can designate up to three nominees, allocating specific percentage shares to each (totaling exactly 100%).
- **Minor Nomination:** A minor can be designated as a nominee, provided the account holder appoints a legal adult guardian and specifies the minor's date of birth.
- **Legal Status of Nominee:** Under Indian corporate law, a nominee acts as a legal trustee and custodian for the estate of the deceased.

Direct Equity Investment: Direct equity investment entails buying shares of specific corporations directly on stock exchanges. The investor becomes an equity owner with voting rights, entitlement to declared corporate dividends, participation in rights issues, and direct exposure to corporate value appreciation.

- **Uncapped Upside Potential:** Allows concentrated allocation to high-growth businesses, enabling substantial portfolio outperformance relative to broad market indices.
- **Direct Corporate Engagement:** Investors participate in Annual General Meetings (AGMs), vote on strategic board resolutions, and exercise shareholder franchise.
- **Absence of Intermediary Management Fees:** Aside from statutory transaction costs and nominal brokerage, direct equity ownership incurs no recurring management fee (expense ratio).
- **High Unsystematic Risk:** Without disciplined diversification across sectors, corporate bankruptcy, management fraud, or industry decline can erode substantial portions of capital.

Intraday Trading (Day Trading): Intraday trading involves purchasing and selling (or short-selling and covering) financial securities within the confines of a single trading day.

- **Zero Overnight Risk:** By liquidating all positions before market close, intraday traders insulate themselves completely from adverse overnight events, international market crashes, geopolitical shocks, or morning gap-down openings.
- **Margin Leverage Utilization:** Brokers provide intraday margin multipliers (under SEBI Peak Margin guidelines, up to 5x margin for cash equity intraday MIS orders).
- **Automated Square-off:** , 3:15 PM), the broker's automated Risk Management System (RMS) executes compulsory market orders, often levying auto-square-off charges.
- **Execution Discipline:** Requires absolute reliance on minute-by-minute charts (1-min, 5-min, 15-min intervals), strict pre-determined stop-losses, and disciplined emotion control.

Derivative Trading (Futures Options): Derivatives are financial contracts whose economic value is derived from an underlying asset, such as an equity index (NIFTY 50, BANK NIFTY) or individual corporate stocks (Reliance, TCS, HDFC Bank).

- **Futures Contracts:** Standardized exchange-traded agreements to buy or sell a specified quantity of an underlying asset at an agreed future date and price.
- **Hedging vs. Speculation:** , purchasing index put options as portfolio insurance).

Genesis and Statutory Mandate of SEBI: SEBI was initially established in 1988 as an administrative non-statutory body and was subsequently granted comprehensive statutory authority through the promulgation of the Securities and Exchange Board of India Act, 1992 (SEBI Act).

Regulatory Pillars Administered by SEBI

- Prohibition of Fraudulent Unfair Trade Practices (PFUTP): Enforced under SEBI (PFUTP) Regulations, 2003.
- Listing Obligations Disclosure Requirements (LODR): Mandates timely, continuous, and transparent corporate disclosures by listed companies regarding quarterly financial statements, board decisions, material events, and corporate restructuring.

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MODULE II

PRIMARY MARKET AND SECONDARY MARKET

Primary Market Architecture: Capital Mobilization Mechanisms: The Primary Market (frequently termed the New Issue Market) serves as the primary conduit through which corporate enterprises, statutory corporations, and sovereign entities raise long-term equity and debt capital directly from retail, high-net-worth, and institutional investors.

Pricing Methodologies: Fixed Price vs. Book Building: When offering shares to the public, an issuing company in consultation with its Lead Merchant Bankers must select an appropriate pricing mechanism under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations).

- **Issue Price Determination:** , ₹475 to ₹500); market demand dynamically discovers the ultimate cut-off price.
- **Price Band Dynamics:** ; Comprises a Floor Price (lower limit) and a Cap Price (upper limit).
- **Demand Visibility:** ; Real-time demand and bidding subscription figures are publicly broadcast across exchange terminals daily during the bidding window.
- **Cut-off Option:** ; Retail Individual Investors (RIIs) can tick the "Cut-off Price" box, committing to buy shares at whatever final price is discovered.

UPI-Based ASBA Application Workflow: To enable seamless mobile IPO applications through fintech discount brokers, SEBI and the National Payments Corporation of India (NPCI) introduced the Unified Payments Interface (UPI) ASBA mechanism for retail applications up to ₹5,00,000.

- **Successful Allottee:** The exact allotment Sum of is debited from the bank account, and equity shares are credited directly into the demat account.
- **Non-Allottee / Unsuccessful Applicant:** The mandate is unblocked by the bank, instantly releasing the lien and making the full funds available for withdrawal.

Hierarchy of Prospectus Documents

- **Red Herring Prospectus (RHP):** The document filed with the Registrar of Companies (RoC) at least three days prior to the opening of the bidding subscription window.
- **Final Prospectus:** Filed with the RoC upon the conclusion of the book-building process.
- **Shelf Prospectus Information Memorandum:** Pertains primarily to debt and non-convertible debenture issues, allowing an issuer to raise capital in multiple tranches over a one-year validity window without re-filing a fresh prospectus for each issue.
- **Abridged Prospectus:** A condensed statutory Sum of mary containing the salient features of a prospectus as specified by SEBI under Section 33 of the Companies Act, 2013.

Rigorous Analytical Framework for Evaluating an IPO: Investing in an IPO requires critical scrutiny of the prospectus rather than relying on unofficial speculative hype.

- **1. Objects of the Issue:** Identifying how the mobilized funds will be utilized.
- **2. Promoter Track Record and Governance:** Scrutinizing promoter backgrounds, litigations, tax disputes, and related party transactions disclosed under the 'Risk Factors' section of the RHP.
- **3. Restated Financial Statements:** Analyzing trends in Revenue from Operations, EBITDA Margins, Net Profit Margins, Return on Net Worth (RoNW), and Free Cash Flow generation over the preceding three to five fiscal years.
- **4. Relative Valuation Metrics:** Comparing the issue price band against listed peer competitors using Price-to-Earnings (P/E) multiple, Price-to-Book (P/B) ratio, and EV/EBITDA multiples.

Market Indices Free-Float Market Capitalization: A stock market index is a statistical barometer reflecting aggregate price movements and economic sentiment across a defined basket of representative equity stocks.

- **Constituent Count:** ; 30 financially sound, actively traded mega-cap corporations.
- **Base Year Value:** ; Base Year: 1978-79 | Base Value: 100 points.
- **Weighting Methodology:** ; Free-Float Market Capitalization (transitioned from full cap in 2003).
- **Sectoral Representation:** ; Spans key core industrial and financial engines of the Indian economy.

Trading Sessions: The Pre-Open Auction and Normal Market: The trading day on Indian equity exchanges is partitioned into discrete operational phases:

- **Pre-Open Call Auction Session (9:** 00 AM – 9:15 AM): 9:00 AM – 9:08 AM: Order entry, modification, and cancellation period where market participants place buy and sell orders.
- 9:08 AM – 9:12 AM: Order matching and equilibrium price discovery.
- 9:12 AM – 9:15 AM: Buffer period facilitating smooth transition into normal continuous trading.
- **Continuous Normal Market (9:** 15 AM – 3:30 PM): Orders match continuously on a strict Price-Time Priority algorithm (orders at the best price execute first; among orders at the same price, the order placed earliest in time executes first).
- **Closing Call Auction Session (3:** 30 PM – 3:40 PM): Facilitates computation of closing prices and post-market execution at the discovered closing rate.

Market Order

Stop-Loss Market (SL-M)

Clearing, Settlement, Contract Notes Transaction Charges: The post-trade infrastructure ensures that every executed trade culminates in the physical transfer of securities to the buyer and monetary proceeds to the seller, eliminating counterparty default risks.

The Contract Note (Form A): A Contract Note is the statutory legal record issued by a SEBI-registered stockbroker to the client confirming the execution of trades on the stock exchange floor.

- **Statutory Disclosures:** Must mandatorily specify trade date, settlement date, unique trade number, execution time, security ISIN, scrip name, buy/sell action, quantity, trade price, brokerage charged, and an itemized breakdown of statutory levies.
- **Legal Admissibility:** The contract note serves as conclusive legal evidence in court proceedings, income tax assessments, and arbitration hearings before stock exchange grievance committees.

Capital Gains Framework (Investors)

- **Equity Delivery Holding Period Threshold:** For listed equity shares and equity mutual funds subject to STT, the threshold separating short-term and long-term holding is 12 months.
- **Short-Term Capital Gains (STCG) u/s 111A:** If equity shares are held for 12 months or less and sold at a gain with STT paid, the profits are taxed at a concessional rate of 20% (revised from 15% under the Finance Act 2024), plus applicable surcharge and 4% Health Education Cess.
- **Long-Term Capital Gains (LTCG) u/s 112A:** 5% (revised from 10% under Finance Act 2024) on aggregate capital gains exceeding the statutory threshold of ₹1,25,000 in a financial year (exemption expanded from ₹1,00,000).

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- **Dividend Taxation:** Dividends received from domestic companies are taxable at normal slab rates in the hands of the shareholder under 'Income from Other Sources'.

MODULE III

FUNDAMENTAL AND TECHNICAL ANALYSIS

Fundamental Analysis: The E-I-C Analytical Framework: Fundamental analysis operates on the foundational axiom that securities possess an intrinsic value derived from the underlying business's ability to generate cash flows.

Level 3: Company Analysis: Company analysis evaluates the individual corporation's competitive posture, structural moat, and execution track record:

- **Economic Moat Analysis:** , Apple, Titan), patents, proprietary trade secrets, or statutory regulatory licenses.
- **Switching Costs:** , enterprise ERP systems like SAP, specialized medical software).
- **Network Effects:** , payment networks, stock exchange order books).
- **Cost Advantages:** Low-cost manufacturing architectures, captive mineral access, or massive distribution economies of scale.
- **Management Quality Corporate Governance:** Evaluating promoter integrity, capital allocation acumen, promoter pledging percentage, related party transactions, and treatment of minority shareholders.

Profitability and Operational Efficiency Ratios

- **Operating Profit Margin (OPM):** (Operating Profit / Revenue from Operations) * 100; Measures core operating efficiency before financing charges, taxes, and non-operating incomes.
- **Return on Equity (ROE):** (Net Profit After Tax / Average Shareholders' Equity) * 100; Measures profitability generated on equity capital provided by shareholders.
- **Return on Capital Employed (ROCE):** [EBIT / (Total Assets - Current Liabilities)] * 100; Measures operating efficiency of total capital deployed (equity plus long-term debt).

Price-to-Book (P/B) Ratio

DuPont 3-Step Return on Equity Decomposition: The DuPont analysis breaks down Return on Equity into three operational drivers, revealing whether high ROE stems from operating profitability, asset utilization efficiency, or financial leverage:

Japanese Candlestick Architecture Psychology: Developed by Japanese rice merchants in the 18th century, candlestick charts provide visual insight into intra-session supply and demand dynamics:

- **Anatomy:** Comprises a Real Body (the rectangular area between Open and Close prices) and Wicks / Shadows (thin vertical lines representing High and Low extremes).
- **Bearish Candle (Red/Black):** Close price is strictly lower than Open price.
- **Single Multi-Candlestick Formations:** Marubozu: A candle with no shadows (or negligible wicks).
- **Doji:** Open and Close prices are virtually identical.
- **Hammer Hanging Man:** Small real body at the upper end with a long lower shadow (at least twice the height of the real body) and negligible upper wick.

Head and Shoulders (Reversal)

Flags and Pennants

Momentum Oscillators: RSI, Stochastics, MACD, and Bollinger Bands

MACD (Moving Average Convergence Divergence)

Principles of Modern Portfolio Theory (MPT): Pioneered by Nobel laureate Harry Markowitz in 1952, MPT demonstrates mathematically that portfolio risk can be reduced without sacrificing expected return by combining assets whose returns are not perfectly positively correlated.

- **Systematic Risk (Market Risk):** Inherent macroeconomic risks that impact all businesses simultaneously (inflation shocks, war, currency collapse, interest rate hikes).
- **Unsystematic Risk (Company / Specific Risk):** Micro risks unique to a specific firm or industry (labor strikes, factory fire, patent loss, management scandal).
- **Correlation Coefficient:** 0.

Corporate Distributions: The Dividend Lifecycle

- **Interim vs. Final Dividend:** An Interim Dividend is declared by the Board during the financial year before final annual accounts are audited.
- **Crucial Dividend Timeline Dates:** Declaration Date: The date the Board announces dividend quantum, record date, and payment schedule.
- **Record Date:** The statutory cutoff date set by the company to determine the list of eligible shareholders registered in demat depositories.
- **Ex-Dividend Date:** The date on which the stock begins trading without the dividend entitlement.
- **Payment Date:** The date dividend funds are electronically credited into the shareholder's registered bank account via NACH or NEFT.

MODULE IV

FINANCIAL DERIVATIVES

Derivatives Architecture: Foundations Typologies: A derivative is a financial contract between two or more counterparties whose market quotation is derived from the value of an underlying entity.

Options Architecture: Calls, Puts, and Styles

- **Call Option (CE - European Call):** A contract conferring upon the holder (buyer) the right, but not the obligation, to purchase the underlying asset at a predetermined price (Strike Price) on or before expiry.
- **Put Option (PE - European Put):** A contract conferring upon the holder (buyer) the right, but not the obligation, to sell the underlying asset at the strike price on or before expiry.
- **American vs. European Exercise Styles:** American Style Options: Can be exercised by the holder at any point in time up to and including the expiration date.
- **European Style Options:** Can be exercised exclusively on the formal expiration date itself.

Contract Specifications on Indian Stock Exchanges: Derivatives trading requires standardization across all transactional parameters to ensure continuous liquidity and automated clearing.

Clearing, Margining, and Settlement Mechanics: Post-trade operational integrity in derivatives is managed by accredited clearing corporations (NSE Clearing Limited - NCL and Indian Clearing Corporation Limited - ICCL).

Settlement at Expiry: Physical Delivery vs. Cash Settlement

- **Cash Settlement (Index Contracts):** All equity index futures and options (NIFTY, BANK NIFTY, SENSEX) are settled purely in cash.
- Mandatory Physical Settlement (Single-Stock Derivatives): In 2018, SEBI made physical delivery settlement mandatory for all single-stock futures and in-the-money stock options: Long Stock Futures / ITM Call Holder: Must take physical delivery of the full underlying shares in demat form, requiring 100% cash funding.

- **Short Stock Futures / ITM Put Holder:** Must deliver the actual physical shares from demat storage to receive cash proceeds.
- **Failure to Deliver:** Triggers exchange auction penalties, where shares are bought in the open auction market at substantial penalty premiums.

Change in (Δ)

Vega (nu; - Volatility Sensitivity)

Bull Call Spread (Moderately Bullish)

Iron Condor (Range-Bound Market)

Long Straddle (Volatility Expansion)

Transaction Costs and Statutory Taxation of Derivative Trading: Derivative trading is subject to rigorous tax reporting and compliance obligations under the Income Tax Act, 1961.

Tax Audit Framework under Section 44AB Turnover Computation: Determining whether a derivative trader is legally mandated to undergo a statutory Tax Audit conducted by an independent practicing Chartered Accountant depends on the accurate computation of Trading Turnover.

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