Security Analysis and Portfolio Management

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Module No.# 01
Lecture No. # 02
Markets for Investment

In the last class, we talked about the investment philosophy and the concepts which are related to investment in the market. So, today we will discuss about that various markets, where generally investment are made and as well as we should also know about certain alternatives, which are available in this different market. So, here in this context, today we will discuss about the types of investment alternatives and the markets for investment.

So, therefore, before going to discuss exactly about the different types of investment, we should know that what exactly this investment alternatives are and how these investment alternatives are defined. And what are those different scenarios in which if the investor wants to invest, then it will be feasible for him to find out the various alternatives, which can fulfill his objectives and as well as the returns can be maximized.

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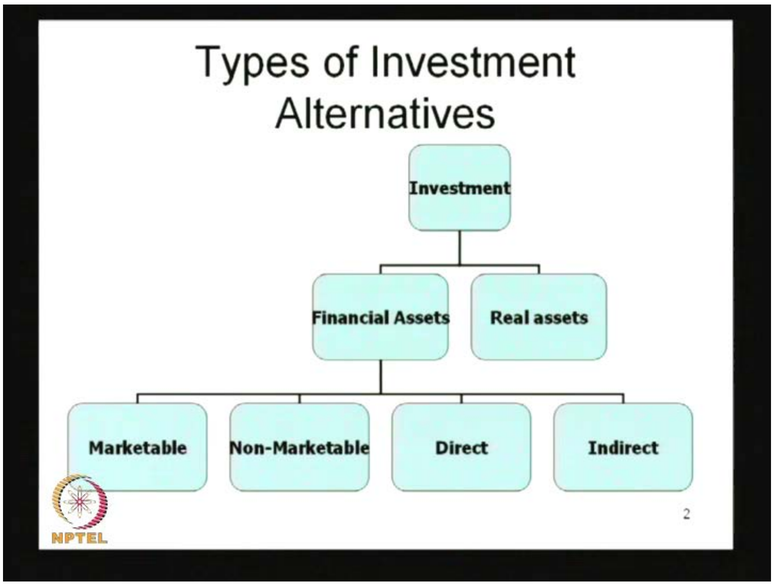

If you see this chart, it talks about basically the investment alternatives (Refer Slide Time: 02:00), there are different types of the investment alternatives and as well as how this investment alternatives can be categorized. Here if you see, that the investment can be made on financial assets and also it can be made on real assets and again the financial assets can be categorized into marketable instruments, non-marketable instruments and those investment what we make on financial assets, those investments can be made directly and as well as indirectly.

Here in the whole course on security analysis and portfolio management, where basically we are trying to learn different concepts, different investment philosophy and we should know that different ways how to maximize the returns. So, here basically we will deal with more on financial assets than the real assets. So, most of the instruments or most of the assets what we deal with security analysis and portfolio management, those are basically the financial assets. So, the financial assets can be marketable, it can be non-marketable, we can make the investment in direct way as well as in the indirect way.

If you see that what exactly these marketable instruments are and what exactly these non-marketable instruments are, really is there any difference between marketable instruments and non-marketable instruments or not. So, those questions we should know before participating in the market.

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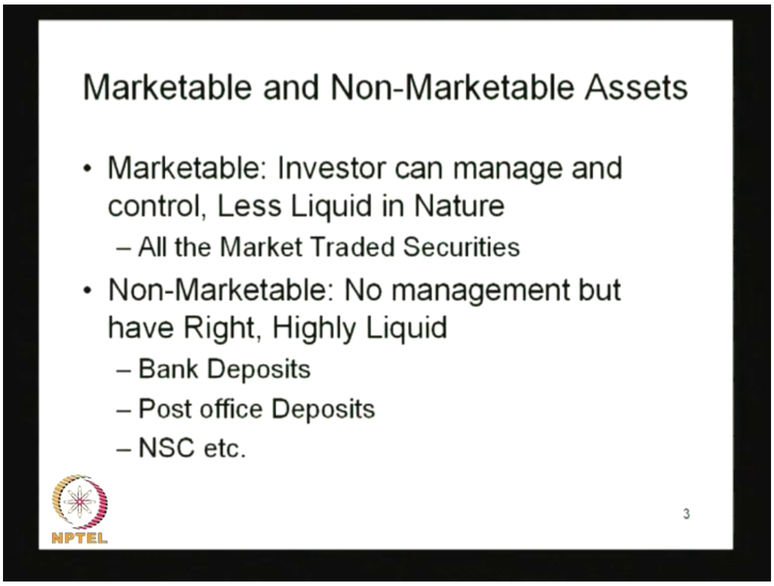

If you see that, how this particular marketable and non-marketable assets are, the marketable assets are basically we get from the various markets, what or which can be managed by the investor control by the investor. And the one of the basic property of the marketable instruments or marketable assets are without the knowledge of the particular investor, this particular asset or the particular instrument can be traded in the market.

So, once we take a position or the investor takes a position in the market and if the market is very much efficient or inefficient, whatever it may be and if you want to invest in that particular market and if you know that the particular investment is marketable in nature, then without the knowledge of that particular investor, sometimes this particular assets can be sold, this particular asset can be bought.

Or in general we can say, those assets can be traded in the market efficiently or regularly even without the knowledge of the investor and as we know, once we have the position in the market and we know that particular asset is a marketable asset, then one thing always the investor should remember that, those assets are basically non-liquid in nature. The liquidity of that particular assets are not that much it is because, once we have the position in the market, we invest that particular marketable assets; then in that context, it is not possible immediately to encash or to convert those assets into the cash, which is the basic theme or basic concept of liquidity.

If you define liquidity, how this liquidity is defined? Liquidity is basically nothing but, how fast you can convert one particular asset into cash, but if that particular asset is marketable asset, then it is very difficult to convert that asset into cash very quickly, that is why most of or we can say all marketable assets are basically non-liquid in nature or the liquidity of that particular assets are very less.

Then coming back to the non-marketable assets, the people particularly if you go back to the pervious discussion what we have in the previous class, in that case what we have seen there are certain investors who are very much risk averse in nature or they do not want to take the position in the market in such a way, where the uncertainty is involved or where there is a risk is involved.

So in that context, those people also invest in the various ways, in the various financial assets like we say the bank deposits or we can say the post office deposits, national saving certificates, etcetera there are various assets which are available and those assets if you see, these are basically we do not have to manage that asset. Once we deposit that particular money in the bank, the bank has the obligation or the financial institutions where we have put the money, they have the obligation to invest that particular money or to manage that particular money.

So, here the individual investor does not have to do the management aspect of that particular asset, but the minimal amount of the return can be achieved after a certain period of time from that particular assets which are non-marketable in nature and anything you want to do with that asset or we can say, you will know what is happening to that particular asset, what you have kept in the various banks or the financial institutions or post office etcetera and what is happening to that particular assets in a particular time period without the knowledge of the investor, without the knowledge of the people who have kept that particular money, this particular asset cannot be traded, it cannot be used by the other people or it cannot be used by the other investor, where the return basically is minimal.

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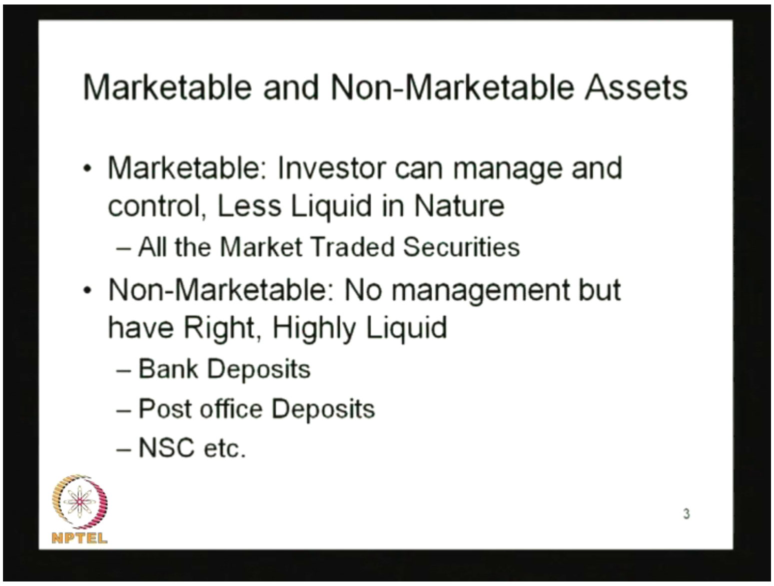

But, another advantage of this non-marketable assets are basically they are highly liquid, any time those assets can be encashed, those assets can be converted into the cash that is why the liquidity in that particular assets are quite high.

So, here if you see one particular observations, we can make whenever we compare between marketable and non-marketable assets. So, in the non-marketable assets, the risk is almost nil or we can say there is no such kind of risk is involved. Whenever we invest in those particular assets, but if the particular assets are marketable, then the risk aspect is come always involved in that.

If the risk is involved then obviously, management of those assets are quite complex or we can say dynamic in nature. There should be certain strategy, there should be certain philosophy, there would be certain ways through which this particular investments can be made on marketable assets.

What if it is a non-marketable asset? Then this kind of philosophy, the complexity is not there to manage it. Therefore, most of the discussions what we are going to do in the security analysis and portfolio management course, basically most of the assets are marketable. So, we deal with marketable assets because the marketable assets have the risk, there is uncertainty involved there. So, once there is uncertainty, there is the market factors which is involved there. So, in that context, if you observe that managing those assets are little bit complex or we can say, it is more dynamic in nature than managing the asset in terms of non-marketable.

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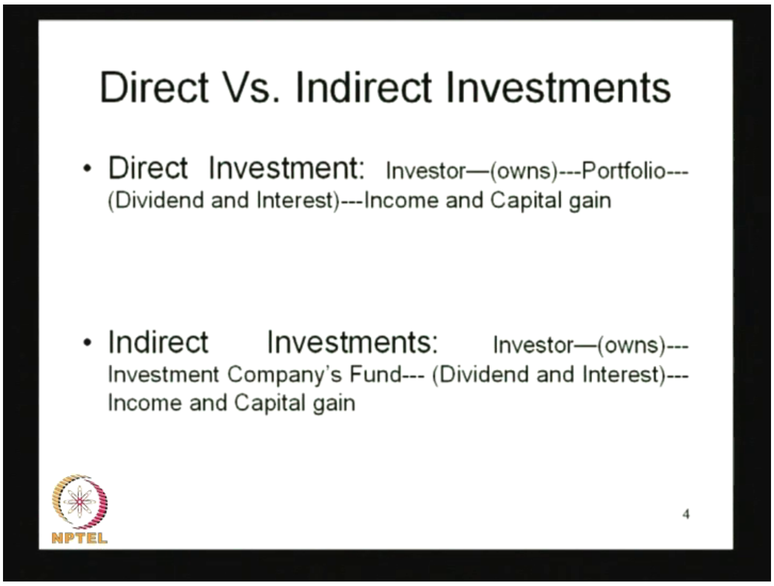

So, here another categorization what we have made in this context is, direct versus indirect investments. What basically the direct investment is for example, you are an investor or and you want to invest in the market. So, if you are an investor and you want to invest in the market and you have certain money to invest, then what you do? The money is owned by you, in that money you can buy or certain assets in the market or you can put your money in certain assets in the market to get some return in the future, but the money is owned by you and you owned that money; once you own that money, you put that money directly into the market, may be the best example is investment in the stock market.

You directly put that money in the stock market in the various stocks and finally, what is happening after a certain period of time or we can see if you say that time is the variable, which is also very important to get the return from that particular investment. Once you have put that particular money into that investment, then you get the return out of this after certain period of time and already if you know that, the returns from that particular direct investment if it is the stock or it is a bond or whatever may be, the return can be composed of two, one is your dividend, another one is the capital gain.

So, the return what you are getting out of that particular investment that either in terms of capital gain or in terms of the dividend, that is directly goes to you and the return what you are getting after a stipulated time period, those return totally owned by the investor who invest that particular money in that particular marketable assets.

But in other cases, there are some ways through which the investor can put the money in that indirect manner and the investor does not have to do anything for the investment of that particular asset; he does not have to put his time, he does not have to put his own skill for managing that particular asset. So, simply he has put the money in certain assets and once he has put that particular money or particular funds in that particular asset, automatically that particular assets can be managed by somebody else and whatever return will be achieved out of this, the minimal amount of the benefits or the return, what you will get out of that, out of this, some of the returns or some of the money or some of the benefits will go to this particular agency or particular manager or particular fund manager or portfolio manager who manage the fund on behalf of you.

So in that case, what we have seen that in the indirect investment, the investor does not have to manage this particular fund directly; somebody else who will manage that particular fund on behalf of you, once it is managed and the return is realized, out of the return some charge, some kind of fees you have to pay to the fund manager or the person who is managing your particular money or the investment on behalf of you. And finally, whatever remaining return in terms of the capital gain or the dividends will be there, that will goes to the investor who has put the money into this investment.

If you see the basic difference between the direct and indirect investments are, in the direct investment, the manager or the investor is same, but whenever we are talking about the indirect investment, here you do not have to manage the fund, somebody else will manage the fund on behalf of you with a minimal fee. So that, whenever we invest it in the market, we should very much clear from the beginning whether we are trying to manage that particular fund directly or indirectly.

Other view, both of the cases the investor owns the fund, but in one case, you owns the fund as well as manage the fund; another case basically he owns the fund, but he does not have to manage that particular fund. So, the biggest example or the best example in the indirect investment is investment in various mutual funds. Mutual funds is a buzz word, I hope all of you must be knowing about the concept of the mutual fund or you must have heard about the concept of the mutual fund, although in the extensive discussion on the mutual fund will be there, in the later section of this particular course. So, here I just take that example that whenever we talk about the indirect investment, basically the indirect investment is with the investment in the mutual fund.

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So, then going back to the different classification of the financial markets, where these marketable assets are available and as well as we can say that the different financial markets are involved or we can get those alternatives in the different markets.

If you see this markets, where this investment alternatives are available can be categorized into various ways. You take the example, in the first case, whenever we classify the financial market on the basis of the claims, what exactly this claims means? It basically deals with the different characteristics of the instruments, different properties of the instruments which are available into the various assets in the various markets.

In that context if you see broadly, the market can be categorized into two ways: equity market and the debt market. There is another category also there, where we can say that derivatives market, but here this concept of the derivatives market is little bit different from the equity market and debt market therefore, we can discuss this things in the different manner.

But, if you see this concept of equity market, what exactly this equity market is, the equity market is basically nothing but, who deals with the different stocks or the different shares, but whenever we deal with the debt market, the characteristics of a different stock or characteristics of the different shares which are traded in the equity market or the investor takes the position in the equity market to invest in those stocks are totally different from the characteristics of the instruments which are available in the debt market.

So, whenever we talk about the equity market, basically it deals with the shares, this deals with the different types of the shares and what we will discuss in the lateral phase in this discussion, but whenever we talk about the debt market and again the debt market basically categorized into two; one is your government securities market and another one is the corporate debt market.

Whenever you talk about the government securities market, what exactly it happens in that case and whenever you talk about the corporate debt market, what exactly happens in that market, we will discuss it little bit further. But, whenever you talk about the on the basis of the term to maturity, in the previous class, I was talking about the requirements of the investor is very much important whenever they take the position in market for investment; that means, somebody may need the money immediately after certain time may be after 2 months, 6 months like this and somebody may require the money in the long period.

So, here in the financial market those options are available for the investor. If they need the money or they want to invest in those assets, basically which are short term in nature and immediately that thing will be matured after a short period of time. And they can realize their return that market is basically the short term markets and those short term markets, where the short term instruments are traded these are basically defined as the money market, most of the money market instruments are short term in nature.

But if the investor wants to invest for a long period of time or he wants to look for or he is looking for those assets, which are long term in nature, this generally go to the capital market. So, most of the cases the short term instruments are available in the money market and the long term assets or long term instruments are available in the capital market.

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But here, the another question arises really the instrument which are available in the money market or capital market, these are the addition to the existing market or the new market is created there, once we take the position in the various markets or only we deal with the existing shares, which are available in the market or we are dealing with only the existing instrument which are available in the market.

In this context also, the market can be categorized into two; that is why we call it the market can be categorized on the basis of the seasoning of the claims. So, here if you see that in the context of seasoning of the claims, the market can be categorized into two; one is defined as primary market and another one is defined as the secondary market.

Basically, the concept of primary market is nothing but, we are adding some of the new assets or we are adding some of the new issues in the market. That is why the other name the primary market is new issue market, if you take the example of initial public offerings which happens in the market and it is a very popular word on the minds of the investor and in the IPU market or the initial public offerings market is basically a primary market.

Whenever we go to the secondary market, what exactly it happens whatever instruments of the money has been added into the system through the new issue market or the primary market, that money can be traded in the secondary market. So, in the context of secondary market, what it exactly happens that only this existing shares or existing instrument which are there in the financial market that will be only transmitted from one investor to another investor, there is nothing to be added newly into the system in the secondary market.

The new issues will be added into the system in the primary market, once that will be there in the primary market, then in the first time it is introduced in the market; in the second case, that will be transmitted from one investor or one person to another person through the secondary market. So that is why we can say that primary market basically a new market or the new issue market, but the secondary market basically is not a new market, it is only transmitting this different financial assets or the marketable assets from one investor to another investor on the basis of their objectives, the requirements and as well as their investment philosophy.

So, here after clarifying this two things, the market also can be categorized on the basis of the timing of delivery. What do you mean by the timing of delivery? Once we have taken a position in the market or the investor takes a position in the market, he started investing, he may be buying a stock or buying a bond, he started the investment and after the investment starts, what did exactly happens? It happens that in some day that particular investment will be over or the particular bond or particular stock will be matured.

Once this particular thing will be matured, how this delivery will be made? How this particular return can be realized? And when he can come to know that how much return he is going to get out of this. So, those things basically depends on or we can define that particular terms on the basis of the timing of delivery. So, that is why this term is defined as a timing of delivery. On the basis of the timing of delivery, the market can be categorized into two; one is your spot market, another one is the future market.

What exactly the spot market and the future market is. Whenever you talk about the spot market, immediately once this particular transactions are over or once the settlement process is over, the money will be transacted or the settlement can be done in the spot market itself. But, whenever you talk about the future market what it happens, the investor takes a position the so and so and so date, this particular settlement will be made. Today you are deciding that on what day this particular settlement can be made or particular transactions can be made. So, in that context that market is defined as the future market.

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So, in general if the popularly it is known as the derivatives market, because the pricing of those assets is derived from the various markets like equity market and the debt market.

Then finally, we have also the another type of market that is called exchange traded market and over the counter market what exactly the exchange traded market is; that means, you take the example of a stock exchange. If you want to invest in the stock market what exactly happens, basically you do not have the investor is not required to go to this particular floor or particular trading place, where the trading takes place; he takes a position in his home or sitting in front of his computer and this particular trading takes place somewhere in the stock exchange and once the trading is over or the settlement process is over, he gets his money or he gets his return.

But the over the counter market, physically the investor has to go to the floor and he has to make the investment or the bidding process will go on in the floor itself. So, that is why that market is defined as the over the counter market, over the counter the trading takes place and in the exchange traded market basically exchanges or the stock exchanges basically play the significant role for the investment.

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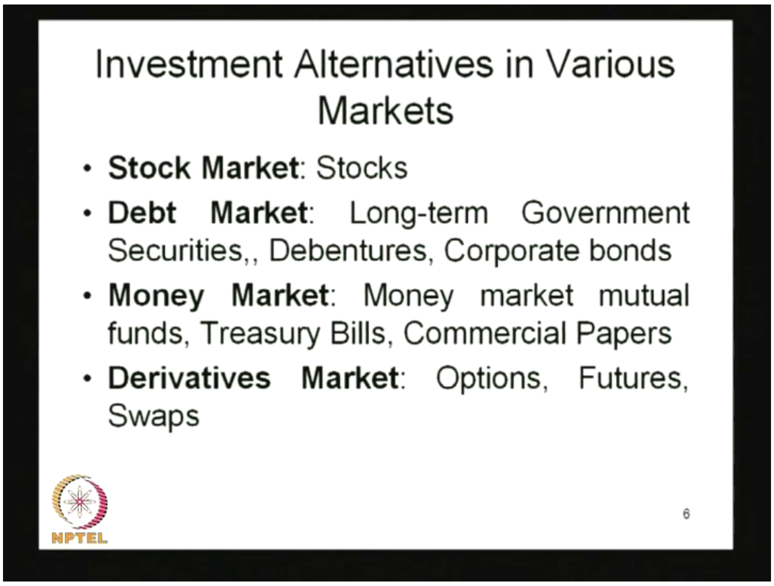

Then which are the instruments which are available in the various market. Already we discussed little bit about this, in the stock market, it is stocks or the shares what we get for the investment; in the debt market, it is the long term government securities, debentures are nothing but, it is basically the long term bonds issued by the corporate as well as the other corporate bonds also available.

Money market basically it deals with the money market mutual funds, sometimes we talk about the treasury bills; treasury bills are also the short term instruments which are traded in the money market or which are available in the money market and the commercial papers.

And whenever you talk about the derivatives market, this various instruments which are available are the options these are the futures, these are the swaps and within options also you have different types of the options, you have call option, you have put option and as well as well as also in terms of the future, we have the instrument like interested future or we can talk about the extended there are extended future etcetera. There are various types of future markets also available in that in the context of derived instruments, if the instruments are different, then the investment alternatives from the derivatives market also are different in that context.

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The next question we should discuss are always, is there in the mind of the people that whenever you talk about the primary market or secondary market what we discussed now or already we know that the primary market is basically a new market or we can say that it is a new issue market, but whenever you talk about the secondary market, it is basically a market where only the transaction takes place between the existing shareholders with the existing shares, there is nothing new to be added in that particular market.

So, whenever we talk about the new issue market or the primary market then, which are the instruments available and what are the different ways through which the equity capital is raised in the primary market.

Already I have given the example of initial public offerings. So, in the first case, it is basically the public issue, what do you mean by this public issue? The public issue is nothing but, it is selling the securities for the first time. I hope all of you must be very much acquainted with the initial public offerings concept, where recently also most of the companies are raising their funds or raising their shares in terms of the public issues or the initial public offerings. So, like the reliance and like the other company sent issue was made by the reliance, which was not very profitable business for the reliance or which did not click in market.

So, here what we see that there are various process through which the public issue made. The various processes are basically the book building process and here we will not discuss about the what the different steps of the book building process. Further, in the various in the further sessions, we would discuss about the what exactly the book building process is.

But here, basically if you see, the public issue is nothing but, it is the selling the securities for the first time in the market and another type of issue also companies make in the primary market, that is defined as right issue. A right issue is nothing but, it is issuing rights to the existing share holder that means, whenever they go for the public issue, what they do out of the total shares, what they raised from the market through this initial public offerings, out of them certain amount of the assets is there is through the right issue.

What exactly this right issue means, whatever existing shareholders are there in the company and whoever their existing shareholders are available in the company, what this companies do? They generally give certain priority to the existing shareholder or they provide certain rights to the existing shareholder to own that particular shares, it may not be open to the common public, it is only open to this particular investors which are already existing in that particular company. So, that is why we call it the right issues.

Then another issue is the private placement. It is basically what exactly this private placement is, the private placement is that, whenever you go for the public issues or the any kind of new addition to the system then you give the priority, you sell the securities to different financial institutions, mutual fund and etcetera in terms of this particular new issues or in terms of their primary issues, what they are raising into the market in that particular time. Here what we can say that, the return investor cannot invest in those kind of assets, where the private placements are made.

And another way of raising the issue is basically preferential allotment, the preferential allotment is basically it is very much selective only for the listed companies and only the listed companies can go for the preferential allotment. The companies which are listed in the stock exchanges they can only go for this preferential allotment, the other companies the companies, which are not listed in the stock exchange it is very difficult to raise the money through this private placements. And basically if you observe, the value of the private placements in general are more than the value of the initial public offerings or it is always higher than the value of the initial public offerings. So, this is the notion knowledge we have.

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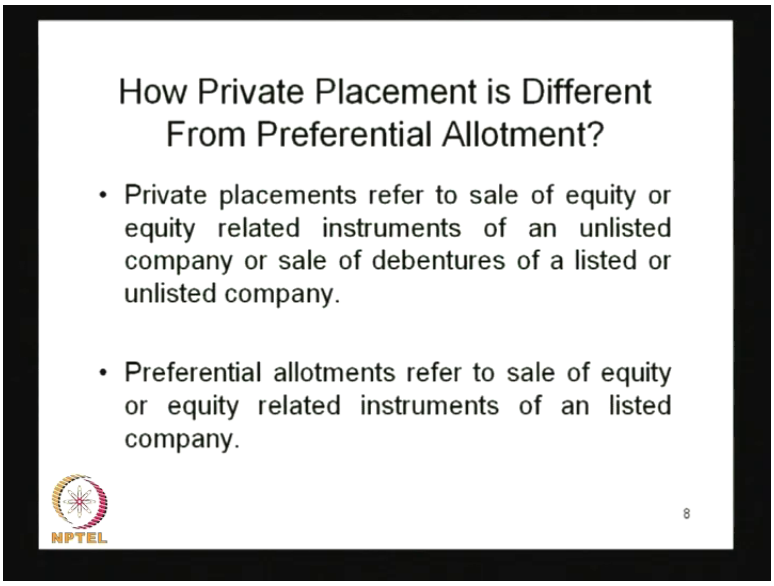

But, clearly if you want to know, what exactly this difference between the private placement and the preferential allotment then, we can see this thing that this private placements is basically referred to sale of equity or equity related instruments of our unlisted company or sale of debentures of a listed or unlisted company; that means, whenever you talk about the private placement, it refers to equity or equity related instruments of our unlisted company private placements are related to sale of equity of unlisted company, but whenever we talk about the debentures it can be both listed and unlisted.

But whenever you talk about the preferential allotment, either it is in terms of equity or we can say equity related to instruments, they always issued from a listed company. So, the private placement if it they raising in terms of equity, it should come from the unlisted company, but if it is a debenture or the bonds, it can be also from a sale of debentures, if it is talking about the bonds or debenture it can be listed and as well as unlisted. But whenever you talk about the preferential allotment, it is basically the sale of equity or equity related instruments of unlisted company. So, this is the basic difference between the private placement and the preferential allotment.

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Then after discussing the various instruments or the different ways through which this primary market as raised the money from the market or we can get the different instruments in the primary market, then we can discuss about the secondary market. Already what I discussed with you that, in the secondary market only the existing securities are traded or existing securities are issued, that means existing securities issued in the primary market are traded in the secondary market. So, this market enables the participants who held securities to adjust their holdings and response to changes in their assessment of risk and returns.

Already I told that, whenever one investor takes the different position in the market. So, taking the different position in the various market is basically depends on his risk return profile or the risk apatite in nature or we can say that how much risk he can take into the into the market and how much return he can expect from the market and accordingly by assuming the risk return trade off, they generally decide or the investor can decide that where to invest where not to invest.

The secondary market operation basically can be made in both the markets what we have already discussed, it can be operated through over the counter market or in short we call it the OTC market or the exchange traded market, in both the markets, the secondary market transactions takes place.

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Already little bit we know about this, that exchange traded market are basically the stock exchanges, where this securities are traded in that there is no need to go to the floor directly or the physical presence of the investors are not required, but whenever you talk about the OTC markets, these are basically the informal markets where the trades are negotiated.

The traders or the investor goes to the market, generally the bidding process goes on there, there is a ask price, there is a bid price and where this particular bid and ask price match to each other or they can be leads to a negotiation point, in that point only the trade takes place. So, that is why we call it OTC market are the informal markets and most of the government securities are traded in the OTC market or the over the counter market and all these spot trades, where the securities are traded for immediate delivery and payment takes place in this market there itself.

But if you talk about the take the example of the government securities in terms of OTC market, what did exactly happens that, basically it is action process which is made by the Reserve Bank of India. And they generally go by the optioning of various dated securities and as well as treasury bills and in the option process goes on weakly and accordingly, the different financial institutions or the investor goes for optioning and the bidding process goes on there and once this negotiation has been made, this particular trading can be taken place.

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Now, we are talking about the operations of secondary market, how the secondary market works. If you observe that secondary market operation basically has two steps: one is your trading, another one is the settlement. Once the trading takes place after certain time, the settlement takes place for the delivery.

So, the trading things whenever you talk about here, the trade can be takes place in the open outcry system and as well as in the screen-based system and the settlement in India particularly we have the three type of mechanism, we have account period settlement system, we have carry forward mechanism, we have rolling settlement system, but gradually those all those systems are not operating at a time basically these are the different developments in the settlement process over the period. So, one by one if we discuss, we can come to know what exactly they are.

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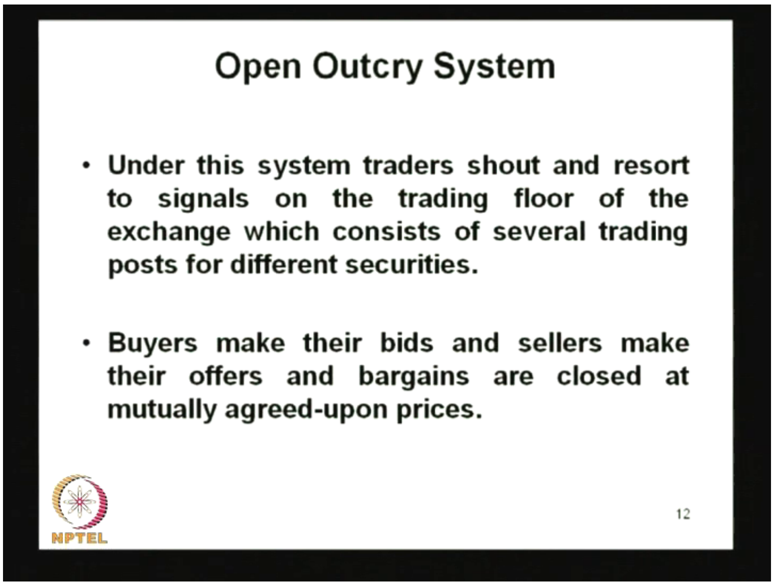

Whenever we talk about the open outcry system, what basically the open outcry system is? Under this system traders shout and resort to signals on the trading floor of the exchange which consists of several trading posts for different securities. Buyers make their bids and seller make their offers and bargains are closed at mutually agreed upon prices; that means, in the open outcry system the physical presence of the investors are required.

Once this investors are physically present in that trading floor and they take the position in the market. So, basically the buyers go for bidding that particular different assets and the sellers basically go for asking this particular price. And once this the action process goes on or the bidding process goes on, they generally negotiate to each other, once the negotiation is over and they are agreed upon a particular price, this particular transactions can be taken place.

But here what we can say that, this physical presence of the investors are required in open outcry system and the investor has to go to the floor and take the position and the buying and selling process should go on.

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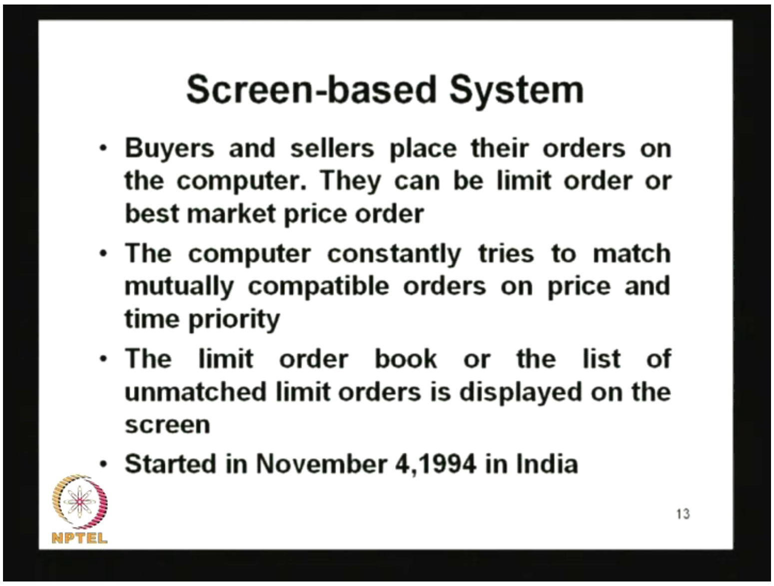

But whenever we talk about screen-based system, what did happens in the screen-based system? In the screen-based system basically buyers and sellers place their orders on the computer already, what I told they can be limit order or the best market price order there are two types of the orders what we have in the screen-based system.

The computer constantly tries to match mutually compatible orders on price in time priority; that means, when if you want to buy it you have given some kind of price if this much price is available I can go and buy this particular asset and who wants to sell it already he had send his quotation to the stock exchange that I want to sell this particular asset or particular stock if the price is this much.

So, what this particular process this screen-based system does basically screen-based system tries to match or which try to find out, the particular people or particular investors, where the both buying price and selling price can be matched and this particular matching may be on the basis of the price and as well as the time. So, if both price and time is perfectly matched, then this particular transaction can be taken place.

So, here already what I told that the order can be limit order or the best market price order, the limit order book or the list of unmatched limit orders is displayed on the screen. The limit order in this sense basically what happens, this investor gives the particular price limit if price is only up to this much, then I can buy it or the seller can say, if the price is up to this much then only I can sale. So, that is called the limit order.

But, whenever you talk about the best market price order, basically it is defined as the investor generally always wants to buy or sale on the basis of the best market price which is available in that particular time. There is no such limit is available for that, it is basically related to the market price or the best market price is availability in that particular stipulated time period.

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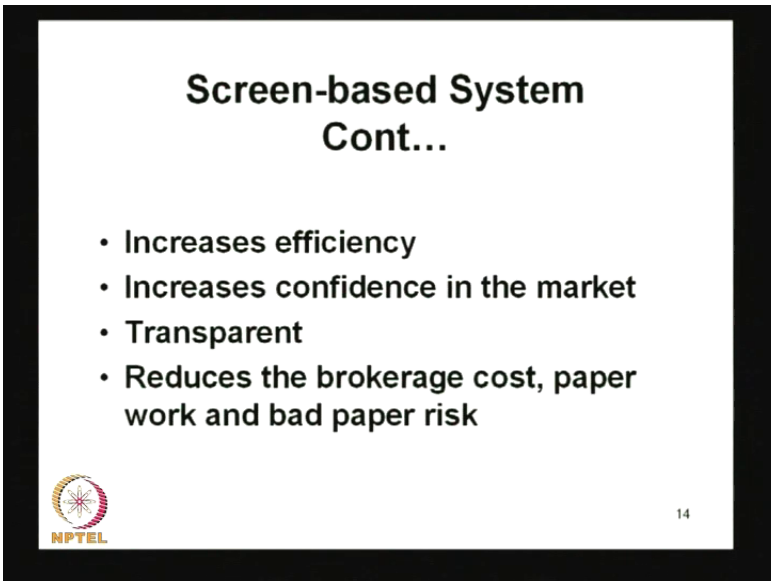

So, that is why in the screen-based system, there is no need of the physical presence of the investor into the trading floor and this screen-based system trading is started in India in November 4 1994 in NSC. And afterwards, it is quite popular in most of the countries and in India also it is quite popular because why it is popular? It is popular or it is we can say that is most used type of system it is because it increases efficiency, it generally saves the time, there is no need to go to the floor, there is no need to go to bargain with the different investors or for a agreeable price or we can say that for a matching price. So, that is why it increases the efficiency.

Because we can get the all the information from that trading computer base system itself and once we have the information what we can do, here itself we can take our positions in the various places to maximize our return. So that is why the screen-based system basically increases the efficiency into the market or into the system, it increases the confidence in the market. Why it increases the confidence in the market? Because all the information are available there itself. So, all the investor can come to know which stock is available at what price or which asset is available at what price, accordingly they can choose on the basis of their risk return profile.

It is definitely transparent, because the transparency is maintained because you have to provide all the information in that itself and the regulator takes care of those things, whenever they take the position into the screen-based system. It reduces the brokerage cost, it reduces the paper work and also it reduces the bad paper risk, there is a probability of losing the paper, there is a probability of destruction of the paper. So, we can avoid those things, once the computer based system is working and here if you see the data, that almost most of the transaction cost, the huge amount of the transaction costs have gone down like anything over the periods in the context of India, once this screen-based system is started into the Indian stock market.

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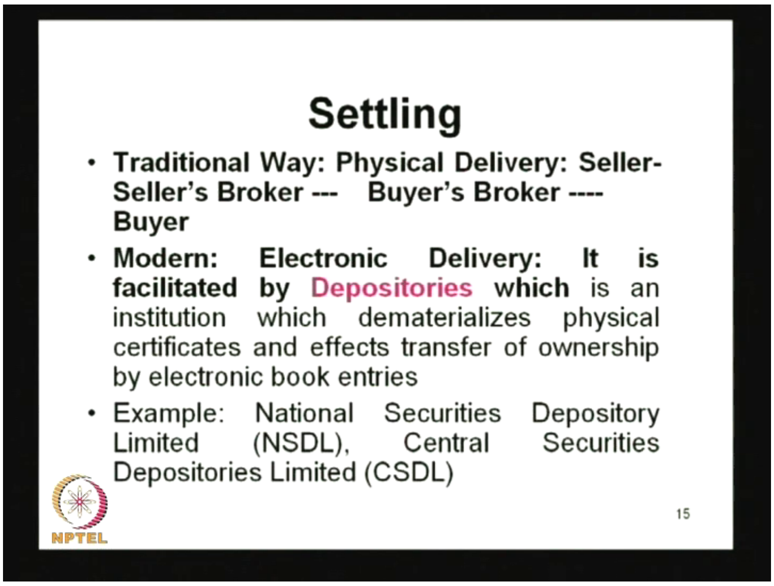

The another step is the settling. Once the trading takes place, how the settlings are made? The settling basically in the traditional way how the settling was doing, that it is basically based on the physical delivery. The seller basically whenever you wants to sell some of the stock, the seller goes to the sellers broker, maybe he has the broker, he goes to the broker, then that sellers broker finds out the buyer's broker and finally, the buyer's broker will look for a buyer, then only the settling takes place; that means, first the process should go from seller to sellers broker, sellers broker to buyers broker, then buyers broker to buyer.

But in the modern system, how the settling takes place? It is basically takes place in the basis of the electronic delivery. What this electronic delivery is? The electronic delivery is basically facilitated by the depositories and what the depository is defined and how this depository is defined? The depositary which is an institution, which dematerializes physical certificates and effect transfer of ownership by electronic book entries. For example, you have bought a stock or you have sold a stock and once this particular process has happened in that stock exchange, then what has happened that day it the role of depositary which place the significant role by transferring the owner share from one invertors to another investor.

So, that is why in the modern electronic delivery system, always the depositaries play the significant role for settling of that particular investment or the trading of that particular investment. So, the examples of depositaries in India are National Securities Depositary Limited NSDL and the Central Securities Depositories Limited that is the CSDL.

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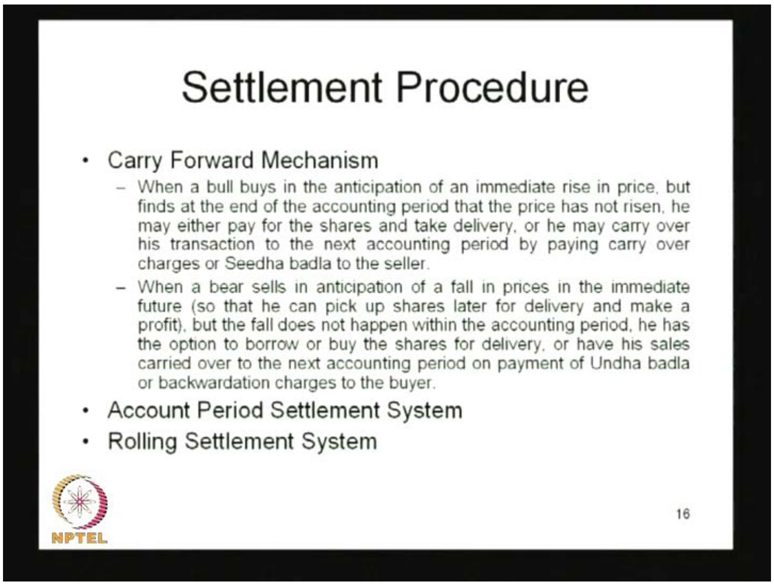

Over the period, how the settlement procedure works in India? Previously whenever the particular exchange traded system is started or we can say that, whenever you do the trading in the stock exchanges or do the trading in the equity market, previously this carry forward system or carry forward mechanism was working into the Indian market.

So, in the carry forward mechanism what it happens? When a bull buys, bull means the particular investor, who always expects that the price will be go up and the bear means the particular investor, who always expects that the price will go down. When a bull buys in the anticipation of an immediate rise in price, but finds at the end of the accounting period that the price has not risen; he may either pay the shares and take delivery or he has the option, that he may carry over his transaction to the next accounting period buy paying the carry over charge, that is why this concept is recorded the Seedha badla system or we can say that the Seedha badla to the seller. That means, he has the option he may go for the realization of the delivery or he may also carry over his transaction to the next period by paying the carry over charges to the seller.

But, if it is just opposite in that case of bears, what happen? When a bear sells in anticipation of a fall in prices in the immediate future, but the fall does not happen within the accounting period. He has option to borrow or buy the shares for delivery or have his sales carried over to the next accounting period on payment of Undha badla or backwardation charges to the buyer. So, that system was very old system in an Indian share market, where the carry forward mechanism was working.

But, whenever we go for this, gradually it has gone to the account period settlement system; in the account period settlement system what it exactly happens that the settlement takes place may be after 15 days or after 20 days, but previously it has come down to a week, but now it is not working, basically now we have a rolling settlement system.

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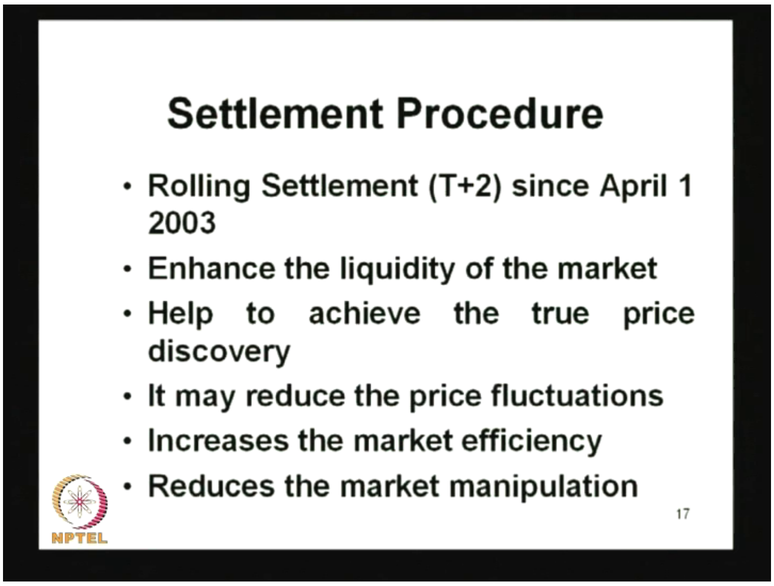

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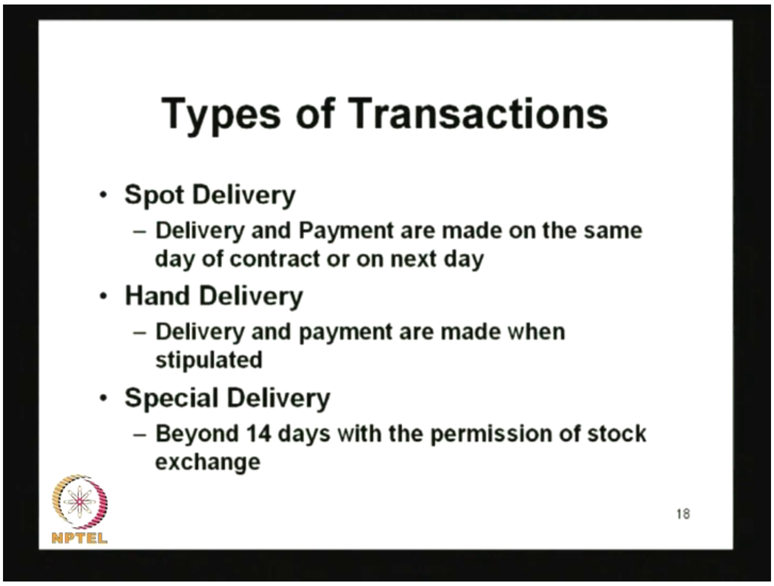

In the rolling settlement system, the settlement generally carried out gradually and now we are going for T plus 2 if the transaction is at the time of T, your settlement can be made at the period T plus 2 since April 1 2003. And when the system prevails in the market, it enhance the liquidity of the market, it help to achieve the true price discovery, it may reduce the price fluctuation, it increases the market efficiency as well as it reduces the market manipulation because almost all the transaction takes place in a very short period of time.

So, whenever you talk about the transactions, the delivery can be made immediately on the spot delivery, delivery and payment are made on the same day of the contract or in the next day, it can be hand delivery, delivery and payments are made when it is stipulated the time is fixed from the beginning, but the special delivery, it is beyond 14 days with the permission of the stock exchange. This transaction can be a delivery can be takes place after 14 days also if the stock exchange wants.

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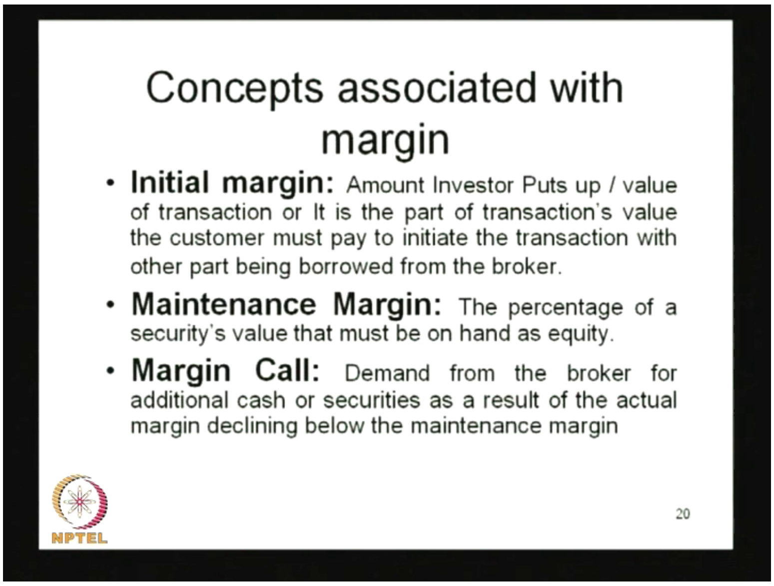

There is another concept which is related to this, we call it the margin trading. This is the part of the transaction value that customer has equity in the transaction. So, where this margin is used to buy more, even if you do not have the money and as well as by borrowing, you can also make the transactions. The concepts which are related to the margin are initial margin, how do you define this initial margin? It is basically amount the investor puts up or the value of the transaction or it is the part of the transactions value, the customer must pay to initiate the transaction with the part being borrowed from the broker. From the beginning, you have to put this much money if you want to trade with.

Then another one is the maintenance margin, the maintenance margin is nothing but, the percentage of the securities value that must be on hand as equity. Basically, we can read elaborately about this thing in the further sessions. Then margin call basically, it is the demand from the broker for a additional cash or securities as a result of the actual margin declining below the maintenance margin; if the price fluctuations are more, if this particular initial margin falls below certain level, then they can go for a margin call.

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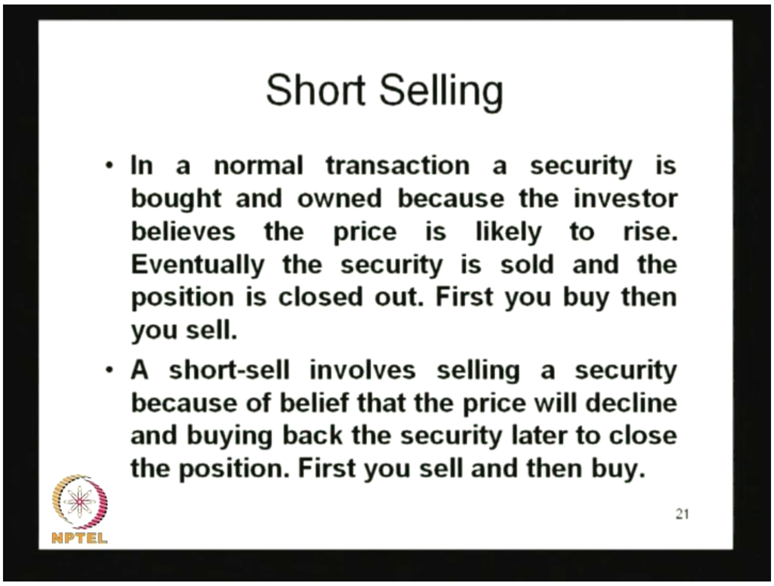

Short selling - what exactly short selling means in a normal transaction, a security is bought or owned because the investor believes the price is likely to rise, eventually the security is sold and the position is closed out; that means, first you buy it then you sell, but in the short selling basically, it involves selling the security because of believe that price should decline and buying back the security later to close the position, first you sell then you buy. So, it is just opposite from the normal investment procedure.

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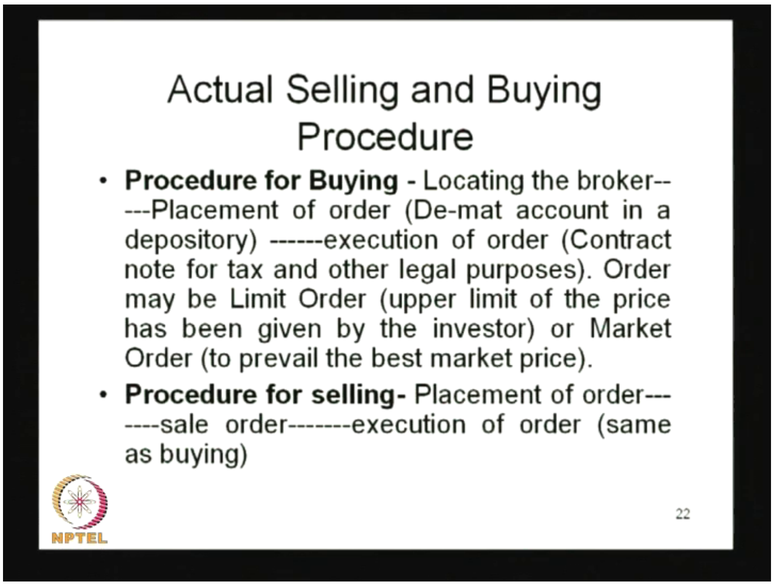

What exactly this actual selling and buying procedure? First what we have to do, locate a broker, place a order, then what you can do? Order may be a limit order or it may be best market price order, then once this order will be matched, then the trading will takes place. Then finally, in the T plus 2 settlement process will go on and the procedure for selling it is the same, placement of the order, sale order, then you execute the order and the other procedures are same in the buying process.

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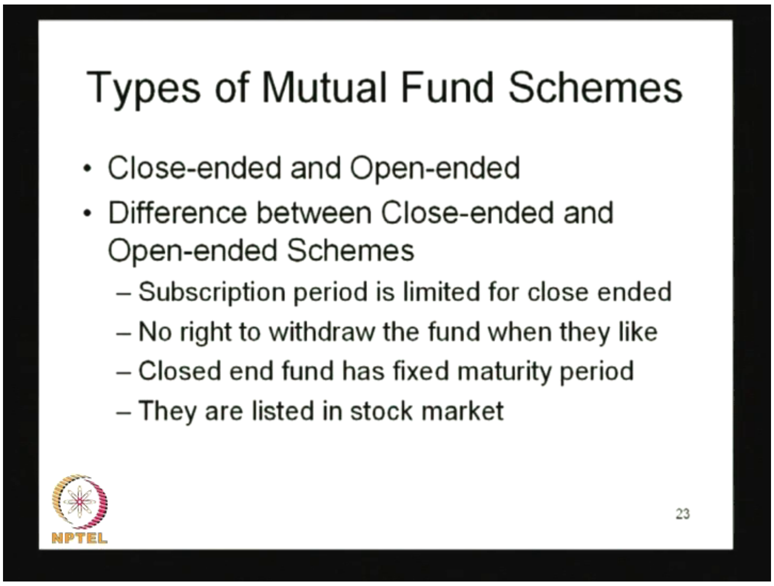

So, in the mutual fund where it is we do the indirect investment, there are various funds available close ended and open ended, we have a separate session on mutual fund where we will read extensively, but here the difference between the close ended and open ended are subscription period is limited for close ended, no right to withdraw the fund when they like and the close end funds are generally the fixed maturity period and they are listed in the stock market the open ended funds are not listed in the stock market.

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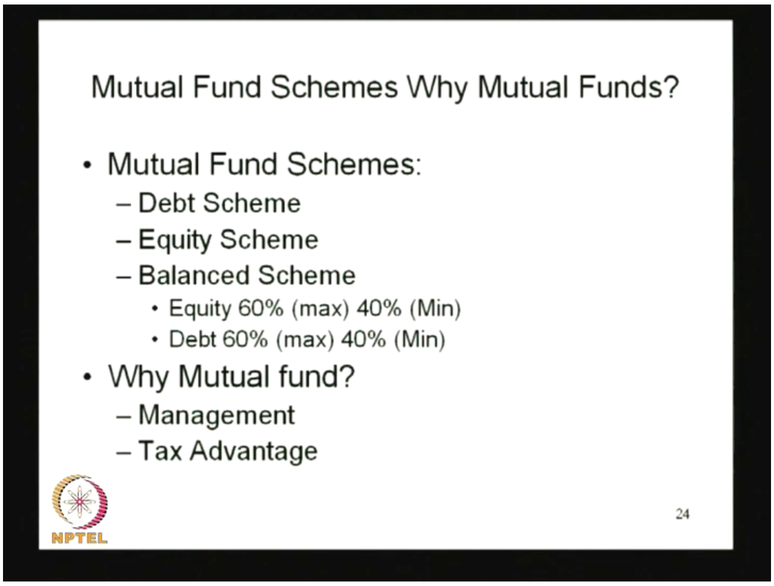

So, mutual fund schemes are basically debts scheme; it can be equity scheme, it can be balanced scheme. So, in the debt scheme basically all are equity, in the debt scheme basically it is 100 percent debt instruments like the corporate bonds etcetera and the balanced it is 60 percent maximum equity or 40 percent debt or if debts 60 percent and 40 percent is the equity, that way generally it is made in the balanced fund.

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Why mutual fund basically, why we invest in the indirect manner? Because if you do not have the expertise for management or to get some tax advantage because under the various tax rules. So, we have the tax advantage, we have if you invest in the mutual funds. So, the people who basically invest in the mutual fund, if they do not have that much amount to invest directly into the market because of the high transaction cost, if they do not have time to invest in the market, if they do not have expertise to invest in the market directly and as well as if they have huge stocks in hand to invest.

Therefore, if certain investor does not have that much time to invest directly they can go to the mutual fund. In general, equity investment or we can say any other investment in the financial market always goes to the various process and it can be invested in the various markets and always the basic objective of the investor to maximize the return with a given constraints. In the constraints are related by age related to time etcetera and as well as the risk appetite of the investor. Further, we will discuss about the different concept of efficiency and how this particular market works and when we can maximize the return in the various conditions.