March 2015

The Financial Kaleidoscope

Defining the different shapes of investment

From The Editor's Desk

Dear Reader,

The Indian Stock Market has always been a wonderful avenue for all those investors who wish to reap exponential growth and returns on their stock portfolio. India has recently been a solid emerging market, and the future of India definitely looks strong. Mark Twain once divided the world into two kinds of people: those who have seen the famous Indian monument, the Taj Mahal, and those who haven't. The same could be said about investors. There are two kinds of investors: those who know about the investment opportunities and those who don't.

There are so many things to invest in. You can invest in Stocks, Bonds, Equity, Currency, Commodities and many others. If you look at the global recession in a positive way, it has given new opportunities. Gold has become more expensive that it has been in a long time. Real estate isn't extremely cheap yet. The equity rates are sold off. So if you were to invest in equity and have a 0% interest rate. In some parts of the world, this would make the best investment.

Equity investments though risky may provide good returns. One who has experience in the markets knows that the higher the risk usually means the higher the reward. When a stock looks nice to you, you will usually end up buying it. There are times when a stock that you buy will go down in value, but it usually will come back up in value too. When it is a bear market, this is when you get the most opportunities to buy.

Emerging markets like India, are fast becoming engines for future growth. Currently, only a very low percentage of the household savings of Indians are invested in the domestic stock market, but with GDP growing at 7-8% annually and a stable financial market, we might see more money joining the race.

NSDL, through this issue of Kaleidoscope will provide in depth information about different avenues in equity investment. We hope that this issue will help you nurture your investment portfolio.

Best Regards,
NSDL

Click & Find:How Equity investments can beat inflation

In this issue of Kaleidoscope, we will look at how inflation can reduce your purchasing power & how investments in equities can beat inflation. Wherever there's talk of money, there is always talk of inflation. Inflation is the rate at which the cost of goods and services rises. Simply put, as inflation goes up, your purchasing power decreases. Thus, inflation results in loss of value of money. Another popular way of looking at inflation is "too much money chasing too few goods". Inflation is measured as an annual percentage increase. For example, if 1kg of basmati rice is costing ₹100 today, then considering the inflation rate of 5% annually the cost of that 1kg of basmati rice will be ₹105 after a year.

How Equity investments can beat inflation....

A penny saved is a penny earned. But thanks to inflation, over time, the value of the penny saved could be much less than when it was earned. One cannot ignore the corrosive impact of rising prices on investments. For instance, a ₹100 earned will be worth just ₹92 after a year if it is not invested considering the inflation rate is 8%. That is why one always has to be on the lookout for investments whose returns are more than the prevailing inflation rate. So what options are there for investors wanting to combat inflation?

Investing in equities over a long period is one of the best ways to stay ahead of inflation. Equity shares refer to what a company issues to its owners which denotes their ownership of the company (business). These can be purchased either via an 'Initial Public Offer (IPO)', i.e., when the company raises money and offers the public at large, a share of ownership in the company or via secondary markets, i.e., when you buy it from a previous holder in a marketplace.

Why should one invest in equities?

No matter where you are in life, equities have an important role to play within a properly diversified portfolio. They can help with building your savings, maximizing your income and protecting your wealth:

- **Building your savings**
  Historically, equities provide superior long-term returns compared to cash and fixed-income investments. However, equities typically fluctuate more in value. Because these fluctuations tend to smoothen out over time, it's important to take a long-term perspective when investing in equities.

- **Maximizing your income**
  If you're an income-oriented investor, your portfolio probably contains a high percentage of T-bills and government bonds. However, it's important not to overlook the key role that equities can play in your portfolio. In addition, the income generated by equity investments— like dividends or capital gains—is taxed more favorably than interest income. Setting aside a certain percentage of your portfolio to equities can enhance your after-tax income.

- **Protecting your wealth**
  Another reason to invest in equities is to protect your wealth. This may seem counterintuitive given that equities are not guaranteed, while fixed-income investments are. However, because fixed-income investments offer such low interest rates, they offer little protection from taxes and inflation eroding your wealth over time. Again, adding a certain percentage of equities to your portfolio, while keeping the balance in guaranteed investments, can help protect your portfolio's value in the long run.

"Did You Know"

From April 1995 to April 2015, the S&P BSE Sensex has risen from 3,300 to 28,200, while CNX Nifty has risen from 1,000 to 8,600 during the same period.

Period	S&P BSE Sensex	CNX Nifty
April 1995	3,300	1,000
April 2005	6,600	2,000
April 2010	17,600	5,200
April 2015	28,200	8,600

"Quote of the month"

"An investment in knowledge pays the best interest" - **Benjamin Franklin**

Get Started: Basics of Equity Investment

As we have seen how equity investments can beat inflation, let's understand the basics of equity investment & how can it be beneficial to shareholders. An equity share is a unit of ownership in a company. Every company issues a certain number of shares to its promoters, i.e., those who participate in its formation. The company issues additional shares to the public, when it raises money by way of an Initial Public Offer (IPO). Hence, in addition to the promoters, the public too becomes shareholders of the company. So, if you hold 100 shares of a company which has issued 10,000 shares, you own 1 per cent of the company.

Benefits to a shareholder:

Why should you purchase shares of a company? What are the benefits that accrue to you as a shareholder? Apart from the right to vote and decide the future course of action that a company takes, the real benefit that you, as a shareholder, have is in the form of participation that you get in the profits made by the company. At the same time, your liability is limited only to the face value of the shares held by you. The benefits distributed by the company to its shareholders can be either Monetary benefits or Non-Monetary benefits.

✓ **Monetary Benefits :** Monetary benefits can be in the form of Dividend or Capital Appreciation.

❖ **Dividend:** You as an equity shareholder have a right on the profits generated by the company. Profits are distributed in part or in full in the form of dividends. Dividend is your earning on the investment made in shares, just like interest in case of bonds or debentures. A company can issue dividend in two forms:

- **Interim Dividend**
- **Final Dividend**

While final dividend is distributed only after the closing of the financial year; companies at times declare an interim dividend during a financial year. Hence if X Ltd. earns a profit of ₹40 crore and decides to distribute dividend of ₹2 to each shareholder & if you are a holder of 200 shares of X Ltd., then you would receive ₹400 as dividend. This is a return that you shall earn as a result of the investments made by you in X Ltd.

❖ **Capital Appreciation:** You also benefit from capital appreciation. Simply put, this means an increase in the value of the company usually reflected in its share price. Companies generally do not distribute all their profits as dividend. As the companies grow, profits are reinvested in the business. This means an increase in net worth (capital of the company plus accumulated profits that have not been distributed), which results in appreciation in the value of shares. Hence, if you purchase 200 shares of X Ltd. at ₹20 per share and hold the same for two years, after which the value of each share is ₹35. This means that your investment has appreciated by ₹3,000/-.

✓ **Non-Monetary Benefits:** Apart from dividends and capital appreciation, investments in shares also fetch some type of non-monetary benefits to you. Bonus and rights issues are two such noticeable benefits.

❖ **Bonus:** Instead of distributing accumulated profits as dividends, companies have the option of issuing bonus shares, i.e., they will give more shares to you free of cost. Prima facie, it does not affect your wealth as a shareholder, however, in practice bonuses carry certain latent advantages such as tax benefits, better future growth potential, an increase in the floating stock of the company, etc. Hence if X Ltd. decides to issue bonus shares in a ratio of 1:1, and you are currently holding 200 shares, you will receive an equivalent number of shares (200) free of cost. Normally the price of the X Ltd. will then fall in the stock market to keep your overall wealth at the same level. This reduced price is known as the ex-bonus price.

For example, if the price of X Ltd. in the stock market was ₹40 before declaring this bonus issue, it would fall to ₹20 after the issue. Hence, your investment value which was ₹8000 (200 shares x ₹40 per share) would remain the same (400 shares x ₹20 per share). In case the bonus ratio was 1:2, i.e., for every 2 shares held the company issues 1 bonus share, you would have received 100 (200/2 = 100) bonus shares.

❖ **Rights Issue:** A company may need more money to expand and for that it may need to issue more equity shares. A rights issue involves issuing of additional shares to the existing shareholders of the company. A company wishing to issue additional shares should first offer them to its existing shareholders so that it allows the existing shareholders to maintain the same degree of control of the company. Thus you can maintain your participation in the company profits.

Understanding Financial Lingo

1. **Equity :** Equity is the ownership interest in a corporation in the form of common stock or preferred stock.
2. **Stock Exchange :** A stock exchange is a form of exchange which provides services for stock brokers and traders to buy or sell stocks, bonds and other securities. Stock exchanges also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends.
3. **Clearing Corporation :** Clearing Corporation is an organization which works with the exchanges to handle confirmation, delivery and settlement of transactions. Such corporations play a key role in ensuring that executed trades are settled within a specified period of time and in an efficient manner. Clearing Corporation is also called as clearing firm or clearing house.
4. **Index :** Index is a statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base year or from the previous month. Indexes measure the ups and downs of stock, bond and some commodities markets, in terms of market prices and weighting of companies in the index.
5. **Bull market :** Any market in which prices are in an upward trend.
6. **Bear market :** Any market in which prices are in a declining trend.
7. **Benchmarking :** Comparing the performance of a firm to a set of industry peers (the benchmark). Typically done across a variety of ratios and using both horizontal and vertical analysis. Industry peers are chosen based on size, industry code, location, etc.
8. **Cash flow :** In investments, it represents earnings before depreciation, amortization and non-cash charges. Sometimes called cash earnings. Cash flow from operations (called funds from operations) by real estate and other investment trusts is important because it indicates the ability to pay dividends.
9. **Compounding :** The process of accumulating the time value of money forward in time. For example, interest earned in one period earns additional interest during each subsequent time period.
10. **Earnings per share (EPS) :** EPS, as it is called, is a company's profit divided by its number of outstanding shares. If a company earned ₹2 million in one year & had 2 million shares of stock outstanding, its EPS would be ₹1 per share. The company often uses a weighted average of shares outstanding over the reporting term.

Blog

Winning vs. Losing

By Shreenivas Kunte, CFA
Advocacy committee member, IAIP

Our choices as we lose are different from the choices we have when we are winning. For the retail investor, this habit is one of the main reasons for lack of investment success in the stock market. It is natural to find it painful to lose. Being on the losing side is emotionally difficult. Imagine running backward in a race and waving cheerfully all the time. For us, like day and night, winning and losing are special mental symbols. To like winning is reasonable. But do we dislike losing more than we like winning?

For example, for loss making stocks, research shows that we tend to hold on to the loss making stocks. Our hope is that the stock price will miraculously recover. On the other hand for the winning stocks we tend to book profit early. The first case is an example of our tendency to take more risk as we lose. On the other hand, in the second case we like to be sure of winning. To be 100% sure we book profits early. That is, in the second case we tend to avoid risk.

The tendency to take incorrect decisions as we win or lose is one of our many biases that we have. How do we protect ourselves from our unreasonable choices? Experts have found out that rules or a personal rule book can protect us from making incorrect choices.

Simple rules could include the following methodical checks at regular intervals.

1. For example a 20% profit or 10% loss on a stock holding in 3 months should be an alert for us to take action. Did we expect this change to happen?
2. In other words has our basic assumption regarding the stock changed? If yes, irrespective of winning or losing, we should decide on switching from this stock.

Your Questions Our Answers

1. What is Capital Market?

The Capital Market is the market for long-term loans (debentures & bonds) and equity capital. Companies and the government can raise funds for long-term investments via the capital market. The capital market includes the stock market, bond market and primary market. Thus, organized capital markets are able to guarantee sound investment opportunities.

The capital market can be contrasted with other financial markets such as the money market which deals in short term liquid assets and futures markets which deal in commodities contracts.

2. What is Financial Market?

The financial markets are markets which facilitate the raising of funds or the investment of assets, depending on viewpoint. They also facilitate handling of various risks. The financial markets can be divided into different subtypes:

- **Stock markets,** which facilitates equity investment and buying and selling of shares of stock.
- **Bond markets,** which provides financing through the issue of debt contracts and the buying and selling of bonds and debentures.
- **Money markets,** which provides short term debt financing and investment.
- **Derivatives markets,** which provides instruments for handling of financial risks.
- **Futures markets,** which provide standardized contracts for trading assets at a forthcoming date.
- **Insurance markets,** which facilitates handling of various risks.
- **Foreign exchange markets,** these markets can be either primary markets or aftermarkets.

3. What is Stock Market?

A stock market is a market for the trading of publicly held company stock and associated financial instruments (including stock options, convertibles and stock index futures). Many years ago, worldwide, buyers and sellers were individual investors and businessmen. These days markets have generally become "institutionalized"; that is, buyers and sellers are largely institutions whether pension funds, insurance companies, mutual funds or banks. This rise of the institutional investor has brought growing professionalism to all aspects of the markets.

4. Who are the main participants in the Capital Market?

The capital market framework consists of the following participants:

- Regulatory Institutions (e.g. SEBI)
- Market intermediaries, such as depositories, stock-brokers and Mutual Funds
- Stock markets
- Investors

5. What are the different types of financial instruments?

The following are the different types of financial instruments:

- Debentures
- Bonds
- Preference shares
- Equity shares
- Government securities

6. How do I buy financial instruments as investment options?

One cannot buy directly from the market or stock exchange. A buyer has to buy stocks or equity through a Stock Broker, who is a registered authority to deal in equities of various companies. In effect, a lot many intermediaries might come in between the buyer and seller, as brokers do their business through many sub-brokers and the like.

7. How risky is the Stock Market?

The general theory goes that the higher the profit, the greater the risk. Since there is scope for high profit in the Stock Market, investing in the Stock Market can be risky.

8. If Stock Market is so risky, why are people in it?

Basic human psychology. Men want profits- big and fast. Not many are deterred by the risks involved. The fact is that investment in the stock markets can give, potentially, the fastest ROI (Return On Investment), as the value of a stock can rise pretty fast, ensuring huge profit for investor. People buy shares in a company for either of two reasons:

- They have a stake in the company. They are concerned not only in the future growth in stock value but in the worth of the company itself. Their investments are long-term and they don't sell their shares in an impulse.
- They want quick profit and don't have any stake or interest in the company, but merely want some quick value addition. Their investments - both buying and selling - are impulsive. Mostly, they don't do any market research and don't follow any sector or company to gain proper knowledge before investing.

9. How can I achieve success in stock market?

The precept is very easy. Saving your investment is the first and most important part. This can be done by ensuring that you do not put your money in a company that does not show solid prospects. Fly- by- nights companies or companies whose shares touch the roof suddenly, need to be avoided. Companies that show a steady prospect are good to invest in. Needless to say, this process involves close acquaintance with market movements and a thorough understanding of the concepts involved.

The second thing is that adequate market knowledge is very important especially when you have invested in the stock market. One should be patient and judiciously responsive to market swings.

Joint Awareness Programmes with India Infoline Limited

Joint Awareness Programme organised by NSDL in association with India Infoline Limited at Purulia, West Bengal in February 2015

Joint Awareness Programme organised by NSDL in association with India Infoline Limited at Shibsagar, Assam in February 2015

Investor Education initiatives undertaken by NSDL

- **Joint Awareness Programmes with Participants:**

  In order to reach out to investors that are spread across the country and to apprise them about the facilities available in NSDL depository system and the awareness on stock markets, NSDL conducted 13 Joint Awareness Programmes in association with ICICI Securities Limited, India Infoline Limited & Peerless Securities Limited during February 2015 which were attended by more than 800 investors as mentioned below:

DP Name	Location	State
ICICI Securities Limited	Bargarh	Odisha
	Sundergarh	Odisha
	Kamakhyaguri	West Bengal
	Nabagram	West Bengal
	Tarakeswar	West Bengal
India Infoline Limited	Shibsagar	Assam
	Tinsukia	Assam
	Aluva	Kerala
	Pathanamthitta	Kerala
	Alipurduar	West Bengal
	Durgapur	West Bengal
	Purulia	West Bengal
Peerless Securities Limited	Jamshedpur	Jharkhand

- **Corporate Awareness Programme (CAP):**

  During February 2015, NSDL conducted a Corporate Awareness Programme (CAP) for Kotak Group employees viz., Kotak Mahindra Bank Limited, Kotak Life Insurance & Kotak Mutual Fund at Kolkata, West Bengal & a CAP for employees of Netcore Solutions Pvt. Ltd. at Mumbai, Maharashtra to educate employees and shareholders of Kotak Group employees & Netcore Solutions Pvt. Ltd. regarding benefits of dematerialisation. These training programmes were attended by 175 employees of Kotak Group members & Netcore Solutions Pvt. Ltd.

- **Women Empowerment Programme:**

  During February 2015, NSDL conducted a Financial Literacy Programme for around 100 women employees of "Tata Consultancy Services (TCS)" in Vadodara, Gujarat. This training programme was focused on basics of investments & Depository related services.

NSDL Articles (contd.)

- **Sponsorship in events conducted by Institutions:**
  - **Pravartana 2015**

    During February 2015, NSDL supported Pravartana 2015, a flagship event of K.J Somaiya Institute of Management Studies & Research (SIMSR). Pravartana 2015 witnessed participation by more than 150 management students from top institutes. This event encouraged the young minds of India to do what MBA's call – "Developing a Structured Financial Product" in which participants were expected to come up with an innovative financial product in the Capital Markets.
  - **ICC Mutual Fund Summit**

    To create linkages between industry and policy makers, Indian Chamber of Commerce (ICC) organized the 8th ICC Mutual Fund Summit in Kolkata during February 2015. NSDL supported the 8th edition of the ICC Mutual Fund Summit which had the theme "Achieving the Right Mix of Growth & Governance". Mr. Prashant Vagal, Senior Vice President of NSDL enlightened the summit as an inaugural speaker. Mr. Vagal was also part of the panel discussion – "Indian MF Industry: Reforming Sectoral Dynamics & Predicting the Future".
  - **INVEST EXPO 2015**

    In February 2015, NSDL sponsored an event titled "INVEST EXPO 2015" at Chennai. This event was focused on money related aspects and Profitable Investments. This event presented a comprehensive program of seminars and investment opportunities to audience of affluent investors looking for alternative and interesting ways of investing their Money Safely and or to become an Entrepreneur by Starting a New Business Independently. This event was attended by more than 800 participants.

- **Training Programmes conducted for college students & Professors:**
  In February 2015, NSDL conducted four training programmes for students representing from Dibrugarh University, Assam, R.A. Podar College of Commerce & Economics, Mumbai, Ramniranjan Jhunjhunwala College, Mumbai & for students from NIFM - PGDM (FM). NSDL also conducted an awareness programme on demat for professors representing from R.A. Podar College of Commerce & Economics, Mumbai. Various aspects on Depository related services were addressed to these students & professors attending these programmes.

Training programme organised by NSDL for students from Dibrugarh University, Assam during February 2015

- **Events conducted by NSDL during February 2015:**
  - **NSDL Brand Ambassador:**

    NSDL had launched an initiative called "NSDL Brand Ambassador (NSDL BA)" for student community education and to popularize demat products and related concepts amongst colleges. In February 2015, NSDL conducted "NSDL Brand Ambassador Contest" for students of R.A. Podar College of Commerce & Economics, Mumbai. Ms. Deepali Saraph, Ms. Shivani Chheda and Mr. Harshil Mehta from R.A. Podar College of Commerce & Economics were selected as NSDL Brand Ambassadors after screening them through various rounds of this contest.

NSDL CAS

NSDL Consolidated Account Statement (CAS) is a single statement of all your investments in the securities market. NSDL CAS includes investments in equity shares, preference shares, mutual funds, bonds, debentures, securitized instruments, money market instruments and government securities held in demat. All investments held in single or joint names with you as the sole/first holder are a part of the NSDL CAS.

NSDL CAS is part of the overall vision to enable all financial assets to be held electronically in a single demat account, which was articulated by the Hon'ble Finance Minister in his budget speech of July 2014. As a step in this direction, SEBI has introduced this Consolidated Account Statement for all securities assets by consolidating demat accounts and mutual fund folios.

NSDL CAS offers you unparalleled convenience in keeping track of your investment portfolio. You can easily monitor the investments you hold, their value and portfolio composition. It will help you in developing strategy to manage your investments better.

For more information on NSDL CAS, visit https://nsdlcas.nsdl.com.

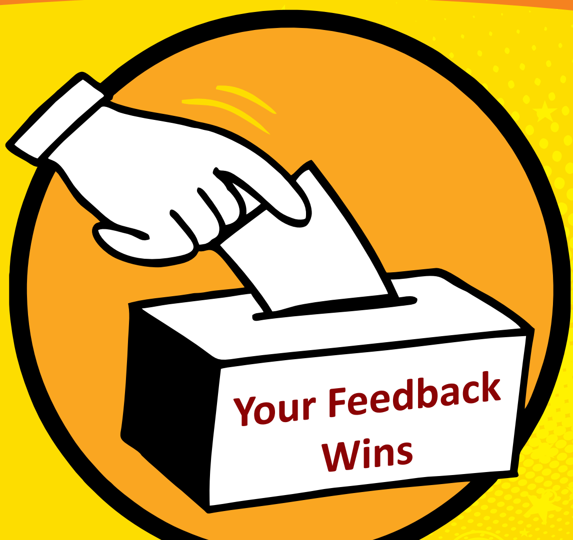
Read and Win!

Mention the advantages of investing in Equity Markets?

Send your replies providing your contact details (Name, address and contact no.) with the subject 'Knowledge Wins Contest - March 2015' to info@nsdl.co.in

Terms and Conditions

- NSDL shall be solely responsible for the execution and administration of this Contest.
- This Contest is only open to Indian Citizens. (NSDL employees are not allowed to participate in this contest.)
- All personal details submitted must be accurate and complete and are subject to proof upon request by NSDL.
- NSDL reserves the right, at any time, to verify the validity of entries and entrants and to disqualify any entry not submitted in accordance with these Terms or which tampers with the entry process.
- NSDL reserves the right to discontinue the contest at any given point of time without prior intimation.
- All prize drawings will made on a strictly random basis and the decision made by NSDL will be final



Your suggestions for newsletter are valuable to us. Send in your suggestions mentioning your contact details (contact name, address & contact number) with the subject "Suggestions for the newsletter" to info@nsdl.co.in

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