



## From The Editor's Desk

Today, wealth accumulation is one of most sought-after financial goal. Every individual, whether an existing investor or a newbie is familiar with this concept and is willing to invest in different investment avenues that generates and preserves wealth for him/her. One of the popular and effective ways of generating and multiplying wealth is by investing in capital markets. While it is true that investing in capital markets is not without risk, there are enough studies suggesting that by following a disciplined and patient approach, one can use it successfully is for wealth accumulation. To be successful in market, one needs to decide - What to purchase? At what price to buy and sell stocks? What are the risks involved? What are the expected rewards and how long to hold the stock?

In this issue of The Financial Kaleidoscope, we bring to you some basic discussion on fundamental and technical analysis which are meant to answer the above questions. All said and done, the point remains that stock market investments are subject to risk and one must do his / her homework before making any investment decision.

Regards,  
NSDL

Thanks to Google, a vast amount of information is available on stocks. While this has certain advantages, it has equally become difficult to pick the parts which are reliable and relevant. There are two basic types of analysis undertaken for selecting a stock for investment purpose – Fundamental analysis and Technical analysis.

## Fundamental Analysis

One of the basic and crucial aspects of healthy stock-picking is carrying out Fundamental Analysis for a particular company. Fundamental analysis means evaluating a security by studying the various factors associated with it – like the revenue of the company, its profits (past and present), the debt repaying capacity and its immediate contemporaries. This analysis helps in creating a financial horoscope of the company and in essence, provides the investor a clear picture of the security he/she wishes to invest in. All investment worth companies have some common attributes that sets them apart. Similarly, all wealth destructors have some common traits which can be seen by an astute investor. Fundamental Analysis is the technique that gives you the conviction to invest for a long term by helping you identify these attributes of wealth creating companies.

There are many tools which help conduct this fundamental analysis, for example study of audited financial statements, ratio analysis, study of industry data and company news.

## Ratio Analysis for Stock Selection

'Wise' stock selection entails using some ratios to help you figure out the mettle of your investment. It will pay to keep in mind that a single financial ratio can never determine the true value of a stock. It is advisable to use a combination of ratios to get the bigger picture on the canvas about the financials of a company, its earnings and the value of its stock. Some of the frequently used ratios are given below –

### (i) Price-to-Earnings Ratio or P/E Ratio

P/E ratio helps investors to understand the market value of a stock compared to the company's earnings and gives an idea about the growth potential of the stock.

#### **P/E Ratio = Current Market Price / Earning Per Share**

A high P/E ratio usually indicates that stock's price is high relative to its earnings and possibly overvalued. As opposed, a low P/E indicates that the current stock price is low relative to earnings.

If there are two companies A – with a P/E of 50 and B – with a P/E of 30, then other things being same, B is considered to be a better buy as the market price has not gone up to reveal the growth potential of the company.

However, earnings of a company can be hard to predict as they are based on past performance and expectations of the financial analyst. Both can give uncertain results. Also, the P/E ratio doesn't factor in earnings growth. Interpretation of P/E ratio is heavily dependent on comparison of the company with its contemporaries in the relevant industry. P/E ratio is also not neutral to major announcements in relation to the growth of the company and can be pushed up or down by any issues faced by the company.

### (ii) Earnings Per Share or EPS

Earnings per share are calculated by dividing a company's net income by its number of shares outstanding. An increasing EPS is considered to be a good omen as a strong growth suggests a successful stock which will give a good performance in the future too.

However, it's important to realize that companies can boost their EPS figures through stock buybacks that reduce the number of outstanding shares.

### (iii) Price-to-Book Value or P/B Ratio

The P/B ratio measures whether a stock is over or undervalued by comparing the net assets of a company to the price of all the outstanding shares. This ratio shows the difference between the market value and the book value of a stock. The market value is the price investors are willing to pay for the stock based on expected future earnings. The book value, on the other hand, is derived from a company's assets and is a more conservative measure of a company's worth. Value investors often prefer companies with a market value less than its book value in hopes that the market perception turns out to be wrong.

### (iv) **Debt-to-Equity Ratio**

The debt equity ratio shows the proportion of equity to debt that a company is using to finance its assets. When a company is using a lower amount of debt for financing it will have a low debt equity ratio. If the ratio is high it means that the company is financing more from debt relative to equity and this can pose a risk to the company as too much debt is not preferred. The debt-to-equity ratio can vary from industry to industry and depending on the type some companies have higher ratios than companies in other industries.

### (v) **Free Cash Flow**

Free cash flow is the left-over cash of the company after it has paid off its operating expenses and capital expenditures. It shows the efficiency of a company at generating cash and is considered as an important indicator in determining whether a company has sufficient cash to reward shareholders through dividends and share buybacks. Free cash flow can be an early indicator to value investors that earnings may increase in the future. When a company's share price is low and free cash flow is on the rise, the earnings and share value of the company could soon be heading in the upward direction.

## Technical Analysis (TA)

### What is TA?

TA is the study and use of various charts and other technical indicators to make trading decisions. Using past stock price and volume data (also known as market action), technical analyst tries to predict future price movements. The actions of markets participants can be visualized by means of a stock chart and patterns can be observed therein. The job of a technical analyst is to identify these patterns and develop a point of view. This analysis particularly helps in generating short term trading plans. Believers of this approach do hold position for a short timespan with a view to capitalize on opportunities created by price fluctuations. Technical analysts observe support and resistance levels to identify points on a chart where a pause or a reversal of the prevailing trend is likely to occur – to decide the entry and exit from a particular stock.

There are too many types of charts and techniques used for technical analysis, each serving a distinct purpose, for example, line charts, bar charts, candlesticks, moving averages etc. With the use of specialised software programs, many of which are available off the self, even ordinary investors with basic understanding of computers can use them for trading decisions.

### Should you choose Fundamental Analysis or Technical Analysis?

Generally speaking, time horizon is the factor which guides whether technical or fundamental analysis makes sense. It is generally believed that short-term investors follow technical while long-term investors are better to follow fundamentals. Being open to combining styles may provide the best opportunity to make the most of the market opportunities. Fundamental analysis can be used to identify appropriate targets, while technicals can be followed to make the trading decisions. Together, these methods can generate a confluence providing a better investment opportunity than either used alone.

No matter which approach you take, it's always important to do your research. You have to read books, attend webinars and consult with a SEBI registered investment advisor before risking money in the market. Successful investors have an extremely systematic approach to the markets. They use specific strategies that have been researched upon and deliver time-tested results.

Small and ordinary investors need to take care of one more aspect – that investing in mutual funds is better than investing in individual stocks, at least to begin with. The rationale behind this is quite simple - buying a single stock is lot more riskier than buying a mutual fund. By nature, mutual fund invests in a larger pool of stocks which are carefully selected by a qualified and professional fund manager. This minimise the risk of stocks losing the value at the same time. Once you become conversant with markets, you may proceed towards investing in select stocks, and later even may like to participate in derivative markets.

### Three simple investment mantras

#### 1. **Avoid the 'herd mentality'**

Never invest because so many others have. Please do remember that its '**Your Money**' which is put at stake. Only you are best to decide its use.

### 2. Cheap isn't always good and expensive isn't always bad

Sometimes a share may be cheap because the industry is facing slow down. And sometimes a stock may be expensive because it's widely expected to see rapid earnings growth in near future. So evaluate the stock potential not only on its current prices, but consider its prospects for your entire investment time horizon.

### 3. Plan your exit at the time of entry

Investing is not about buying alone. Its actually more difficult to decide when to exit from a particular stock. Practically, no stock is to be kept for eternity. For some, the holding period may be 1 year, for some it may be 5 or 10 years or even more. What is more important is to keep on reviewing your investment and exit from the stock before its too late.

## Understanding some jargons

### 1. Value Investment

Value investment means identifying companies that are trading below their intrinsic value (or stocks which the market has undervalued) and investing money in them. Followers of this approach believe that the market always reacts to good as well as bad news relating to a stock. This in turn triggers price fluctuations that may not exactly correspond to the company's long-term fundamentals. So when price temporarily declines, it creates an opportunity for the investor to earn more profit by buying the stock and selling it later when market eventually correct its error in valuation.

Value investors usually look for companies with strong fundamentals generally represented in form of consistent earnings, dividend payments, higher book value and cash flow. Investment in such company is mostly done for long term purposes.

### 2. Growth Investing

Growth investing means taking investment decision based on the *future* potential of a company, with much less emphasis on the present price. Growth investors typically focus on companies which have an exceptional growth potential but have relatively lower intrinsic value. The rationale behind this is that growth in earnings and/or revenues will translate into higher stock prices in the future.

Growth stocks are usually found in the fastest growing industries. Companies may be selected based on earnings growth, profit margins, Return on Equity and price movement. In general, if a company exceeds its previous five-year average of pre-tax profit margins as well as those of its industry, the company may be a good growth stock. A company with a strong stock performance (stock cannot realistically double in five years) is an ideal candidate for growth investing.

### 3. Qualitative Analysis

Qualitative Analysis considers the aspects of a Company that do not pertain to ratios, for example - business model, leadership quality and the competitive advantage. Studying the Business Model is essential to understand company's core processes, its thinking, decision-making abilities. It also gives a clear insight of company's vision and understanding. A strong management team or leadership is an asset that any company must have. Such a team can lead the organization to unparalleled heights. Figuring out the team's vision, their track record, their strengths and weakness will lend a helping hand in gauging their stock value. A competitive advantage will allow a company to produce a good or service at a better price, resulting in more sales or better margins. Advantages can also be in the form of brand recall, efficient cost structure, product quality, superior distribution network and advanced customer support.

With qualitative analysis, an investor can have an understanding of the company and the industry as a whole. If the industry has a strong growth potential, the company is more likely to climb the profit graph. On the other hand, even a good Company operating in a poor industry can reduce your portfolio.

## Do's and Don'ts for an investor in capital market

### Do's -

- To read all documents carefully before signing.
- To always deal with SEBI registered stock broker or sub broker or authorised person for any investment through stock market.

- To invest using banking channels, i.e. no dealing in cash
- Do remember that nobody can promise you guaranteed returns in stock market investments. It is neither allowed nor possible.
- Do register your mobile number and email ID in your trading, demat and bank accounts to get regular alerts on your transactions.

### Don'ts –

- Do not invest and trade on the basis of 'Tips'.
- Do not share password of your online trading and demat account with anyone.
- Do not share OTP received from banks, brokers, etc. with anyone calling you. These are meant to be used by you only.
- Do not invest in any chit fund, ponzi and unregistered collective investment company.
- Do not follow herd mentality for investments. Seek experts and professionals advise for your investments.

### Some tips from Gurus

- *"It's not always easy to do what's not popular, but that's where you make your money. Buy stocks that look bad to less careful investors and hang on until their real value is recognized."* – **John Neff**
- *"The four most dangerous words in investing are: 'This time it's different.'"* – **Sir John Templeton**
- *"All intelligent investing is value investing - acquiring more than you are paying for. You must value the business in order to value the stock."* – **Charlie Munger**
- *"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."* – **Peter Lynch**
- *"Anyone who is not investing now is missing a tremendous opportunity."* – **Carlos Slim**

## Blog

### Understanding Fundamentals before selecting stocks

By Ashwini Paralkar  
Financial Market Expert

Wealth Creation is a term which sells like hot pancakes! Everyone's ears prick up at the mention of earning some extra moolah on the side. And, why not? Everything is about your earnings and worth in today's world. Browsing through various avenues to get your portfolio some much needed boost is a pastime for many and investing in stocks sure looks like a lucrative avenue.

Before plunging in this seemingly bottomless pool of wealth creation, using stocks as a medium, one has to follow a general thumb rule. Your research has to be at par with the ups and dips of the market. Keeping a sound mind and following stringent protocols comes in handy while investing in stocks because they can either take you down with them or allow you to soar up high in the sky. A tight reign should be kept on your anxiety which can arise out of rumours and speculations in the market. Never just buy a stock because of the buzz surrounding it. Always check for the valuation of the stock. Once the trade is executed, it cannot be reversed for the mistake made on valuation.

Also, check the true purpose of the business. This can be done by perusing the past financial track record of the company and by studying its present and future projections. A stock has to be a strong past performer to fit the investment criteria. Study the company's bottom line, read up on the quarterly and annual earnings reports, review the debt equity ratio – this ratio is important as it will help you understand the debt of the company as against its number of shareholders. Get a know-how of the management and its policies. Invest in companies which have a fairly straightforward business model. Try to focus on companies that pay dividends to their investors. The final investment decision should be made based on research and your outlook on the same.



## World Investor Week (WIW) held from October 1 - 7, 2018

NSDL celebrated 'World Investor Week' (WIW) from October 1 - 7, 2018 under the aegis of IOSCO and SEBI. As part of the celebration, NSDL conducted 21 Investor awareness programmes in association with SEBI, NSE, Depository Participants and academic institutions to educate investors and students about the about financial markets. These programs were attended by more than 1400 investors and students.

## SEBI's clarification regarding notification dated June 8, 2018 mandating transfer of securities in dematerialised form

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 was amended vide notification dated June 8, 2018. As per amended regulations, transfer of shares in physical form would not be processed unless the securities are held in the dematerialized form with a depository from December 5, 2018. SEBI vide its Press Release no. 34/2018 dated August 10, 2018 has clarified the following:

1. The amendment does not prohibit the investor from holding the shares in physical form, investor has the option of holding shares in physical form even after December 5, 2018.
2. The amendment is not applicable for transmission (*i.e. transfer of title of shares by way of inheritance / succession*) and transposition (*i.e. re-arrangement / interchanging of the order of name of shareholders*) cases.
3. Any investor who is desirous of transferring shares (which are held in physical form) after December 5, 2018 can do so only after the shares are dematerialized.

**Reference:** NSDL/POLICY/2018/0047 dated August 28, 2018, available on NSDL website [www.nsdl.co.in](http://www.nsdl.co.in)

## Training Programmes for Participants

### ➤ NISM / NSDL-DO training / certification programme for Participants

To facilitate officials of Participants to prepare and appear for NISM - Series VI Depository Operations Certification Examination (DOCE), NSDL conducted two training programmes at Mumbai and Pune in August 2018.

### ➤ CPE Training Programme for Participants

NSDL, a NISM Accredited Continuing Professional Education (CPE) Provider offers CPE training programmes in different modules like Depository Operations, Mutual Fund, Currency Derivatives, Equity Derivatives, Securities Operations and Risk Management, Registrars to an Issue and Share Transfer Agents - Corporate, Merchant Banking, Investment Advisor Level etc. for eligible associated persons. In August 2018, NSDL conducted seven such training programmes at Ahmedabad, Chennai, Kolkata, Mumbai and New Delhi.

## Investor Education initiatives undertaken by NSDL

In order to reach out to investors that are spread across the country to apprise them about the facilities available in NSDL depository system and educate them about financial markets, NSDL conducts various Programmes with Participants, Housing Societies, Institutions like SEBI, NSE, corporates etc. and also participates in various events. During August 2018, NSDL conducted / participated in 34 such programmes / events which were attended by more than 1,900 investors. Details are mentioned below:

Sr. No.	Particulars	
<b>1</b>	<b>Joint Awareness Programmes with Participants</b>	<b>No. of Programmes</b>
	Acumen Capital Market (India) Limited	4
	Kotak Securities Limited	4
	SBICAP Securities Limited	3
	Arihant Capital Markets Limited	2
	ICICI Bank Limited	2

Sr. No.	Particulars	
	Jhaveri Securities Limited	2
	Karvy Stock Broking Limited	1
	Sharekhan Limited	1
	Ventura Securities Limited	1
<b>Total</b>		<b>20</b>
<b>2</b>	<b>Joint Awareness Programmes with other Institutions</b>	<b>No. of Programmes</b>
	National Stock Exchange of India Limited	7
	Securities and Exchange Board of India	2
	Other Institution	1
<b>Total</b>		<b>10</b>
<b>3</b>	<b>Corporate Awareness Programmes</b>	<b>No. of Programmes</b>
	Automotive Axles Limited, Mysore, Karnataka	1
	JK Tyre & Industries Limited, Mysore, Karnataka	1
<b>Total</b>		<b>2</b>
<b>4</b>	<b>Participation at Events</b>	<b>No. of Programmes</b>
	3 <sup>rd</sup> India Wealth Management Conference organized by CFA Institute India Private Limited	1
<b>Total</b>		<b>1</b>
<b>5</b>	<b>Workshop for College</b>	<b>No. of Programmes</b>
	Lala Lajpat Rai College of Commerce and Economics, Mumbai, Maharashtra	1
<b>Total</b>		<b>1</b>

## Forthcoming Investor Awareness Programmes

Sr. No.	Date	Venue	City	State	Timing
1	02-Nov-18	Bon Vivant, Dongre Vasti Gruha, Gangapur Road, Patil Park, Old Gangapur Naka, Opposite To, Summati Colony, Nashik – 422002, Maharashtra	Nashik	Maharashtra	06.00 p.m. onwards
2	16-Nov-18	Hotel Indraprastha, Polyclinic Road, Siddhartha Nagar, Vijayawada – 520010, Andhra Pradesh	Vijayawada	Andhra Pradesh	6.00 p.m. onwards
3	18-Nov-18	Hotel Radhe, Opp. GEB Substation, Himmatnagar Highway, Vijapur – 382870, Gujarat	Vijapur	Gujarat	10.00 a.m. onwards
4	22-Nov-18	Effotel Hotel, Plot No. 10-C/ C.A Scheme No. 94, Sector C, Indore – 452010, Madhya Pradesh	Indore	Madhya Pradesh	7.30 p.m. onwards

- Admission is free for all investors.
- Schedule is subject to change. Please visit <https://nsdl.co.in/Investor-Awareness-Programmes.php> for updated schedule.
- If you would like to organise Investor Awareness Programmes in your City, Housing Society, College, Institution etc., do write to us at [info@nsdl.co.in](mailto:info@nsdl.co.in)



# Read and Win!

What is meant by 'Intrinsic Value' of a stock?

Send your replies providing your name, address and contact no. with the subject 'Knowledge Wins Contest - September 2018' to [info@nsdl.co.in](mailto:info@nsdl.co.in)

## KNOWLEDGE WINS Contest

### 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 be made on a strictly random basis and the decision made by NSDL will be final.

Lucky 25  
Winners will  
Win Free  
Goodies



Your suggestions for newsletter are valuable to us.

Send in your suggestions mentioning your  
name, address and contact number  
with the subject

"Suggestions for the newsletter"  
to [info@nsdl.co.in](mailto:info@nsdl.co.in)

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<b>Kochi</b> Suite No. S - 105, Monlash Business Center, 4 <sup>th</sup> Floor, Crescens Tower, NH 47, Changampuzha Nagar Post, Kochi - 682033 Tel.: (0484) 2933075	<b>Kolkata</b> Unit 2E, 2 <sup>nd</sup> Floor, The Millenium, 235/2A, A.J.C. Bose Road, Kolkata - 700020 Tel.: (033) 22904243, 22904246	<b>New Delhi</b> Unit No. 601, 603, 604, 6 <sup>th</sup> Floor, Tower-A, Naurang House, Kasturba Gandhi Marg, Connaught Place, New Delhi - 110001 Tel.: (011) 23353814, 23353815	

- For any grievances, you can email us at [relations@nsdl.co.in](mailto:relations@nsdl.co.in)
- To know more about NSDL Certification Program, you can email us at [trainingdept@nsdl.co.in](mailto:trainingdept@nsdl.co.in)
- For any other information, email us at [info@nsdl.co.in](mailto:info@nsdl.co.in)

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