



## From The Editor's Desk

Dear Readers,

Amidst all the gloom surrounding the health and financial deterioration due to the pandemic, it is heartening to see how individuals and businesses have quickly adopted themselves for the long haul. If looked at from an optimistic point of view, the fallout offers rich experience and lessons about financial vulnerabilities during such crises. This is particularly true for those who have started earning recently and lack financial prudence. Fortunately, the excess time on hand due to the lockdown has also resulted in a lot of people devoting time to understand the dynamics of investment. And that is what this issue of 'The Financial Kaleidoscope' is all about - 'The ABC of Investing and Unlocking the Secrets of Wealth Creation'.

So, hearty congratulations to those who have recently started their journey to wealth creation and hope others follow too. Investing is largely about behavior and habits and like all good ones, wealth creation also takes a lot of patience and the best returns are garnered over a long-term.

In this edition, we cover some of the best practices for beginners as well as some tips and advice on other forms of investment for advanced users. We also cover some of the finer nuances of investing and pitfalls to avoid while dealing with challenging macroeconomic environment and volatile market conditions.

We invite all our readers to participate in the 'Knowledge Wins Contest' and share feedback and suggestions at the link given. हिंदी Hindi version of the newsletter is also available at <https://nsdl.co.in/publications/nest.php>.

We request you share the newsletter with your friends, colleagues and anyone else who might be interested. This newsletter can be subscribed at <https://nsdl.co.in/e-newsletter.php>. We regret delay in publication of this. We assure our esteemed readers that next issue of this newsletter will reach you in time.

Regards,  
NSDL Investor Education Team

# Making Your Investment Decision

## Invest based on advice and research

Investment is closer to science than it is to art. So, understanding the functioning of an investment tool and using it as a means for wealth creation is an important part of the process. There are two ways to do this - seeking the services of a financial advisor or conducting your own research.

For first time investors, we recommend seeking professional help to get you started. An analysis of your current financial situation and future plans is the first step to create an investment roadmap suited to your needs. While this guidance may be a one-time engagement for some investors, it is important to select an advisor who is knowledgeable and qualified for the job.

Alternatively, if you have developed a good understanding of the investment process, the dynamics that move the market and are better aware of your risk appetite, investing based on your research could yield better returns. This involves understanding the performance of a company based on historical data and reading the fundamentals of the company's financial reports.

## Avoid 'insider tips'

If you are an equity investor, chances are that at some time you have been offered an 'insider tip' to conduct a trade in a particular stock to make quick money. Sometimes the tip is just a statement, other times it is accompanied with advance news of an important development that could lift the price. In any case, following through with the 'tip' could result in one of two things:

1. If the tip turns out to be false, you could end up losing money.
2. If the tip turns out to be true, although you might make some quick money, it could land you in legal troubles. This is so because as per SEBI's regulations, conducting a trade while in possession of an unpublished price sensitive information (UPSI) is considered 'insider trading' and as such this is a punishable offence. SEBI also prohibits the communication of UPSI to anyone else or encouraging others to invest.

## Staying safe with Blue Chip investments

While the equity market tends to yield better returns in long term, it also comes with a degree of financial risk because it is not always possible to predict the performance of a company even if you are an experienced investor. A generally exercised work around this and to reduce the risk is to invest in Blue Chip companies.

### Steps to begin your investment journey

#### 1 Situation analysis

- (a) Understand your financial situation including cash inflows and expenses in light of your financial goals.
- (b) Gauge the amount of money you can set aside to invest, preferably a small sum every month.

#### 2 Mode of investment

- (a) Two main ways - financial advisory or direct.
- (b) It is advisable for beginners to seek advice from SEBI registered investment advisers/qualified professionals.
- (c) Seasoned investors may opt for a direct trading route.

#### 3 Fulfil KYC requirement

- (a) A mandatory one-time exercise conducted by a financial intermediary to obtain and verify certain personal details.
- (b) Documents required-Copy of Aadhaar card, driving license, passport or voter ID card, PAN card, photograph and bank details (passbook or statement).

#### 4 Investment options

- (a) Decide the investment product or products of choice from among Mutual Funds, SIP or equity investment. Remember to seek expert advice if you are new to investment or unable to understand the details yourself.
- (b) This would be a function of your financial goals, risk appetite and cash flows.
- (c) It is also advisable to plan and create a regular investment schedule to imbibe discipline.

An accepted market term, a Blue Chip stock means companies that are well known. These are often legacy companies or new-age players with a robust potential based on recent track record. Blue Chip stocks are generally financially sound companies and although they may be priced higher, they offer better returns in the long run. And most importantly, such stocks are fairly stable even in volatile or challenging market conditions.

## The First Step in Your Investment Journey

### Mutual Funds

Given the number of investment tools available in the market along with the technical aspects involved, investing can be quite intimidating for most new investors. And this is what makes Mutual Funds a perfect gateway to introduce an individual to active investing. It offers the following distinct advantages:

- Conducive to small investments:

A Mutual Fund is a corpus of money pooled from multiple investors and invested in different assets. This allows new or small investors to make small investments and take advantage of investments that would have otherwise been out of their reach.

- Relatively liquid:

Most Mutual Funds do not have a lock-in period, so investors are free to exit their investments in case they require liquidity at short notice. Investors are neither required nor obliged to provide reasons for their exit and the money is credited to their bank account within days.

- Expert taking investment decisions:

Investing in stocks requires investors to research, analyse and track their investments on a regular basis. New investors often do not have the time, experience or expertise to do so. However, mutual fund schemes are managed by professional asset managers on behalf of all the investors and they take the investment decisions.

### Systematic Investment Plans (SIPs)

A Systematic Investment Plan (SIP) is a common investment tool that allows investors to invest a fixed sum every month in a scheme of their choice. Besides allowing small investments, the regularity of doing it month-on-month instils a sense of discipline. More common among Mutual Funds, SIPs have emerged as a popular avenue among new investors. However, investors can also invest directly in the equity markets via the SIPs route.

**“Unless you can watch your stock holding decline by 50% without becoming panic-stricken, you should not be in the stock market.”**

**Warren Buffett**

While direct equity SIPs are better suited for investors with a comparatively higher appetite for risk, it is also a profitable avenue, particularly during volatile market conditions to

take advantage of rupee cost averaging. Like MF SIPs, direct equity SIPs are offered by a number of stock brokers.

### Key parameters to analyse equity investment

#### Revenue:

The money earned by the company during given period. An analysis of revenues over time gives a better idea of the company's business performance and capabilities.

#### Operating profit:

Profit after deducting operating expenses and before taxes. The higher the operating profit, more profitable the company is.

#### Price-to-Earnings ratio (P/E ratio):

A comparison of a stock's current price with the Earnings per share. A value under 1 indicates an underpriced stock and vice-versa. However, the ideal ratio varies among different industries.

#### Return on Equity (ROE):

It measures the company's ability to create value from shareholders' equity. Like the P/E ratio, ROE also varies with the industry.

## Margin trading

Margin trading is an equity trading strategy that allows investors to invest in high-priced stocks by paying a fractional amount or what is known as 'margin'. It involves buying and selling of securities in one session and requires an investor to speculate or guess the stock movement in a particular session. A facility offered through stock brokers, investors can open a margin trading account by paying a certain amount as deposit. The margin can be in the form of cash or securities based on the actual value of the stock. Investors are expected to settle the margins or square off positions at the end of a trading session.

Since margin trading involves leveraged positions, both, profits and losses can get magnified. It is mandatory to maintain margin as per norms specified by the exchange (which can be increased by your stock broker). Any failure in doing so could result in the forced sale of investments from the portfolio to make up the gap.

## Recent changes in respect of Margin Pledge:

From September 1, 2020 SEBI has restricted stock brokers from using the Power of Attorney (PoA) obtained from clients as an equivalent for trade margins. Also, collection of margin by way of title transfer in favour of broker has also been restricted. Now margin obligations given in the form of securities by the client must be by way of pledge in the depository system only. SEBI has declared that for the purpose of providing margin in form of securities, a client shall pledge securities with his trading member (stock broker). TM may re-pledge the securities with his Clearing Member (CM) and CM may further re-pledge the same securities with Clearing Corporation (CC), if so required. Pledge and re-pledge both require client's consent.

The complete trail of such re-pledge shall be reflected in the demat account of the pledgor. Client's securities which are re-pledged to the CC by CMs, will be available to give exposure limit to that client only.

Clients can initiate a margin pledge in favour of 'TM – Client Securities Margin Pledge Account' or 'TM/CM – Client Securities Margin Pledge Account' by submitting a physical Margin Pledge Form (Form 43) to its DP. Alternatively, this can be done using NSDL's internet based service namely SPEED-e.

As the process of margin pledge require confirmation from the client through email and mobile, please ensure that your email ID and mobile number are correctly recorded in your demat account. In case, you want it to be changed, please contact your DP at the earliest.

Another important point is that you must take care to ensure that your Unique Client Code (UCC) allotted to you by your stock broker is correctly recorded in your demat account. This has become important because, Margin Pledge instructions are available to you for your confirmation on the basis of matching of UCC.

Depositories have obtained UCC information from stock exchanges and on the basis of PAN, they have been mapped with the demat accounts. Please check with your DP that all the UCCs belonging to you are duly recorded in your demat account. In case you do not find one UCC or find one UCC which you believe do not belong to you, please recheck with your broker and get it corrected in the demat account through your DP.

## Derivatives - Futures & Options

Derivatives are financial instruments which derive their value from the value of other assets. Derivatives can be based on a wide array of asset classes which include financial assets, agricultural produce, metals and energy sources. There are derivative products available on currencies and interest rates also.

From an investors' perspective, a derivative is a contract to trade a certain product at a certain price on a future date based on a combination of speculation and/or their understanding of how that product is likely to be priced in the future. Investors in derivatives make money by betting on the future value of an underlying asset. They stand to lose money if price of the underlying asset does not move as per their expectation.

The combination of being able to predict the future price of the underlying asset, the analysis of past price trends, macroeconomic conditions and understanding ongoing global developments make derivatives a complex investment tool.

It is recommended only for seasoned investors who also have the knowledge and time required to conduct thorough research before investing.

## Knowledge resources

Making money is a short sighted approach, and creating wealth takes time. Wealth creation and investing are long term processes. Both require a strategy and careful consideration of multiple factors. Given the market dynamics, there are a number of developments that take place on an ongoing basis. This includes new regulations, new investment products, change in existing investment products and so on. In order to stay updated and to remain profitable, investors need to monitor these changes. In addition to this newsletter, you may find following sources useful –

- [National Centre for Financial Education \(NCFE\)](#): A financial education organisation promoted by financial sector regulators including SEBI and RBI.
- [SEBI Investor's Home](#): A rich resource for investors and financial education.
- [NSE India Investor's Home](#): Tips and resources for first-time investors.
- [National Institute of Securities Markets \(NISM\)](#): This Institute carries out a wide range of capacity building activities at various levels aimed at enhancing the quality standards in securities markets.
- [Platform for Investor Education](#): This contains number of tools, FAQs and other learning materials for investor.

## Resources from Digital Banking Platforms

In current times most of the financial services are mobile-based and people use multiple platforms to invest according to their investment goals. To cater such needs, many banks are giving investment solutions on their websites and mobile app platforms. People who find it difficult to use multiple platforms, they can be benefitted from such online banking platforms which offer easy investments solutions, all on one platform.

NSDL Payments Bank is one of such banks which envisage providing a host of financial products on a single platform - NSDL Jiffy mobile app. Currently, the bank is offering fully digital account opening on the Mobile App. The bank is offering 4% annual interest rate on savings account.

“To make money in stocks, you must have vision to see, courage to buy and patience to hold. Patience is the rarest of the three.”

Thomas Phelps



### Implementation of Collection of Stamp Duty in Depository System

1. Stamp duty is applicable w.e.f. July 1, 2020 in depository system for all Intra and Inter Depository off-market transfers and Pledge invocation transactions provided consideration amount is mentioned in NSDL depository system by transferor or pledgee respectively.
2. Off-market transfers (including Inter Depository Transfers) and pledge invocation transactions, wherein consideration is mentioned, shall be processed upon payment of applicable stamp duty by client / Participant in NSDL designated bank account as per the prescribed procedure.
3. Stamp duty calculator - For simplicity and convenience of clients, a stamp duty calculator is available on NSDL website.

Reference: [Circular No. NSDL/POICY/2020/0085 dated June 26, 2020](#) available on NSDL website.

 **NSDL  
Payments Bank**



 **NSDL Jiffy**



## **Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker / Stock Broker and Depository Participant**

SEBI has clarified that PoA is optional and should not be insisted upon by the stock broker / stock broker depository participant for opening of the client account. Further, PoA executed in favour of stock broker / stock broker depository participant by the client shall be utilized-

- For transfer of securities held in the beneficial owner accounts of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by clients on the Stock Exchange through the same stock broker.
- For pledging / re-pledging of securities in favour of trading member (TM) / clearing member (CM) for the purpose of meeting margin requirements of the clients in connection with the trades executed by the clients on the Stock Exchange.

Further, all off-market transfer of securities shall be permitted by the Depositories only by execution of Physical Delivery Instruction Slip (DIS) duly signed by the client himself or by way of electronic DIS. The Depositories shall also put in place a system of obtaining client's consent through One Time Password (OTP) for such off market transfer of securities from client's demat account. This shall be applicable with effect from November 01, 2020.

Reference: [Circular No. NSDL/POLICY/2020/0118 dated August 28, 2020](#) available on NSDL website.

## **Additional Operational Guidelines on margin obligations to be given by way of Pledge/ Re-pledge in the Depository System**

### Client Securities under Margin Funding Account

- To facilitate Participants to open a separate demat account tagged as 'Client Securities under Margin Funding Account', NSDL has made available new account type and sub-type in DPM.
- Further, as clarified by SEBI, margin funded shares shall be pledged in favor of the TM / CM Client Securities under Margin Funding Account (CSMA a/c) only through OTP confirmation by the concerned clients and pledged securities could move to the CSMA a/c only on invocation. The margin pledge module shall be used and the OTP mechanism as used for margin pledge will be used for validating margin funding transaction by the clients.
- Re-pledge shall not be permitted from CSMA account.

In case the margin pledge is initiated by the Client for 'All segments', the re-pledge by the TM for such securities can be done for any specific segment or 'All segments'. However, the re-pledge by the CM for such securities which were pledged by client and re-pledged by TM to CM with 'All segments', will be allowed with the specific segment only.

Reference: [Circular No. NSDL/POLICY/2020/0101 dated July 28, 2020](#) available on NSDL website.

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## Join Our Investor Awareness Webinars

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NSDL conducts Investor Awareness Programs (IAPs) throughout the country to ensure investors are aware of different aspects of investing. In view of the prevailing situation, NSDL is continuing the investor awareness programs in form of webinars. The schedule of the forthcoming programs/ webinars is published online at

<https://nssl.co.in/Investor-Awareness-Programmes.php>.

Prior registration is required for joining the webinar. Link for registration is available along with schedule.

We shall be happy to conduct IAP for your organization / institute / society. Please write to us at [info@nssl.co.in](mailto:info@nssl.co.in) for such requests.

**More the education, more the prudence**

Kindly visit <https://nssl.co.in/Investor-Awareness-Programmes.php> to see the updated schedule.



# Knowledge Wins Contest

How can a Margin Pledge instruction be submitted by an Investor?

To send your replies: visit/click [www.nSDL.co.in/knowledge-win-contest.php](http://www.nSDL.co.in/knowledge-win-contest.php)  
or  
Scan this QR code



**25** Lucky Winners  
get  
FREE GIFTS



## Previous Month's Winners

Ajay Kulkarni - Aurangabad  
Anthoni Dass - Bengaluru  
Asit Kesarwani - Lucknow  
Azam Raza - Patna  
Dharmesh Parmar - Navsari  
Dwarakanath Grandhem - Ujjain  
Gangadhar P. B. - Bengaluru  
Kirtipal Kabawat - Jodhpur

Kumar Killada - Hyderabad  
Kushal Chhipa - Udaipur  
Manabendra Dey - Bengaluru  
Mridul Verma - New Delhi  
Naman Jain - Ludhiana  
Prajwal Gangadhar - Bengaluru  
Rakesh Guttedar - Vijayapura  
Ramakant Bhala - Varanasi

Sanjay Kumar - Faridabad  
Sarveswaran Aru - Puducherry  
Shalini Srivastava - Ghaziabad  
Shankar Kumar - Jamshedpur  
Soni Saini - Hoshiarpur  
Srinivas Ravulapalli - Sangareddy  
Tej Bahadur - Mumbai  
Vamsi Krishna - Bengaluru  
Vrindaban Khandelwal - Gurugram

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For any other information related to Demat account, you can email us at [info@nsdl.co.in](mailto:info@nsdl.co.in)

**Terms & Conditions :** 1) NSDL shall be solely responsible for the execution of this Contest. 2) This Contest is open to Indian Citizens only. 3) NSDL employees are not allowed to participate in this contest. 4) All personal details submitted must be accurate and complete and are subject to proof upon request by NSDL. 5) NSDL reserves the right to discontinue the contest at any given point of time without prior intimation. 6) All winners shall be selected by NSDL and the decision taken will be final.