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STOCK MARKET "THE FIRST CRUSH OF EVERY NEW INVESTOR"

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ABSTRACT

Stock Market!!! Sometimes it seems to be heaven for all those new investor who heard about huge and unexpected gains and earning from Stock market. It looks like that dream world where an investor can be millionaire or billionaire in just few days. They found it too easy to invest in stock market and earn the money even without having the basic knowledge of the terminology of the stock market. This thought becomes pretty and more attractive when news around them shows that in last few days stock market has performed fantastic and total Assets of few millionaires has just doubled or tripled like Mr. Mukesh Ambani. Does stock market really perform so well and gives such fantastic returns? Does really stock market make money in such a short span and in such a really simple manner. The answer is yes but it is not fully true. To have good business in the Stock market and earn the profits, someone should be an expert and daily player. However no one can be expert in stock market without being a part of it i.e. he has to be a player among the others. To start trading in stock market someone should have the basic knowledge at least, of the Stock Market and technicalities involved in it. We in this article, trying to enlighten with the basic idea, terms used and concepts of Stock Market. This article is enlightening the basics and concepts of Stock Market.

Keywords: *Stock Trading, Margins, Derivative, Dematerialization, Circuit Filters and Circuit Breakers.*

Introduction

With the introduction of Information Technology and Computers, Internet, the interest of public at large (to whom we called Small Investor) has increased in stock market. Up to earliest of last decade of twentieth century the stock market was in limited approach of big investors who dealt in huge quantity of securities, having unlimited amount of money to invest and has risk bearing capacity. In those days it was taken as speculation and at all was not a respected source of income. Also the stock market was accessible physically so only those lives in cities where stock market was situated were keen to do trading. These all were the reasons why small investors were reluctant to be the part of this market. But as we said that with introduction of information technology the stock market is no longer concentrated to any area and now accessible from the entire world as well as the stock market of entire world can be accessed. Internet helped people to understand the tricks of Stock Market and hence interest of people has increased. With the flow of capital of small investors into the market, the companies are also keen to enter into the market for raising the capital and funds and through this the whole economy has saw a drastic enhancement and change which motivated the entrepreneur to come and expand the business at national level with the increases risk bearing capacity.

What is a Stock Market?

Stock Market is that place where willing Buyers of securities of different companies is looking for a seller and willing seller who is looking for buyer to buy the securities that he want to sale, meets. It provides them a platform where they do not need to search each other. The members of Stock Exchanges helps them to meet their needs and to complete the function i.e. sale and purchase and then transfer of security from seller to Buyer and money from buyer to seller. SEBI is the apex, statutory regulatory body for the securities market with the object of investor protection and development and regulation of market. It can issue directions to stock exchanges, companies, stock brokers or to any other person.

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Business at a stock exchange can only be transacted by a member (stock broker or share brokers) of the stock exchange. The members enter into transactions either on their own behalf or on account of their clients (non-members) including sub-brokers. Following Matters shall be considered by SEBI before granting Registration to any Stock Broker**:**

- Must be eligible to be admitted as a member
- Must have necessary Infrastructure and financially sound
- Must have past Experience in the business of Dealing in Securities
- Should not be subject to any Disciplinary proceeding under the Rules, Regulations and Bye-laws of the Stock Exchange involving, himself or any Partner, Director or Employees.

In every stock exchange the system works through different trading system. These trading Systems allow members or investors to deal in stock exchange. Generally there are two types of Trading System in every Stock Market. These are trading on the National Stock Exchange (NEAT System) which operates on the 'National Exchange for Automated Trading' (NEAT) system, a fully computerized screen-based trading system. This is a kind of system which helps users to trade their transactions at a time through the country, simultaneously with easiness and efficiency. Within this system a single order book run which displays each stock traded on a real time basis, differently showing the sales and purchase orders. The orders are executed only if the price quantity conditions match. The other one is trading on the Stock Exchange, Mumbai (BSE) which works on BOLT (BSE on Line Trading) System. it have same features as in NEAT system. It is a fully automated, computerized, Transparent and confidential mode of trading.

Within each system there are different market available (all Online) to trade differently according to the need of the use or investor. Such sub markets or markets are of four types. The first one is Normal Market where all orders which are of regular lot size or multiples thereof are traded in the normal market. Normal market consists of various book types such as regular lot orders, special term orders, negotiated trade orders and stop loss orders. The second one is Odd Lot Market. Odd lot markets are now a day's do not exist as such, because each company has one share as standard Lot size and odd lots do not exist. This market helps in trading in those securities which is in ODD Lot. However the transaction completes only when Buy quantity and sale quantity matches exactly. Third one is Spot Market which is Similar to the normal market orders except that spot orders have different settlement periods vis-a-vis normal market. They do not have any special terms or attributes attached to them. The last one Auction Market. Auctions are begins by the Exchange on for trading members for completing the settlement process.

Order Mechanism

The term order Mechanism means the type of order which exist in the system, type of order book and order matching rules. In the stock Market, orders cannot be entered simply by keying the order in the system. The selection of right type of order is very important. Some times because of selection of wrong type of order, the seller gets loss by selling at lower price or buyer suffers loss by buying at higher price.

The market has five types of orders or condition of orders. The first one is Time Related Conditions. With every order this condition is attached and we have to select any of the four. Day Orders are Valid for the day on which it is entered, If not matched it is cancelled automatically at the end of the trading day. Good-Till-Cancelled Order remains in the system till they are cancelled by Member, but Up to maximum number of days as specified by stock exchange. Good-Till-Days/Date Order allow Trading Members to specify the days/date up to which the order should stay in the system, at the end of specified day Order is removed from the system. Under Immediate or Cancel order if order is matched immediately as soon as the order is released into the marker, otherwise removed from the market, Even a partial match is found, the transaction is completed in respect of the match and unabsorbed portion is cancelled immediately. The second one is price related condition. It has three different types of conditions. Limit Price Order which allow the price to be specified while entering the order, if it matches then order continuous otherwise it cancels. Market Price/Order is an order to Buy/Sell securities at the best price obtainable at the time of entering the order. Stop Loss (SL) Price/Order allow the Trading Member to place an order which gets activated only when the Market Price of the relevant security reaches or crosses a threshold price. The third one is quantity related condition with two different sub orders. Disclosed Quantity Order which allow the Trading Member to disclose only a part of the order quantity to the market. After this is traded, the next part of the order is automatically released and the process continues till the full order is executed. Stock Exchange may set a minimum Disclosed Quantity. Short Sell is an order where seller if sales the shares when he actually don't have them, in the anticipation of reduction in price later on, then it is known as short sales. These are speculative orders. These orders are risky as square up to be done on the same day.

The system also maintains an order book which records the details of all order in proper format and manner so that orders can be sough easily. It is a book which contains unmatched orders until they are matched or removed from the system. **The orders are to be arranged in proper sequence in chronological order. For this the orders are** numbered along with time and then immediately processed for match. If a match is not found, then the orders are saved in different 'books'. Five types of order book are generally found. The first one is Regular Lot Book which Contains all regular lot orders that have none of the following attributes or conditions attached to them All or None (AON) or Minimum Fill (MF) or Stop Loss (SL). The second one is Stop-Loss Book in which Stop Loss orders are stored till the trigger price specified in the order is reached or surpassed. Order is released in the regular lot book, when stop loss condition is met. The third one is Odd Lot Book which contains all odd lot orders (orders with quantity less than marketable lot). The system tries to match active orders against inactive orders. The fourth book is Spot Book which contains all spot orders i.e. those orders which have different settlement period. The last one is Auction Book which Contains orders that are entered for all auctions.

There is no manual mechanism for matching of the orders into the System. The system itself matches the order in price-time priority in the sequence of Best Price i.e. order that have highest price (in case of sale) and Lowest Price (in case of Buy) will be first matched and Within same Price, by time priority.

Clearing and Settlement Mechanism

After processing the orders into the system the next and the last steps that comes is settlement of matched orders. i.e. delivery of securities from seller to buyer and delivery of money from buyer to seller. This process is performed by clearing and Settlement Corporation (Also known as Clearing House) in the following manner.

- Investor delivers shares or funds, as the case may be, to the broker.
- Broker delivers these on settlement day to the 'Clearing House' (In BSE), or to 'National Securities Clearing Corporation Ltd' (in NSE).
- The securities pay-in obligations of members/custodians are downloaded by the clearing agency.
- The Members/Custodians make available the required securities in their pool accounts with Depository Participant's by the prescribed pay-in time for securities.
- The depository runs an electronic file to transfer the securities from the pool accounts of members/custodians with Depository Participant's to the Depository Participant's account of the clearing agency.
- The securities are transferred on the pay-out day by the depository from the Depository Participant's account of the clearing agency to the Depository Participant's accounts of members/custodians.
- The members are informed of their pay-in obligations of funds.
- The members make available required funds from their accounts to Clearing house banks Accounts by prescribed pay-in day, (through clearing Bank only)
- Funds are transferred on the pay-out day from clearing agency's bank Account to the accounts of members, (through clearing Bank only)

Here it should also be understand that transactions are settled as per rolling settlement system. In this system trades outstanding at the end of the day have to be settled within "X" business days from the transaction date. For example in a T+2 rolling settlement, a transaction entered into on Monday will be settled on Wednesday when the pay-in or pay-out takes place. In India T+2 System is in operation. The trades of every day can be set off with the trades of the same day not with other day's trade even though their settlement date is same. In case, a member fails to deliver the shares sold in rolling settlement, the Exchange conducts an auction session on T+2, to meet the shortfall where offers are invited from the other members to deliver the shares. If no shares are available in auction, the transactions is automatically closed out at closing price.

Circuit Filters or Circuit Breakers

Circuit Filters or Circuit Breakers are the price bands which set the Higher and lower limit out of which a stock cannot fluctuate on any particular day.

It is imposed to curb excess fluctuations in market. It may very form 5% to 40% depending upon Security. For example Exchange applies circuit filters on scrips, if their price fluctuates more than 20% of the closing price of scrips on the previous day in any direction. It restricts extreme price movements and resist price manipulation. Protect investors from extreme fluctuations created by rumors and short term fears.

Conclusion

Stock market always been a fairy tale for all investors specially those who just started earning some amount and not able to spend the whole amount and investing without any long term goal. The reason of giving this statement is very simple, stock market is not a safer investment, it is a well known fact. Every person looks into the golden leaf of the Stock market but nobody wants to look into the wall that diverts the earning or funds of small investors toward the large investor. We always look into gains of investors without considering the type of investor who earned it. That the very basic cause of problem and loss. Large investors has huge amount of money along with great experience and of course a strong intelligent team of analyst, which is not possible for a small investor. Without looking these considerations a small investors enters into the market and losses. In short term he may earn some amount, but because of these tiny gains he invokes more of his money into the market and ultimately suffers huge losses. So the better or rather best way to enter into the market is to first acquire knowledge and experience in the stock market, be familiar and than invest or otherwise invest through some safe mode such as investment through Mutual Funds or collective Investment Schemes. This do not eliminates the risk of loss but it reduces the chances of loss due to portfolio and diversification of funds.

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