

DegreeLive

B.Com Honours

Semester I

Calicut University

Stock Market Fundamentals

Course Code: COM1FM105 (2) • Module 1 Notes

1. Introduction to the Securities Market: Structure and Accounts

A well-functioning securities market is the backbone of capital formation in a modern economy. It channels surplus savings from individual households into productive corporate investments. The market is structured into two main divisions: the primary market and the secondary market. This module covers the basic structure of the stock market, the pre-requisites for retail investing (Demat and trading accounts), basic investment documentation, trading styles, and the regulatory role of SEBI.

Primary Market vs. Secondary Market

- **Primary Market (New Issues):** The market where companies issue new securities for the first time to raise capital directly from the public (e.g., Initial Public Offerings - IPOs). Transactions occur between the issuing company and the investor.
- **Secondary Market (Stock Exchange):** The market where existing securities are traded among investors (e.g., BSE, NSE). The issuing company is not directly involved, and the market provides liquidity.

Pre-requisites to Invest in the Stock Market

A retail investor in India must establish three interconnected accounts to start trading:

1. Savings Bank Account

Holds the physical cash. Used to transfer money to the trading account to buy shares, or receive funds when shares are sold.

2. Trading Account

Opened with a stockbroker (e.g., Zerodha, ICICI Direct). Acts as the interface to place buy or sell orders on the stock exchange.

3. Demat Account

"Dematerialized" account opened with a depository participant (CDSL or NSDL). Holds shares in digital form (like a bank holds cash).

Basic Services Demat Account (BSDA): A simplified Demat account designed for small investors with holdings below ₹2 Lakhs, offering reduced or zero annual maintenance charges (AMC) to promote retail financial inclusion.

Investment Documentation & Investor Protection

To open these accounts, regulatory compliance requires specific documentation:

- **KYC & CKYC:** Know Your Customer (KYC) involves verifying identity and address. Central KYC (CKYC) is a single, centralized database that allows investors to open accounts across different financial intermediaries (mutual funds, brokers) without repeating the KYC process.
- **Power of Attorney (PoA) & DDPI:** Traditionally, investors signed a physical PoA to allow brokers to debit shares from their Demat account when selling. This has been replaced by the **Demat Debit and Pledge Instruction (DDPI)**, which strictly limits broker access to debiting shares only for executed sales, protecting against broker misuse.
- **Nomination:** Nominating a beneficiary to receive account assets in the event of the investor's death is now mandatory.

Direct Equity vs. Mutual Funds & Trading Styles

- **Direct Equity:** The investor directly selects and buys shares of individual companies. Requires high research and carries higher risk.
- **Mutual Funds:** Pooled investments managed by professional fund managers. Offers instant diversification, making it suitable for beginners.
- **Trading Styles:** Includes *Intra-day Trading* (buying and selling shares within the same day), *Swing Trading* (holding positions for days/weeks to capture short-term price momentum), and *Derivative Trading* (Futures & Options - high-leverage trading based on underlying asset contracts).

Securities and Exchange Board of India (SEBI)

Established as a statutory body in 1992, **SEBI** is the regulator of the securities market in India. Its triple mandate is to **protect the interests of investors**, **promote the development of the market**, and **regulate the securities business**. SEBI runs **SCORES** (SEBI Complaints Redress System), a centralized online platform where investors can lodge grievances against brokers, mutual funds, or listed companies and track resolution status transparently.

Acing your exams is just a click away!

Visit www.degreeelive.in to download the next module for free.

DegreeLive