HOW TO INVEST IN STOCKS

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HOW TO INVEST IN STOCKS

Introduction

Before you ask this question, I have to ask you some questions.

- What kind of investor do you consider yourself to be?
- Do you want to make a quick buck or do you want to invest for the long term?
- How much time are you willing to devote for your research?
- How much money do you plan to invest?
- Are you looking for obscene amounts in profits or a gradual appreciation of your portfolio?
- Do you have the stomach to take some losses or see your portfolio sink should that ever happen? Initially perhaps?

If someone gives you advice without asking these questions, then you are asking the wrong person. You should also remember that nobody can provide a surefire way to make a fortune off the stockmarket. If anyone can do that, they should be in the business of making fortunes rather providing advice to blokes like you. Right?

Time for some standard advice. It might have taken you years to save money, but you can lose it all in minutes in the stockmarket. Fortunes have been built and lost there. For some, it takes a lifetime to make or lose one. For some really strong types, it takes only a few hours or days to accomplish everything.

The winners may be just plain lucky or have done their homework right. A starter usually doesn't have the luxury of luck. You ought to consider yourself plain unlucky. So, how do you make money? By doing your homework and having lots of patience.

Before all that, take another look at the questions I asked you and see if you are ready?

Introspection

The stockmarkets are not for the lily–livered. It is certainly not for the rash and impulsive ones either. People who can't stand a loss and learn from mistakes should not try either.

If you want to make quick profits, your risk profile increases. If you had observed the market for say 4 or 5 years, maybe you can go for a quick buck, but not before that. Until then, go long term. However, when you go long, it will affect the profile of your capital gains. Capital gains is the amount that you get from selling shares. The taxman treats long–term capital gains and short–term capital gains differently.

You will need to do a lot of homework and keep a tab on everything. If you have time for TV soaps, but not for **CNBC**, forget it. You will have to read a financial newspaper like **The Economic Times** or **Business Standard** or **Business Line** everyday to keep yourself well informed.

If you have Rs. 10 lakhs in cash lying around, I would suggest you put 2 or 3 lakhs in the stockmarket and find other forms of investments for the rest.

Make an assessment of how much **return on investment** you are expecting. If you think you are going to hold a stock for a certain period of time, check and see if it will return more than an equivalent fixed deposit from a bank. If it won't, there is no point investing in the stock.

Sometimes, share prices sink below the price at which you have bought them. That doesn't mean it's a loss. The share might be on a price cycle and may go back up later. If you think you won't have the appetite to wait and see, you better stick with FDs.

If you think you are game for the stockmarket, then it is time learn some basics.

The Basics

You might have a lot of questions in your mind. What is a share, what is a stockmarket, who runs them, who are the stock brokers and so on. I will try to explain these things here.

Suppose I have some business and want to expand it. For my example, I will use the tea business. I have several tea plantations. After drying and curing the leaves, I do some processing on them. Like most exporters, I pack and ship the tea to some NRI in the US who sells it to the supermarkets chains there. He corners most of the profits and pays me a pittance. I want to sell the tea in the local market. For this, I need a marketing setup that will have to compete with the likes of HLL and Tata Tea. I need money for that. I don't want to borrow money as the amount needed is huge. So, I am thinking about the stockmarket. By issuing shares in the market, I will get all the money that I need. I don't have to pay any interest to my shareholders. I have to pay them only if I make a profit. If the venture fails, the loss is borne by shareholders. My loss in that case would be limited to the number of shares I have with me.

This is how most companies think when they issue shares. So, what are shares anyway, you ask. Well, it works like this. Suppose that a company needs Rs. 10 Crore (10,00,00,000) to fund their future plans, but have only Rs. 3 Crore with them. They will divide the Rs. 10–crore input into 1 crore parts. Each part is called a share. Each share will be worth Rs. 10. When the 1 crore shares are bought, the company gets Rs. 10 crore. If an invester wants 100 shares, he will have to pay Rs. 1000. The company will issue a printed share certificate to that effect. The promoters who have Rs. 3 crore will buy 30 lakh shares and allot 70 lakh shares to other investors. If the company closes down due to losses, the promoters lose Rs. 3 crore, while a retail investor who may have bought 10 shares will lose Rs. 100. If on the other hand the company distributes Rs. 1 crore in profits, a shareholder who had invested Rs. 10 will get Rs. 1 as dividend. The dividend will be sent to the shareholder in the form of a cheque.

When a company wants to issue shares, it does something called an **IPO – Initial Public Offering**. For this, the company's promoters submit to the stockmarket several documents that fulfill statutory requirements. Once the formalities are completed and approved by the stockmarket, the company then issues share applications. Anyone wishing to buy shares in the company will fill up the **application form** and attach a cheque or DD for the required amount.

Because a company's main business is not dealing with shares and the stockmarket, they appoint some specialized companies called **merchant bankers** to do the job. The merchant bankers are the ones who approach the share market and manage the IPO on behalf of the company. The share application will be accompanied by an **offer document**, which will provide background information about the company, its promoters, reasons for the issue, their business plan, risk factors, etc.

You, as an investor, will come to know about the IPO when the merchant banker issues advertisements in newspapers and other media. If you read financial newspapers, you will know that much earlier. The share application will be available from the offices of your share broker or at the offices of the agents appointed by the merchant banker.

There will be a **closing date** for the issue before which completed applications will be received by the company. After this, shares will be allotted. If the company gets more applications than is available i.e., when

the issue is oversubscribed, some applicants will not be allotted shares and their money will be refunded. Some companies will try to accommodate all applicants. This means many applicants will be allotted only some of the shares they have applied for. The rest of the applicant's money will be refunded. The applicants who were allotted shares will receive their share certificates by post.

The company's share will then be listed in the stockmarket. At this stage, the company's share enters the **secondary market**. When a company issues shares through an IPO, it actually is in the **primary market**.

When an invester fills out a share application form and gets shares allotted to him, he is investing in the primary market. The primary market is one place where you can fish for shares when their value is low.

When an Infosys issues shares in the primary market, the shares can be bought at Rs. 10. When the company starts making profit, the share value in the stockmarket increases. If today the Infosys share is at Rs. 4000, then the guy who bought the share at Rs. 10 has made a huge killing. Now, don't you go to your share broker's office and say with a straight face that you want to buy Infosys shares from the primary market at Rs. 10. Infosys had left the primary market when its IPO was subscribed. So has every company in the stockmarket.

Not every company that entered the primary market has had its price shoot up in the secondary market. A lot of companies disappear without a trace. Many others trade below the prices that they were subscribed. Some shares become illiquid i.e., not many people trade in them. Suppose that your share was last traded at Rs. 7 and you want to get rid of it. If there is not much trading in the scrip, you will not find buyers for it even if you are ready to sell at Rs. 6.

An astute investor will do his homework by reading the offer document, evaluating the company's past performance and the track record of the promoters, etc., before buying shares in the primary market.

When a company with considerable track record and goodwill wants to enter the primary market, their merchant banker will say, "Hey! You don't have to issue shares at Rs. 10. Let's charge a premium." This is how Bharthi Telecom came to the market at Rs. 40 for shares worth Rs. 10, while the lesser–known Allahabad Bank issued shares at Rs. 10, **on par**.

So, is a company that charges a premium the obvious choice? The answer is NO. Today, the Bharathi Telecom trades below its issue price while Allahabad Bank trades above par. Why? The rollout of WLL networks by Reliance has put a question mark over cellular operators. The low–interest rate regime of the Reserve Bank allows a bank like Allahabad Bank to give out more loans and make more money. Besides that, the Securitisation Bill passed by the Parliament allows banks to recover bad loans more easily.

Okay, how do I know if a company that is in the primary market will do well later? By reading a financial newspaper, you will be able to have some idea of where that company will go in the future. Of course, you can't predict everything, but you can sleep easy if you had done some research.

Now, that that's done, lets get to the **secondary market** where most of the action is. The stockmarket is actually a building where its **members** or **share brokers** meet and conduct their trades. Since a stockmarket can have a limited amount of sharebrokers and because they can't be everywhere else, they take their orders from sub–brokers. The person whom you know as a share broker is actually a sub–broker. He collects the buy and sell orders from his customers and gives it to the member of the stockmarket. The member meets other members at the stockmarket from whom shares are bought and sold.

The stock brokers don't carry around share certificates like hawkers. They simply carry a small notebook where they have a list of shares to sell or buy and their numbers. When a trade is done, they mark the

appropriate details. After a period of time, they literally **settle** their differences. A broker might say, "I sold you 120 shares of Cipla and you sold me 100 shares of Cipla. I owe you 20 shares."

For the investor, entering the secondary market is very easy. You can just give your stock broker a phone call and ask him to buy some shares. If you know him well, he will buy the shares without asking for a cheque. After you make the payment, the broker will give you the certificates. The certificates will be registered in the name of the previous owner. You will have to register it in your name. When you get the share certificates, it will be accompanied by a **Transfer Form** signed by the previous owner. You have to sign that and send it to the company along with the share certificate. The company will enter your name in their books and on the share certificate, which they will send back to you.

When you want to sell shares, you have to take the share certificates to the broker and sign the Transfer Form. The broker will sell the share and give you a cheque when the trade is settled.

This section tried to give you the basics of stockmarket and investing. The real world is not so simple. Before going to the real world, you have to know a few things about the relationship of a company with its shareholders.

The Company And Its Members

When an investor buys a share of a company, he becomes part of the company i.e., a member. The shareholder becomes a partner in business as he has put money from his pocket into the venture.

A shareholder can, if he wants to, inspect the company's account books. If he has any doubts or needs any clarification about the way that the company conducts its business, the company is duty bound to answer him. This right is vested in him via the **Company Law**. If the shareholder feels for any reason that the company is misusing the funds or does not respond to his queries satisfactorily, he can file a complaint with the **Department of Company Affairs (DCA)**. DCA will then look into it in a time−bound manner and order the company to do the needful. This might be a good time to remind you that you are living in India and you should not get any crazy ideas into your head.

All companies are formed under the Company Law and conduct their business under its rules. The rights of the shareholder are also derived from this rule book. It is not necessary that the shareholder be aware of all its contents, but it is necessary for the **Company Secretary** of the firm to be so. The Company Secretary is top dog as far as the Company Law is concerned. He

- Handles the documents and procedures with regard to the registration of the company with the DCA.
- Handles the IPO and issue of share certificates, dividends, etc.
- Makes and attests statutory declarations for commencement of business, annual returns, etc.
- Maintains the correspondence between the company and its shareholders and also between the DCA.
- Conducts and records all board meetings, annual general meetings, etc.

The company's business is headed by a **CEO** or a **chairman** or a designation to that effect. He is overseen by a **board of directors**. The biggest shareholders of a company appoint their representatives for the board. The number of directors a promoter group can appoint is determined by the size of their shareholding. The directors of the board **vote** on crucial issues affecting the company. The voting is democratic. Any shareholder can ask for the agenda and the minutes of the meeting if he wishes to.

Every company must conduct an **annual general meeting (AGM)**. Invitations are sent to all shareholders ahead of the meetings. Shareholders are given a synopsis of the past year's performance, the outline of the future plans, etc. The past year's accounts are presented. A dividend in case of a profit is suggested. The shareholders present during the AGM are asked to vote on these issues. An ordinary investor's vote usually does not count as his shareholding as a percentage of the total is very small. This is because the promoter family owns a big chunk of voting shares. Big **financial institutions (FI)** like UTI, LIC, GIC, etc., usually have another big slice of the voting shares. The promoter family votes for all the resolutions on the agenda. The FIs tips the balance. They usually make or break a resolution. The vote of the retail investor usually does not make a major impact. But, you can still go the AGM and raise a few questions in public to the top officials of the company to try to influence the voting.

The Real World

The sharemarket is one of the many markets in operation in India. The biggest of them all is the **money market**, which is much bigger than the sharemarket. This market mainly deals with government securities. Banks and large corporates are the main players here. The **Reserve Bank of India (RBI)** is a direct participant here and is also the regulator of the market. Parliament had enacted a law and created an agency to regulate the sharemarket. It is called the **Securities and Exchange Board of India (SEBI)**. The mandate of the SEBI is to oversee the operation of the different stock exchanges and protect the interests of the investor. It does not own the stock exchanges, but functions like its police.

There are several stock exchanges in India. **Bombay Stock Exchange (BSE)** is one of the oldest in the world. It is also the biggest in India. Companies from all over India have listed their shares on the BSE. But being a regional stock exchange, its brokers are limited to Maharashtra.

Its success is now under challenge from the **National Stock Exchange (NSE)**. NSE is national in character and has brokers all over the country. Its members trade using computers. Its brokers are connected by satellite (VSAT). The brokers sit in front of their screens and take orders from their customers. They enter their orders into their terminals and when the order is matched by some other broker from a different locataion, the trade is executed. Because the trading is screen−based, everything appears transparent and seems to work faster. Records are maintained on computers on a realtime basis and need not be created manually. Things are so simple that many brokers today put advertisements in newspapers inviting retail investors to participate in online trading.

The Bombay Stock Exchange for its part had implemented **Bombay OnLine Trading (BOLT)** to counter NSE's online trading. However, BOLT terminals cannot be placed outside the state of Maharashtra, which gives the NSE a great deal of advantage. Yet, BSE is the still the reigning king of the stockmarkets. Its index, the **SENSEX (Sensitive Index)**, is considered the benchmark of the nation's financial health.

The Sensex is a derivative of the prices of top 30 shares in the BSE. Since these top 30 shares represent a huge chunk of the total market capitalisation and handles most of trading volume, their performance is chosen as a marker for the whole stock exchange. Every stockmarket in the world has such an index. The US for example has the **DJIA (Dow Jones Industrial Average)**. The movement of the index in a stockmarket is tracked very diligently by everyone concerned. When there is a lot of selling, the index goes down. When there is a lot of buying, the index goes up. The direction of the movement of the index essentially reflects the mood of the market.

News channels such as CNBC, Star News, etc., display up−to−the minute share prices from the market in the form of tickers that scroll at the bottom of the screen. Many websites provide the same information. Newspapers publish the opening and closing prices of stocks in their pages. An ordinary newspaper like **The Hindu** for example prints the closing price of the last trading day along with the closing price of the previous trading day. Financial newspapers like **The Economic Times** put more information in their pages like the volume of trades, value of trades, the highest/lowest value in the last one year along with the last day's closing price. All newspapers publish a summary of the previous day's trading.

Paperless Trading

In **The Basics** section, I mentioned that allottees were given printed share certificates. The problems with this **physical format** were just too many. Typically, it takes months get shares allotted in the primary market. If you want to sell shares, it will take you over a month to get the money. If you buy shares from the secondary market, again you have to wait for over a month. After getting the shares, you will have to send them to the company to get it transferred to your name. This will take anywhere from 1 to 6 months at a time. If the company declares a dividend during this period, the previous owner gets the money even though you had bought the share.

And there were the problems of fake certificates and forgeries. Certificates used to get lost during transit. The original certificates might get lost and the company might issue duplicates only to see that originals have turned up elsewhere. All these deficiencies and the advancement in computer and telecommunications technologies prompted the government to start **paperless trading**.

In paperless trading, the investor, the company, and the shares are all given numbers. So, in this format, if anyone buys shares, it is recorded that investor A has bought X shares of company B with serial numbers starting from N to N+X−1. To record these data, two depositories were created **National Securities Depositories Limited (NSDL)** and **Central Securities Depositories Limited (CSDL)**. The depositories do not deal with investors directly. They use **depository participants (DP)** for the job. Each DP has an **DP ID** number, which identifies it.

So, if you want to participate in paperless trading, you have to approach a depository particpant. After paying some fees and providing some information about yourself and your bank account, you will be given a number called **client ID**, which identifies you.

When you want to buy shares, you give the DP ID number and your client ID number to the broker. When the broker buys the shares, he informs the DP and the DP updates its computer databases that you have so many shares. No paper is involved here. The moment the DP updates your account, you are the owner of the share. Previously, you had to wait for 6 months to get that done.

Similarly, when you sell shares, the DP deducts the shares from your account. As soon as this is done, the brokers gives you the cheque. The benefits of paperless trading is there to see. Fakes do not appear. Certificates are not created as they exist as numbers on computers with the DP. Hence, they cannot be lost. The DPs allow you to lock shares in your account when you want to offer them as collateral for obtaining loans.

The only downside with paperless trading is that you have to pay the DP an annual fee. For long−term investors like pensioners, this is a negative. For such people, shares in electronic format can be converted to physical format.

Demat And Rolling Settlement

Paperless trading essentially involved something called **dematerialization** or **demat**. Before paperless trading, all shares were handled in their physical format. The SEBI chose a few top–traded scrips for **compulsory dematerialization**. This meant that any trading in these scrips had to be in electronic format. So, if you wanted to buy these shares, you had to get an account with a DP first. This account later came to be known as the **demat account**. Anyone who had shares in the physical format, got himself a DP account and sent the share certificates to the company to get it converted to electronic format ie., for dematerialization. The companies destroyed the certificates and credited their DP accounts with equivalent number of shares.

Because these first scrips had a large retail base, demat accounts became popular. SEBI later expanded compulsory demat to many other shares. Today, most trading activity in the NSE and the BSE is in the demat segment.

ICICI Bank, Gayatri Securities, etc., are some prominent DPs in India. ICICI Bank integrates the banking account with the DP account in such a manner that when shares are bought, the money goes directly from the bank account. When shares are sold, the account gets credited. The buying and selling of shares is done via a trading account provided to the banking account. This 3–in–1 setup allows the investor to buy and sell shares without even leaving his house. There no cheques to be handed out or received. Orders can be placed over the phone or through their website www.ICICIDirect.com.

Dealing with other DPs will mean that you still have to write cheques. ICICI Bank offers the 3–in–1 setup without a minimum balance restriction. The charges for trading is similar to what your broker charges or probably lesser.

A profit–making company will distribute the profits to its shareholders by declaring a dividend every year. Normally, a cheque is sent to the shareholder by post. With demat accounts, either the bank account linked to the demat account is credited or an AC payee cheque with account details printed on it is sent. This avoids loss or delays in transit.

The introduction of online and paperless trading brought in a lot of speculative activity in the market. Only a small percentage of trades actually resulted in real exchange of shares. To curb such trading activity, the SEBI introduced daily **rolling settlement** on certain scrips and later expanded it to several other scrips. This meant that trades had to be squared by the end of the trading day itself, not after a week or two.

Market Movers

If you had been following the foreign currency market, you will know that not only does the **State Bank of India (SBI)** corners most of the trading, but also decides the direction of the market. If the rupee starts appreciating steeply against the dollar, the bank starts buying dollars. If the rupee starts falling rapidly, it will sell dollars. Normally, an operator in the market should mind its own business, but the SBI does something else. The reason is that it acts on behalf of the RBI to stabilize the value of the rupee in the market.

Similarly, for long, the **Unit Trust of India (UTI)** was acting on behalf of the Finance Ministry to stabilize the stockmarket. It did a good job until the stockmarket crash of the early 90s. Things went so bad that its top guy hung himself when investigations started. The concerned authorities did nothing to correct the situation. So, few were surprised when it started falling again along with the market ten years later. Today, the market is being saved by other biggies like the LIC, GIC, etc.

So, who are these people and what are they doing in the market, you ask. For understanding their role, I must introduce you to the market movers. The brokers are big operators in the market by virtue of their position. In an ideal world, they have to get orders from corporates and retail investors and execute them in the market. In the real world, they try to play God ie., they try to predict the future and better still they try to decide the future. This is where trouble starts.

Suppose a broker wants to target a share. He buys lots of it from the market. People start noticing the demand. He borrows money using the shares he had bought as collateral. With that money, he buys even more shares. When the market sees the demand for the share, the price shoots up. After continuously wiping out supply in the market and sending the share price to a high, the operator dumps the share in the market and makes a huge profit. Sometimes the rest of the market stops buying before the operator does, which again results in a crash.

Apart from brokers, there are big financial institutions that play a big role in the market. In market parlance, Indian biggies are called **Financial Institutions (FI)**. Examples are mutual funds like UTI and financial companies like LIC, GIC, etc. Mutual funds are **asset management companies (AMC)** that obtain funds from the public and invest them in shares or government securities on their behalf. The idea behind mutual funds is that people generally don't have the capability or the resources to follow the market while the AMC does. Companies like LIC or GIC are insurance companies who invest their premium income in equities in the stockmarket and in government securities in the money market. These FIs have huge funds at their disposal and can swing the market by their buys and sells.

Foreign biggies are known as **Foreign Financial Institutions (FII)**. Morgan Stanley, Credit Suisse First Boston, etc., are all examples of FIIs. When FIs and FIIs buy or sell shares, they do so in large numbers. When purchases by multiple institutions get concentrated in a single share or a single segment of shares, then their value shoots up.

FIIs have somewhat of a strange effect on the market. When they buy, they do so in droves. When they sell, they follow the same herd mentality. So, when a FII starts showing interest in an otherwise quiet counter, the news spreads like wildfire and brokers start cornering all the supply in the market so that they can meet the FIIs' demand at higher prices. Similarly, when an FII starts selling shares of a particular company, other

operators try to dump their holding ahead of the FII. In effect, the FII have a far more influence on the market than their size should warrant.

Because there is no telling how prices will move, the brokers try to get hold of large chunks of shares to advantage of price fluctuations with minimum delay. But brokers are prevented by law from holding shares themselves and this is where artificial trades come into play. In artificial trades, the brokers indulge in **roundabout trades** with another brokerage or FII. There is no outgo of shares from the racket, but the logs show volumes. An **artificial market** is created. Since an FII is seen as buying the shares, it helps in keeping the price up.

Several years ago, one FII was found trying to be artificially manipulating the value of some shares. What this FII did was to sell shares at prices below the current rate at regular intervals. This continuous selling at below market price caused the shares of those unfortunate companies to fall. While the FII was banned from trading in a foreign country for **hammering shares**, it continues to do business in India.

Apart from brokers and body corporates, the **news** factor plays an important role in the market. If the rupee value falls, software companies will earn more rupees for every dollar they earn. This will cause shares of IT companies to rise. If the government decreases the prices of controlled drugs, the shares prices of foreign pharma companies will fall.

A quick lesson in Economics might be due here. The RBI controls the **interest rates** in our country. The RBI alters the interest rates to check **inflation** and the **Rupee's value**. Inflation means that things cost a lot to buy. This is because too much money chases too few goods. So, the RBI increases the interest rates. The amount of **money in circulation** then comes down as borrowing money from banks and financial institutions is costlier and putting money in banks becomes advantageous. As the economy is drained of its excess money supply, prices of commodities come down. This means inflation comes down. The RBI will also increase interest rates when the value of the Rupee goes down. When interest rates rise, rupees are sucked into the banking system. When the market finds itself without rupees, the foreign currencies become cheaper. But, when interest rates increase, banks will have a hard time giving loans. Corporate India will find it hard to borrow money. Hence, higher interest rates will hinder industrial growth and in turn affects the stockmarket. Another truth about the economy is that **commodity prices are determined export prices**. Local prices for commodities usually reflect the prices they fetch in the export market. For example, take the tea prices. India is one of the largest producers of tea. Yet, we pay international prices for it. Nobody is going to sell you tea if people outside the country are ready to buy them at higher rates. This is one reason why Indians spend most of their income on food. In the US, on the contrary, food expenses are very small and most of a person's income is spent on repaying mortgage on his car or house – a reason why they have more material comforts than us.

Apart from economic fundamentals, government policies such as taxation, price controls, etc., affect a company's fortunes. People who have advance knowledge on such **price–altering information** will try to take advantage of such situations. Promoters or officials of a company might be privy to information that can have an effect on the share price. They might use it to their advantage by buying or selling shares themselves or by giving it to operators in the market.

When a company takes up an expensive modernization drive or obtains large loans, it will not be able to provide huge returns in the near future. In such cases, their prices can take a dive. Alternatively, when they are on the verge of completing the exercise and their start to pay off, their prices will go upwards.

And I almost forgot. Brokers who push share prices are **bulls**. The ones who do the opposite are **bears**.

The World

Stockmarkets do not operate in isolation. The world economy and the world at large affects them so much today than ever before. As our economy integrates with the rest of the world, what happens in other capitals has an affect on the stockmarket. A quick synopsis of the world situation might be necessary here.

The **United States** is the biggest economy in the world. It is the home of some of the biggest corporations in the world. It exports and imports all kinds of things and these form a major part of world trade. The government neither at the national or state level own any industry. Almost everything is left to private enterprise. For instance, the US does not have a nationwide network of railways because the central government never thought of putting a national railway network. Any railways that were built were done by private money. To travel across long distances, most Americans use their cars if they can't do it by plane. Almost every aspect of the American life is commercialised and wherever an opportunity had presented itself it was never left unexploited. For example, an American family will its breakfast out of the fridge with packaged milk and cereals as almost every food item is processed. Almost every part of the economy is underwritten by some sort of **insurance**. If the United States is the most litigious nation in the world, it is in part because of insurance. A big reason for the high productivity of American people is the use of tools. They have tools for every type of activity. If something does not have a tool, then it is probably not worth doing. A sizable section of the populace consists of old people. An American youth typically leaves his home once his education is completed and fends for himself. The parents similarly don't depend on their issues. Most of them get into retirement homes or make arrangements to that effect. They hold a lot of funds in the stockmarket. They are steady customers for the insurance and healthcare industries. Though the US has the largest number of publications, most Americans don't read **newspapers**. They get all their news from **TV**, which is important to know as the main players in this arena are just a few. The office of the American President gets a surprisingly huge amount of coverage in the news. If their President gets a colonoscopy, then that news item will be on top of the news for days.

American politicians have gone ahead and institutionalised **corruption**. They don't like the term **bribery** and prefer the use of **lobbying** instead. Vested interests can line the pockets of politicians legally. Typically, an industry group like the oil industry or the arms industry would pay a few millions as campaign contributions in exchange for billions of dollars in tax breaks or subsidies. They are so powerful that they get their government to carry out civil wars or assasinations in third−world countries. The United States has gone to war several times in the past to help the interests of private companies. There is little that American people can do to solve the problem. Like in India, the cancer of corruption has taken over the vital functions of the government that it is not possible to remove it without killing the whole. An example of how private interest groups can derail public interest is how they managed put the blame on the American public for their government not accepting the Kyoto Protocol. This is despite the fact that most Americans would gladly support any measures to save the environment from dangers such as the climate change caused by greenhouse effect. Here is another example. Though American contribution to the development of science is unparalleled, most Americans school graduates have little or no knowledge on the evolution of species. Evolution is rarely part of the school curriculum and wherever it gets any mention, it is taught as just another bizarre theory. This is because relegious groups consider the study of evolution as a threat to their relegious beliefs. And you thought fundamentalists were limited to the Islamic world.

America's biggest stockmarket is the **New York Stock Exchange (NYSE)**. It has another stockmarket called

the **Nasdaq (National Association of Dealers Automated Quotes)**, which deals with mainly technology companies. Some years back, American stock indices were hovering above normal levels after having been pushed up there by several leading Wall Street firms based on popcorn research. The stocks crashed leaving the economy in great trouble. The American central bank, known as the **Federal Reserve**, cut interest rates to prevent a recession and to save companies from huge interest costs. The low interest rate regime, it was thought, could make companies to fund operations more cheaply. However, it had the undesired effect of companies postponing purchases. And hence, the American economy continues to stagnate.

The rest of the Americas except Canada consists mainly of **developing countries**. Most of the wealth in these countries were owned by American companies. After WW−II, the interests of these companies were threatened by numerous left−leaning movements that seemed to enjoy popular support. The US would then, under the guise of fighting communism, create armed insurgencies or engineer coups or rig elections or unleash false propaganda in these countries. To finance these activities a lot of money was needed, not all of which was met by the American taxpayer. Hence, illicit drugs were manufactured in these countries and sold in the US and Western Europe. These drug syndicates were protected by shady government organizations like the CIA. While people in the West were getting addicted to drugs, hundreds of thousands of Latin Americans were getting killed or tortured or disappearing without a trace. When an American protégé has been firmly established in power, a pogrom of killings, torture and reprisals would follow. Schools, hospitals, homes, churches, etc., were not spared. Today, sorry excuses for democracy exist in these countries. America owns most of the wealth. People are still getting killed and tortured. The death squads and secret police continue to work. Democracy and dissent continue to be suppressed. And the all−important drug businesses continue to flourish. The US provides these countries "**aid**" in the form of weapons and equipment. When this aid is not used to put down dissent, it is used to combat drug syndicates that are competing with those run by the US. The rulers of these countries serve the interests of the United States rather than that of their people. If there had been any history of independent or democratic rule, they have only been overthrown or destroyed. While every American thinks his country stands for **freedom and democracy**, the US government's policies betrays those great ideals as the American government is largely run by private interests. Many of these countries are rich in minerals. The political and economic fortunes of these countries affect the prices of the **minerals** or the commodities they produce and in turn affect the world markets.

Much of **Africa**, similarly, is rich in **minerals**. Western companies provide funds to **armed groups** to gain control of these resources. Sometimes, the group that had taken money and realised their objectives no longer remains loyal to its patron. So, the foreign companies start financing another group and the fighting continues. Millions die in such **civil wars** and **genocides**. If any of these third world countries has a decent military, the Western companies pay off the generals to prevent any politician from usurping their investments. So, no real democracy can grow in these countries. Whenever you hear or read that some fighting is going on in an African country, try to find out what mineral that country produces or which companies do business there and which industries will be affected by supply shortfalls.

Western Europe consists of several developed countries with functioning democracies. Their populations are small and their productivity is high. Together they have formed the **European Union**. The EU is now a huge trading block and its common currency (the **Euro**) provides some competition to the dollar.

Much of **Eastern Europe** was previously under the Soviet umbrella. After the disintegration of the Soviet Union, most of them have become independent though the democracies that they have established are not free of **Western interference**. Many of them today are part of **NATO** and look up to the West primarily for funds and notionally for protection against Russian invasion.

Russia itself has done well since the breakup though initially it suffered under Yeltsin. Most of Russia's current fortunes are from the **sale of oil** rather than any real economic progress. Russia has the capability to become the most powerful country in the world considering the resources it has, but this is very unlikely.

Central Asian Republics of the former Soviet Union are now the focus of Western countries. They are rich in oil or have great strategic value. In the mid–90s, an American company tried to put up a pipeline from a Central Asian country via Afghanistan and Pakistan. Though the country in question was ready, **Afghanistan** remained in total anarchy. With generous help from the US, UK, Saudi Arabia, and other countries, this company raised a huge army of "**religious students**" from Pakistan and invaded Afghanistan and established a much–hated totalitarian regime. The Western press still puts out fiction that the group was created to fight the USSR, which had occupied Afghanistan previously, but in reality the group came up overnight only to fight the Afghan warlords, who had carved out individual fiefdoms out of Afghanistan, long after the Russians had left. The **Taliban** as the group called itself created a government that was based on a primitive interpretation of Islam, intentionally so, to deflect or suppress any criticism of being a western setup. The rest as we know is history. The Western countries are still at it trying to get the oil and gas out of Central Asia through Afghanistan by setting up a Afghan government friendly to its interests, but the **Russians** have installed their protégés holding the keys to power in the current setup. Since the most economical way of taking oil out of Central Asia is via Russia, the Russians are going to be the eventual victors of the great game.

East Timor, Sri Lanka, etc., are examples in Asia where conflicts have risen to take control of mineral wealth. If in Afghanistan religion was used as a cover to deflect criticism, in East Timor religion was used to divide people. People on both sides consipired to make East Timor to break away from Indonesia. Today, companies from **Australia** and **the West** are busy exploring East Timor for minerals. Other parts of Indonesia are now being targeted for similar takeovers. You should also remember that when Indonesia was under strongman **Suharto**, Western governments did nothing to help East Timor. In Sri Lanka, the **LTTE** had murdered all its opponents and has been projecting itself as the sole representative of Sri Lankan Tamils. The real goal behind their movement is to take control of the resources in the **North Eastern** part of the country. **United States** has also been wanting to take control of the region. The US tried something similar to what it did in Afghanistan. They first got the Sri Lankan government make peace with the enemy. When that effort failed, Sri Lanka was made to wage a war against the LTTE. The only difference this time was that the funds were to come from the country's **development budget**.

China and several **East Asian countries** have been on a modernization drive for a few decades and have established infrastructure and investment facilities on the lines of developed countries. This has led to a great deal of investments in the manufacturing sector. Unfortunately, most of what these countries manufacture are exported. When China **devalued** its currency, the rest of East Asia plunged into crisis. This was because the Chinese worker was the cheapest of them all. A Chinese worker will work 7 days a week on low pay and practically make no complaints or demands. Few East Asians countries could compete with that. Previously when these countries were prospering, they had totally relaxed currency controls. Speculative attacks on their currencies led to even more trouble. Though many of these economies are recovering, a good deal of the foreign investments that these countries used to attract now goes to China.

China had for long remained a communist country. It occupied Tibet. Formosa broke off and became independent as Taiwan. Hong Kong remained a British Protectorate. Hong Kong under the British had become a huge trading hub and had built up an almost developed–country–like ambience to itself. Its foreign currency reserves were almost as big as China's. Since Hong Kong was leased to the British for 99 years, it went back under Chinese control recently. The Chinese called it Hong Kong Special Administrative Region (HKSAR) and rule it by decree, though much of its former liberties are still in place. Hong Kong has been funneling a great deal of investment into China. However, Hong Kong is now finding competition from cities like Shanghai in mainland China.

Oil is the backbone of the world economy. The number of countries that produce it is small, but all the countries in the world consume it. Though **United States** produces a lot of oil, its economy is so big that its own production is not enough. This is the reason why American companies go to great lengths to obtain it,

sometimes to the detriment of those who have it. The **OPEC** (Organisation of Petroleum Exporting Countries) is a cartel of oil producers and they have for long fixed the price of oil. Lately, **Russia** has been producing and exporting large quantities of oil and this has lessened the hold of OPEC on oil prices.

Most of the oil comes from the **Middle East**. Most oil−producing countries are **monarchies** or **police states**. Almost all of them are unified in their hate for **Israel** though their official position may be different. Israel, no doubt, lives in a tough neighborhood and it is a credit to their perseverance that have held on to their small land for so long. In fact, they have done so well that they now hold parts of Syria, Lebanon, and the whole of Palestine. Israel has much to thank the United States, particularly its Jewish constituent, for their sucess. Jews in America have done well. They are an industrious lot. They look out for one another. They are really not big on equal opportunity employment. They own most of the businesses and media there. An example of their power is the fact that any movie about the Jewish Holocaust will win an Oscar if it is part of the nominations. American politicians cannot anger the Jews by taking a tough position on Israel. Anyone criticizing Israel will be immediately branded a **Nazi**. If the criticism manages to overcome that opposition, then they hold up pictures of Hitler and the Holocaust, no matter how much hate and destruction Israel brings up on the people of Palestine. Jews tend to get blamed for everything that ails America and Jews in turn use the innuendoes to bolster their position. The situation in the Middle East cannot get any better because there are many parties in Israel vying for power and they vie with each other to take toughest position on Palestine. Every time the situation in the Middle East goes wrong, the oil prices tend go north and stock prices tend to go south.

Thankfully, the Middle East produces only oil. Some of our other needs are handled by commodity markets. **Commodity exchanges** are markets that deal with items like tea, coffee, sugar, etc. The **Chicago Board of Trade (CBOT)** is a good example of a commodity market. The **London Metal Exchange (LME)** is another commodity market. It deals with metals like copper, aluminium, etc.

All well−developed markets have something called **futures** in them. While an ordinary trade in a market has to be settled by the settlement period, futures are to be fulfilled in the future. Futures were meant to bring stability in prices, but have been take over by speculation. In many cases, most of the trades are speculative in nature.

The **currency market** essentially revolves around the world. It runs 24 hours of the day. When a market closes in one part of the world, it opens in another. Until a few decades ago, the currency values were determined by the amount of gold reserves that a country had. This was later changed by the US and today currencies are valued based on the demand they have in the currency market for the purpose of trade and other exchanges. Some currencies are tightly controlled by central banks, while others are not. When exchange controls are imposed on a currency, it is called a **soft currency**. When there are no controls, it floats freely in the international market and can be converted to other currencies without first gaining permission from the central bank. Such currencies are called **hard currencies**. Countries with free floats and loose economies can become targets of speculative attacks.

Banking circles have something called that the **LIBOR (London Inter−Bank Offer Rate)** which acts as the basis for lending between banks and institutions or even countries. The Libor unit is in hundredths of a percent. If a loan is taken at 200 basis points above LIBOR, it means 2% above the current LIBOR. Entities that borrow try to take a spot that is closer to the LIBOR as it is an indication on their credit standing.

There are specialized agencies that provide **credit ratings** on companies and other institutions. In India, we have **CRISIL** and **ICRA** to do this kind of work. These evaluate the companies financial position and provide ratings on their credit instruments like fixed deposits or commercial paper.

All these disparate elements will affect the stockmarket in their own special way. An investor should keep track on all them to predict the future direction of the markets. Failure to do so can result in losses or in missed opportunities. If only you follow the world will you be able to take advantage of them.

Opportunities And Pitfalls

Company A is large well–respected infotech company. Its share price is at Rs. 4000. In the past its share prices moved between 3000 and 5000. Even if the company gives a 100% dividend, it will be only Rs. 10 for your Rs. 4000 investment. Even if you sell it during price variations, your percentage gain will be minimal.

Company B is a huge steel company. It has been making losses for several years. All along, its price has been hovering around Rs. 5. But, the company is making a recovery. Its price has climbed to Rs. 10. If you had bought it at Rs. 5, your profits would have been 100%.

Company C is one of the top IT companies. It had a subsidiary that was poised to make huge profits in future. The promoter family wanted to spin it off into a private company so that it could be fully owned by the family. The decision about the subsidiary was not given enough importance at the Annual General Meeting and the resolution gets passed right under the noses of FIs and FIIs. The scam is discovered, but the promoter says the decision was taken with full concurrence of those present at the AGM. Should you put your money in such companies?

Company D's share price is at Rs. 7. It is going to declare a dividend of Rs. 2 per share. Buy the share before the dividend is declared and sell it off afterwards. If you do some research, you can do this sort of dividend stripping.

Company E's offices are raided by authorities for under–invoicing sales to avoid tax. No charges are made. You however think the company must have paid off the officials. You may be right if the company does not pay much in dividends despite doing brisk business.

Company F sells a polymer that currently attracts a 40% import duty. The import duty allows it a protected market in the country. The government reduces duties on the polymer along with others. Exit from the company's scrip if its margins are going to be hurt.

The goverment increases interest rates. Expect bank shares to fall as banks will find it difficult to give out loans. If interest rates increase, the rupee value will also increase. This means IT companies will see reduced inflows and will witness price slides.

Several states increase sales tax. Expect FMCG (Fast Moving Consumer Goods) companies like HLL, Nestle, etc., to have their share prices fall. If several states ban the sale of IMFL (Indian–Made Foreign Liquor), the likes of UB and Shaw Wallace will witness a downtrend.

When the market is at a high, it is time to sell. When it is at a low, it is time to do some bargain hunting. If you think some bulls are targetting some shares, buy some as they start and sell before they stop. When bears target a share, wait until the prices has bottomed out. Starting buying at low levels. When the bears release their hold, the prices can go up. You can then make a profit.

Company G enjoys a lot of patronage from Political Party A. The opposing Political Party B wins the election. Expect the likes of Company G to suffer under the new regime. The fortunes of a company's share can depend on its standing with the people in power.

Company H is part of huge group. The group has several private and public companies. A public subsidiary sells its product to a private company within the group at a small margin. The private company then sells the product at normal prices cornering the bulk of the profit for its owners. Don't invest in such companies.

Company I has a subsidiary that is in the **NBFC (Non–Banking Finance Company)** business. The NBFC makes several unsecured loans to Company I. Don't buy shares of Company I and don't put any money in the FD's of the NBFC.

Company J is the biggest company IT company in terms of market capitalization. But, 90% of the company's shares is owned by the main promoter. Most of the rest of the shares is with FIs and FIIs. Because the number of shares in circulation is very low, the demand is high. The high price is propped by low volumes and is not reflective the comany's true value.

FII interest in several IT counters has decreased because the total foreign holding in these companies has reached the ceiling imposed by the government. Their prices are unlikely to go up in leaps and bounds like they used to.

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- Subhash VCDPlayer

  Subhash VCDPlayer is not just a VCD player. It is a full–fledged media player with support **still–image capture**. It can play all your audio and video files. It can play DVDs too.

  Subhash VCDPlayer can capture still images from video files and store them in bitmap (BMP) files. Captured images can be instantaneously viewed as the **desktop wallpaper**.

  Subhash VCDPlayer is also used as a wave player in (medical, legal, phone, interview, conference, video...) **transcription**.

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Subhash VCDPlayer works from the system tray and saves real estate on the taskbar. It has numerous easy−to−use keyboard shortcuts for its operations. When an audio/video file is opened, all compatible files in its folder become part of the playlist. You can also limit the playlist to a particular file type. You can search your disk drives or network for files for a particular file type. When certain function keys are enabled, they become available inside other programs (including games) allowing you to control playback without having to switch between programs. When the boss key is pressed, the playback is paused, the window is minimized, and system tray icon is replaced with the invisible icon. Thus, there will be no trace of the program on the desktop. Yet, you can click on the invisible icon after your boss had walked away to resume playback.

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