DOLLARS

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CENTS

VIKRANT C.

INTRODUCTION

This is not a “get rich quick” book. Rather this book is about how to get rich slow, but for sure. This book will cover everything you need to know about investing in the stock market from learning “what to buy”, “when to buy”, “when to see” and all the other basics. I’ll also cover some of the basics of technical analysis.

Think of this book as a short go to guide whenever you think of making an investment in the stock market. I suggest you to use a pen/pencil to note down the important points. If you’ve been investing for over a couple of years, I recommend you skipping this book as it is mainly for beginners.

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<u>My Story</u> (A brief version)

I was 14 years old kid eager to make money. My mom gave me an idea of investing in stocks. It seemed to be practical but I knew nothing about it.

Later I asked my mom and dad. They knew very little. I called my aunt who trades every day for the last decade. She told me stuff but it didn't help either.

I started watching YouTube videos and read articles of investopedia. I understood nothing. It seemed like rocket science. I then bought a book called the intelligent investor.

This book was for pros. I couldn't read past a couple of pages. A month passed I was still on square one. I heard stuff like sensex, P/E, index, ROIC but I had no idea what they meant.

Next, I watched YouTube videos on particular terms. I watched a video on what sensex means. What was a stock. How it works. Watching animated videos were quite helpful. I knew something.

A few weeks passed I opened a virtual account on Stock trainer and traded a little. I watched CNBC everyday after I came home from school. Soon I knew the basic ticker symbols.

In August I had the basic knowledge about stocks through YouTube. But I had no idea how to open a demat account and all. My mom opened it under her name through Icici

Bank. Finally on 6th September I bought my first stock. Coal Indiax1.

I bought and sold random stocks. I mostly made losses. Over time I learned what fundamental analysis was. I watched animated videos on it.

I soon selected stocks on the basis of P/E ratio, profit and sales growth. It didn't work. I lost big on TATA Motors.

Then finally I read my first book on stocks. It was called Rule #1. I had to read it 2-3 times to understand. It took me a month to read it.

In August 2018, about a year later I saw a video on technical analysis. I never tried to understand it. I watched it. It was about 1.5hrs long. I was amazed to see how one can predict stock direction based on charts.

I watched over a 100 videos on YouTube about tech analysis since then. I loved the concept of margin. I came home early after my exam and bought my first stock on leverage.

It was Infibeam Avenue. I shorted it. I made 2000rs in an hour. I felt awesome. It was the most money I'd made. By the end of the day I lost 4000rs. It was way more than I what I could afford.

I was soon addicted. Everyday after writing my exam paper I traded instead of studying for the next paper. Soon my exams were over. I had no time. I had to learn how to swing trade. I spent time analysing charts to figure out my next swing position.

Again I lost a ton of money. I knew I had to scale back. So I set aside a small capital for trading. April 2019, I opened an account on Zerodha as the Icici brokerage was too much.

Over the course I read books like- the intelligent Investor, Stock to riches, how to make money in stocks, how I made over 2 million dollars in the stock market and many more.

So videos and books helped me learn more about stock market more than anything. The simplest way to start is just fucking start. If you've no idea what to do, just start. Search. Read.

There's still a ton of things I don't know. This is like a very, very long process.

(from Quora)

Reasons why people don't invest in the stock market-

1. Lack of knowledge.

    This is by far the single biggest reason why people avoid investing. They don't know how to invest and how should they? This stuff isn't taught in our schools.

2. Lack of time.

You might have heard that investing in the stock market requires a lot of time, which is not possible for most of us. But that is a myth. Trading requires a lot of time, investing does not. All you need is 15-30 minutes per week, not day, week. That's it.

3. Lack of money.

A lot of people think investing requires a lot of money to get started which is kind of true. But only if you have a short time horizon. If you have 40 years till you retire, you don't need a lot of money. Time and money ensure a healthy return.

4. Bad experiences.

I'm sure that you've heard that people lose all of their money in the stock market. That is true, but only if they don't know how to invest. If you learn that, you'll make money easily.

5. Belief System.

A lot of old people believe that the stock market is gambling. That is not true at all. It is not a gamble if you know you're going to win. Proper research gives definite returns.

6. Fear.

People have the fear of losing their money, which is justified. But you probably don't consider inflation. If you make 4% in the savings account and the inflation rate is 7%, you're basically losing money.

PART 1:
The Basics

1. **What is a stock?**
   This is the most basic question in the stock market. If you don't know the answer to this question, you're not going to make any money.

Simply put a stock is ownership in a company. That's it. You buy a stock , it means that you own a little piece of the company. You will make money if the company does well and you'll lose money if the company fails.

Share, stock, stake, equity they all mean the same.

2. **Do all companies have stocks?**

Yes, all public companies have shares which retail investors like you and me can buy. Private companies have shares only in the hands of a few people.

3. What is the stock market?

Just like there is a place for buying and selling vegetables, there is a place for buying and selling stocks. That place is called a stock market.

4. Do I need to go somewhere to buy stocks?

No, just like you can buy vegetables online on your phone, you can buy stocks too on your phone.

5. Where is the stock market located?

The Indian stock market is located on Dalal Street, Mumbai.

6. What is NSE and BSE?

These are two terms that stand for National Stock Exchange and Bombay Stock Exchange. One can buy/sell shares through these mediums. Each consists of 1500 and 7000 companies respectively.

7. What is SENSEX and NIFTY?

Sensex stands for Sensitive Index and Nifty stands for National Fifty. These are the two stock indices. They include they top 30 and the top 50 companies in the country respectively.

Countries like USA and UK also have stock indices like DJIA, FTSE, NYSE.

8. How old do I have to be do trade stocks?

The legal age is 18 in India. But you can use your parents account to trade if you’re younger.

9.What are the timings of the stock market?

The Indian stock market opens at 9.15 am and closes at 3.30 pm from Monday to Friday excluding some major holidays.

9. **Can I buy/sell shares before or after the market opens/closes?**

No, but you can place an order for that which will be executed by your broker.

10. **How much does it cost to get started?**

There's no number. You can start with even 100rs. But I recommend starting with 5-10k rupees.

11. **How long can I hold stocks for?**

Forever (unless you've used margin). You can sell the stocks whenever you want.

12. What do I need to buy/sell shares?

Three things- 1.a bank account. 2. A demat account and 3. A trading account.

13. What is a Demat account?

Demat stands for Dematerialisation account. It is like a shopping cart. Just like a shopping cart helps your store your groceries, a Demat account helps you store your shares.

14. What is a trading account?

A trading account is an account for buying your shares or selling them.

Most banks provide 3 in 1 accounts where in you’ll be provided with all the three accounts. Some discount broking houses provide with only trading and a Demat account.

15. Why do stock prices fluctuate?

Demand and Supply. When a company does well and more people want to buy it’s shares, the price goes up. If the company performs poorly or does some fraud, the stock price goes down as people start selling their shares.

16. What is leverage (margin)?

Think of the time when you’re buying a house worth 50 lacs. You don’t put in all upfront, rather you just pay 5-10 lacs and pay the rest later.

Similarly leverage allows you to buy more shares than what you can afford. If you use 10x leverage on 10,000 rupees, you can buy

1,00,000 worth of shares but you have to return them by the end of the day.

Leverage increases your purchasing power. It increases your profit as well as your loss.

Example- If you buy 1000 shares worth 100 rupees using 10k capital with 10x leverage, and the stock goes up 1 rupee by the end of the day, you make 1k rupees. That is 10% profit on your 10k capital.

But if the stock falls just 1 rupee, you lose 1k i.e. 10% of your capital. Use leverage carefully.

17. What are dividends?

Whenever a company makes a profit ,it has 2 options to either use profits for further growth/acquisitions or to distribute it amongst it’s shareholders.

If the company announces 5 rupees dividend, it means each person will get 5 rupees for every share they own. Not all companies give dividends. It is totally up to the company to give dividends.

18. Why do people buy stocks for dividends?

You may think that if you only get 5 rupees dividend, why bother? The reason is simple. Big players own many shares. If you own 1,00,000 shares of a company, you don't care about the stock price because you get 500k worth of dividends every quarter/yr.

19.**What is liquidity?**

The ability to convert asset into cash is called liquidity. If you have a house, and you want to sell it, you'll have to wait a long time before someone buys it.

But if you have a stock, just click on sell button and in 2 days you’ll get your money.

19. What is volume?

The number of shares traded is called volume. A stock with a daily volume of 50 is extremely illiquid. You cannot sell a lot of shares without hampering the price.

But major companies like Reliance and Tata have millions of shares traded each day. You can easily sell your shares.

20. What is market capitalization?

The number of outstanding shares multiplied by the stock prices gives out market cap. You must have seen that value of Apple was once 1 trillion dollars. It meant that the market cap was 1 trillion. It changes every day.

21. What are the types of companies?

Based on market cap, there are 3 types of companies.

1. Small cap. The market cap of these companies is 500-5000 crores.
2. Mid cap. The market cap of these companies is 5000-20000 crores.
3. Large cap. Any company with market cap of over 20k cr is large cap.

22. What are penny stocks?

Penny stocks aka pink sheets are small companies which have a very low market cap and hence cannot be traded on the main exchange.

23. What is shorting?

Shorting a stock means selling a stock before you own it. You simply borrow stocks from your broker and buy them back at a lower price.

In simple terms shorting means making money when the stock price falls.

In India you can only short a stock on intraday basis. For delivery you can use futures and options.

24. What is hedging?

A popular method to secure your capital. Here let’s say you buy 2000 reliance ind. Shares and you think the stock might fall. So you short another 2000 reliance shares in FnO till the stock falls and rises up. Basically you make no profit but you avoid loss.

Continuous transactions are expensive and you don’t get tax benefits so it adds up the cost. Hedging helps avoid all that.

25. How to know which stocks to buy?

Two method –

1. Technical analysis
2. Fundamental analysis

We’ll get into that in the next part.

Participants in the stock market-

1. Domestic retail participants. These include common people like you and I.

2. NRIs and OCIs. These are foreigners or Indians living outside the country who wish to invest in the Indian stock market.

3. Domestic institutions. These include institutions or firms like LIC.

4. Asset Management Companies (AMCs). These comprise of mutual fund companies who invest the money of the general population either in the index or in various selected stocks. These companies put in thousands of crores in the market, therefore they

have some control over the overall market sentiment.

5. Foreign Institutional Investors (FIIs). These include institutions outside India and hedge funds who invest in the Indian market. Companies like Goldman Sachs, JP Morgan, Morgan Stanley, etc are included in this category.

Asset Allocation

You might have heard other people say "don't put all of your eggs in one basket." This generally refers to diversification.

But in the financial markets you cannot just rely on equity diversification rather you need to diversify overall. Asset allocation simply means diversifying your capital into stocks, bonds, gold, etc.

This diversification is called asset allocation. If the stock market crashes or it is in a recession, some of your capital will be protected if you also invest in gold and bonds (debt). Gold is generally considered a good investment when the stock market is going down.

What can you invest in? Gold, stocks, bonds, mutual funds, index funds, currencies, art, collectibles, real estate, antiques, etc.

What are ETFs?

ETF stands for Exchange Traded Funds. These are low cost funds which track the entire market. These funds buy the entire index and are considered a better option to mutual funds by some experts.

2 facts about the stock market.

1. The market always goes up in the long run.

No matter how bad the economy is or how severe the trade war is, everything is temporary. The market eventually recovers. The market recovered from the Great Depression and again from the Tech Bubble and finally from the Housing Market crisis. The market always goes up in the long run.

2. The market runs in cycles.

There are two phases in the market. Inflation and recession. The market always moves either up or down in the short term. Every uptrend is faced by a correction.

Taxes.

What's your biggest expense? Some of you may say it's your home loan or certain EMIs. We often forget that taxes are a huge part of our expenses. The rich always find ways to pay as little tax as possible.

Do you need to pay tax on shares?

Yes, only if you sell them. There are 4 types of taxes in the stock market.

1. Long term capital gains (LTCG). If you buy a stock on May 14th 2015 and sell it on July 20th 2016 i.e. you hold it for over a year, you'll get tax benefits.

2. Short term capital gains (STCG). If you buy a stock and sell it within weeks or after a few months, you'll

have to pay 15% tax of on your profits.

If you buy 1000 shares of Yes Bank at 100 rupees and sell all the shares @120 after a month, you'll have to pay 15% of your profit of 20k rupees which is 3000 rupees.

3. Speculative business income tax. Trading is considered as a business. If you make 1 lac rupees profit trading and your job salary is 19 lacs, you'll have to pay tax on 20 lacs.

4. Non speculative business tax. FnO + regular income tax.

Types of Mutual Funds.

1. Money market funds. These funds invest in short term securities like govt. bonds. This is a safe investment but give low returns.

2. Fixed income funds. As the name suggests, you receive fixed income through these funds. These are mainly invested in corporate bonds. Again the returns are low.

3. Equity funds. These funds invest in equities i.e. stocks. They have high risk as well as high rewards.

4. Balanced Funds. These are popular funds which invest in both equity as well as bonds. They have medium risk and medium rewards.

5. Index funds. These funds invest in the entire index. (more about them in a later chapter).

6. Funds of funds. These funds invest in other funds.

IPOs

You might have heard that an investment of 10k dollars in Microsoft or Amazon would be worth millions today.

What exactly does an IPO mean?

IPO stands for Initial Public Offering. This is the first time the company is made public. The general public can now invest in the company.

But, before an IPO there are various angel capital and venture capital series A, B and C rounds and seed funding. Which means you’re not the first one to invest in the company.

Does the IPO always go up?

No, most IPOs are launched in bull markets but there’s no guarantee that the IPO will be successful. Take Uber for example. The company was worth billions before the IPO, it had a great business plan.

But the IPO was a disaster. The stock opened at 70 dollars a share and closed at 56 dollars, which is 20% less.

Not all IPOs go up in the long term. Fundamentally strong companies like Infosys and Wipro have had very successful IPOs.

An investment of 10k in Wipro in the 80s would be worth 750 crores!

Going public means issuing for an IPO. Why do companies go public?

Various reasons like funding, exit for early investors, stock option for employees or attention.

What are the steps required to go public?

1. Build a strong company, have positive cashflow.
2. Apply to SEBI or SEC and get a nod.

SEBI is the Securities and Exchange board of India and the SEC is Securities and

Exchange Commission. These control or manage the market in their respective countries.

3. Send a DRHP. This includes balance sheet, income statements and other important documents.
4. Advertise. The general public must be made aware of the IPO.

Biggest stock market crashes

1. The tulip craze of 1633. (first crash ever)
2. The Great Depression (1929-32).
3. Black Monday, 1987.
4. The dot-com boom and bust. (90s-2000s)
5. Indian market crash of 1992.
6. The Attacks of 9/11. (2001)
7. Financial crisis. (2008)
8. Chinese crash (2015-16)
9. 2018 US market sell off.
10. Nifty recession of 2019.

Case Study- 2008 financial Crisis.

(warning- This is a difficult chapter to understand)

This chapter is not exactly related to the stock market but it is an interesting chapter and you'll probably learn something new.

Let's start off with the term mortgage. What does it mean? Mortgage means monthly payments on you house of your car. You buy a house worth 50 lacs and maybe pay 40k per month. If you don't, the bank will seize and auction your house. Generally loans are given to credible people i.e. people who can pay the loan back. People with steady jobs and a good credit score.

Now let's get into the story. 2005-06 was the era when interest rates were extremely low. People didn't put their money in the banks. The stock market had recently fallen after the 90s and the early 2000s dot-com boom and bash. People stayed away from the stock market for some time. But real estate prices were going up.

There were credit rating agencies who provided a fake rating score to people. Which means even if you have a bad rating score, the agency will change it. More people without the ability to repay the loan were now getting a loan.

Even if the person stops paying back his loan, the bank can sell his house and collect the money back. So banks easily lent money to many people. Soon common people owned like 3 houses on mortgage.

It was a hectic job to put up each house for sale. It was just time consuming. So a new concept called a **CDO** was introduced.

CDO stands for collateralized debt obligation.

A CDO simply was a bunch of houses. Each CDO was rated. The ratings were AAA, AA, A, BBB, BB, B, CCC, CC and C with AAA being the safest.

A triple A CDO was the safest then came a double A and so on. Often times, the credit rating agencies provided false information i.e. they rated the CDOs incorrectly.

A triple A CDO often consisted of a double B or sometimes even a triple C CDO. Things weren’t as safe as they seemed.

There was a company called AIG. Remember? This company introduced something called CDS. It stands for Credit Default Swaps.

These **CDS** were simply insurance against the CDOs. An insurance pays you money if your insured item (like a car) gets damaged. Similarly a CDS insured you from a CDO. It means, whenever the CDO fails, you’ll receive money.

CDOs seemed to be such as safe bet. So AIG launched billions of dollars worth of CDS.

Everything was fine until this stage. But the real problems arose when people defaulted their loans. People without steady jobs were given huge loans. So it was obvious that they couldn't pay these loans.

People started defaulting their loans. Soon more and more houses went on the market. The supply of houses increased significantly while the demand did not. Thus the housing prices came down.

Seeing their house worth less than what they bought it for, more people started defaulting deliberately. This pushed down the prices even more.

AIG which had given out billions of dollars worth or insurance, now had to pay all the people who owned a CDO. AIG failed to do so.

Soon AIG faced a loss of 99 billion dollars in 2008 alone. Several of the world's greatest banks and investment banks faced troubles like never before. Hundreds of billions of dollars were wiped out suddenly. The US govt. had to bail out many banks and AIG. The year ended with the fall of Lehman Brothers.

Things got dark. Money was lost. Many jobs were gone. Houses weren't worth much anymore. **Hundreds of billions of dollars were stolen but not a single person was arrested for this "crime**" (except for one guy for a different crime).

Even in such a dark, depressing market conditions some people like Michael Burry made hundreds of millions of dollars by shorting the market. He had a 1.3 billion dollars short position which paid him extremely well in 2008 all because he saw this huge opportunity.

There’s a book called ‘The Big Short’ and a movie with the same name based on the 2008 financial crisis. The film showcases the entire events in an amazing way along with starring some of the best actors. I highly recommend you to watch that movie.

Was it all complicated and confusing? Yes, and it should be. The entire system is made complicated to keep the general public out of knowing the actual truth.

Short selling

Short selling simply means making money while the stock tanks(goes down). Crazy, right?

When I first heard about this concept I was like “WHATT? How's that even possible?”

What you do is, you borrow shares which you wanna short from your broker. Then the stock tanks, buy it at a lower price with your own money and return the shares to the broker.

It sounds complicated but it's really, really simple. Instead of clicking on “buy” option, you opt for “sell”. You'll recieve - (negative) shares.

There's a short famous story called “Villa for sale” which shows a similar transaction. Stock goes down, up make money. When the stock goes up, you lose money. As simple as that.

Benefits of shorting-

1. You get a lot of leverage.
2. You make money when the market goes down i.e. Everyone is losing money.
3. Stocks rise slowly but fall very quickly so it'll help you make a quick profit.

Limitations/risk-

1. In India, you can only short stocks on intraday basis i.e. You have to cover your position before 3.15 pm.
2. Unlimited loss. If you're going long, you can only lose 100%. But during short selling, if your stock rises from 50 rupees to 150 rupees, you'll lose more than 100%.

Unlimited loss is the #1 reason why people avoid short selling. Shorting is more common overseas. Always put a stoploss. No matter which type of position you have on. Long or short.

Shorting a stock for more than a week cannot be done on an individual stock rather you can short it (take a position) through put options. Short selling for a longer time frame is only possible in Futures and Options.

There are certain hedge funds that only short securities. But a short position is risky. Bill Ackman's short position of a billion dollars against Herbal Life turned out to be a huge mistake.

Should an investor short stocks? No. Shorting is extremely risky. Do it at your own risk.

Short squeeze.

Since we're talking about short selling, short squeeze is an important topic you need to know about.

Short squeeze is a situation where a stock which is in a clear downtrend rises significantly forcing short sellers to close their positions.

This sudden hike can wipe out your entire profits and expose you to loss. A short squeeze is caused when too many short sellers try to close their positions. The tv show billions has an episode which perfectly explains short squeeze.

PART 2: Fundamental Analysis

What is fundamental analysis?

The study of companies to invest in for long term by analysing it's performance, competition, ratios and numbers.

In simple terms, long term investing is called fundamental analysis.

What type of company should you invest in?

Buy an amazing company at an awesome price.

What is an awesome company and what do I mean by an amazing price?

A company with high growth percentage, a strong moat, a low P/E ratio, low to nil debt with a growth industry bought under it's intrinsic value.

To understand this you have to learn the key components in analysing any business.

Key Terms/ financial ratios-

1. EPS. It stands for earnings per share. Simply put it means how much you will earn if you sell 1 share.

2. P/E ratio. It stands for price to earnings. If the PE ratio of a company is 25, it means that you have to pay 25 rupees to gain 1 rupee.

3. PEG ratio. Formula is simply, PE ratio divided by the expected annual growth rate. All you need to know is that peg ratio below 1 or 1.5 is considered good. Above that it isn’t so good.

4. P/B. It stands for price to book value, it's similar to PE ratio.

5. ROIC. It stands for return on invested capital. If you invest 10k and gain 200 rupees, roic is 20%.

6. Dividend yield. Formula is dividend divided by price per share.

7. ROE. It tells you the return you receive on a company. An roe of above 20% is really good.

8. Current ratio. It means if the company has more short term assets over short term debt. A current ratio of over 1 is good.

9. Debt to equity ratio. Measures debt of a company over it's assets. Similar to current ratio.

10. EV/EBITDA. If this ratio is between 6-10 it’s a good sign. Lower than that means that the company is undervalued.

These were just 10 ratios/parameters. There are a lot more than these.

The 4 M's of investing.

Meaning. Find out everything you can about the company. I've seen people buy stock tickers without even knowing the full form of it.

What's the full form of ITC or MRF? It stands for Indian Tobacco Company and Madras Rubber Factory.

Find out products that the company sells, it's subsidiaries ,etc. find out it's headquarters and all.

Moat. Moat means competition. Who is your company competing with? Find out it's top 3 peers.

How easy/hard is it to overtake your company? If your talk about coca cola or pepsi, they have a strong moat. Even if you make a tasty, cheap cold drink brand, you won’t overtake coke or pepsi.

Similarly, if you talk about toothpastes, Colgate has a 49% market share, which is a really strong moat.

Your business is strong if it is either way ahead of the competition or if that business is hard to copy.

Management. Who are the top holders of your company?

Are there any cases against them?

Is your company involved in any fraud?

Margin of Safety. This is a crucial part of investing. If I offer you 100 rupee note for 100 rupees or 200 rupees, you won’t buy it.

But if I offer you a 100 rupee note for 50 rupees, you’ll buy it cause you know that you won’t lose any money.

Similarly you must buy stocks below their fair value. If the fair value of a stock is 500 rupees, buy it when it falls below 300 rupees and sell above 600.

Always remember the 4M’s of investing.

Meaning, Management, Moat and Margin of safety.

Tools required to analyse/ buy your first stock-

1. A mobile phone/ computer.
2. Apps such as investing.com and moneycontrol.
3. Websites such as screener or investing.com
4. A notebook and a pen.
5. An internet connection (duh?).

That’s it. Technology has made investing and trading very easy. You can simply perform all the functions from your phone. It’s that simple.

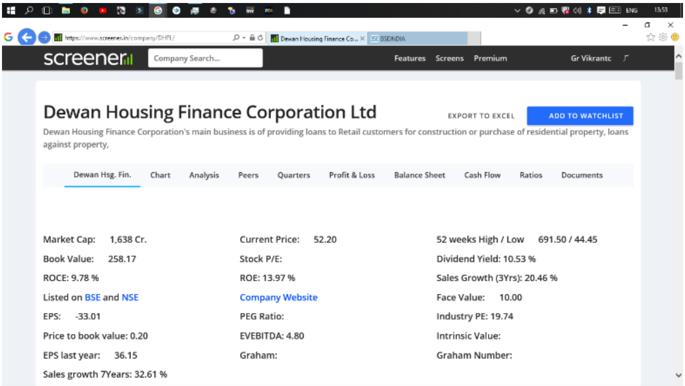
Things to look at while analysing your first stock.

1. EPS. Look at the eps of the company. A negative eps is a bad sign. See if there is any growth in the eps.
2. Market cap. How big is the market cap of the company? Avoid companies with m cap less than 1000 crores in the beginning.
3. P/E. Is the P/E above or below 15 and compare it to the industry P/E.
4. PEG ratio. A peg ratio of over 1.5 means the company has a lot of debt.
5. ROE. Are the numbers above 15%? Avoid if the numbers are negative or below 10%.
6. Revenues. Are the revenues growing steadily? One or two bad quarter is acceptable.

7. Share capital. Is the share capital increasing/decreasing or is it the same? A same share capital is a good sign.
8. Sales and profit growth. Are these numbers above 15%?
9. EV/EBITDA. 6-10 is a normal range. Above that is considered overvalued.
10. News. Is there any news about the company against fraud?
11. Competition. What is the position of the company compared to it’s peers?
12. Is the company on a decline for the past 3 years? If yes, then avoid.

.Examples.

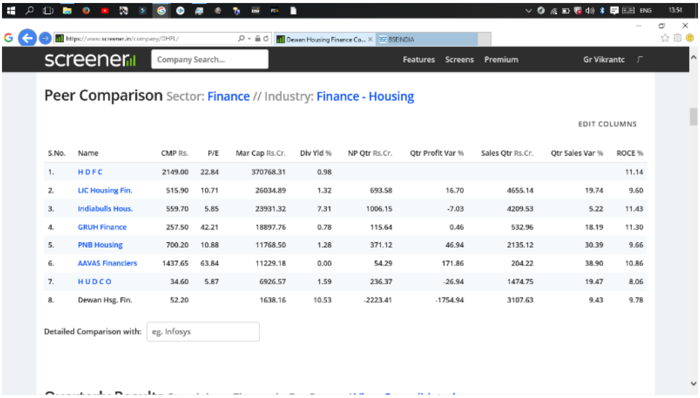
Let’s take a look at DHFL as a long term investment.



The market cap of the company is 1,600 crores which is a lot less compared to last year.

52wk high and low prices have a huge gap. The stock fell from 700 to 40 rupees. That’s a major drop. There might be some reason for it. There is- fraud.

EPS of the stock is -33 which is really, really bad. Plus P/E ratio isn't mentioned which is another negative sign.



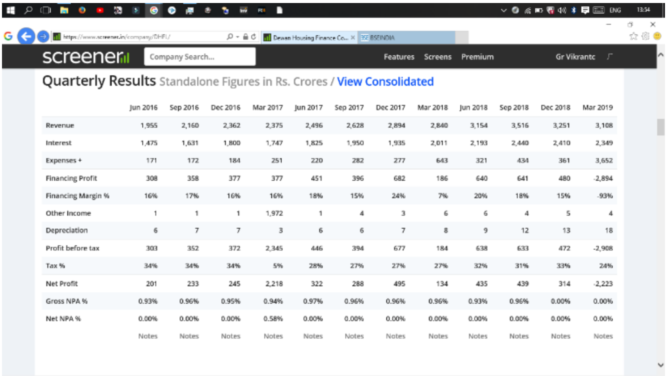
Peer Comparison Sector: Finance // Industry: Finance - Housing

EDIT COLUMNS

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	H D F C	2149.00	22.84	370768.31	0.98					11.14
2.	LIC Housing Fin.	515.90	10.71	26034.89	1.32	693.58	16.70	4655.14	19.74	9.60
3.	Indiabulls Hous.	559.70	5.85	23931.32	7.31	1006.15	-7.03	4209.53	5.22	11.43
4.	GRUH Finance	257.50	42.21	18897.76	0.78	115.64	0.46	532.96	18.19	11.30
5.	PNB Housing	700.20	10.88	11768.50	1.28	371.12	46.94	2135.12	30.39	9.66
6.	AAVAS Financiers	1437.65	63.84	11229.18	0.00	54.29	171.86	204.22	38.90	10.86
7.	H U D C O	34.60	5.87	6926.57	1.59	236.37	-26.94	1474.75	19.47	8.06
8.	Dewan Hsg. Fin.	52.20		1638.16	10.53	-2223.41	-1754.94	3107.63	9.43	9.78

Detailed Comparison with: eg. Infosys

DHFL is 8th in the market. Way behind it's peers. That's a big problem.



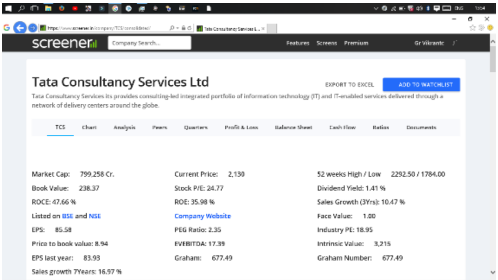
Quarterly Results Standalone Figures in Rs. Crores / View Consolidated

	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019
Revenue	1,955	2,160	2,362	2,375	2,496	2,628	2,894	2,840	3,154	3,516	3,251	3,108
Interest	1,475	1,631	1,800	1,747	1,825	1,950	1,935	2,011	2,193	2,440	2,410	2,349
Expenses +	171	172	184	251	220	282	277	643	321	434	361	3,652
Financing Profit	308	358	377	377	451	396	682	186	640	641	480	-2,894
Financing Margin %	16%	17%	16%	16%	18%	15%	24%	7%	20%	18%	15%	-93%
Other Income	1	1	1	1,972	1	4	3	6	6	4	5	4
Depreciation	6	7	7	3	6	6	7	8	9	12	13	18
Profit before tax	303	352	372	2,345	446	394	677	184	638	633	472	-2,908
Tax %	34%	34%	34%	5%	28%	27%	27%	27%	32%	31%	33%	24%
Net Profit	201	233	245	2,218	322	288	495	134	435	439	314	-2,223
Gross NPA %	0.93%	0.96%	0.95%	0.94%	0.97%	0.96%	0.96%	0.96%	0.93%	0.96%	0.00%	0.00%
Net NPA %	0.00%	0.00%	0.00%	0.58%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes

This is the quarterly result of DHFL. The revenue was growing steadily but there has been a decline.

The company also has a lot of long term debt which is hard to repay. So to conclude, it’s a big NO.

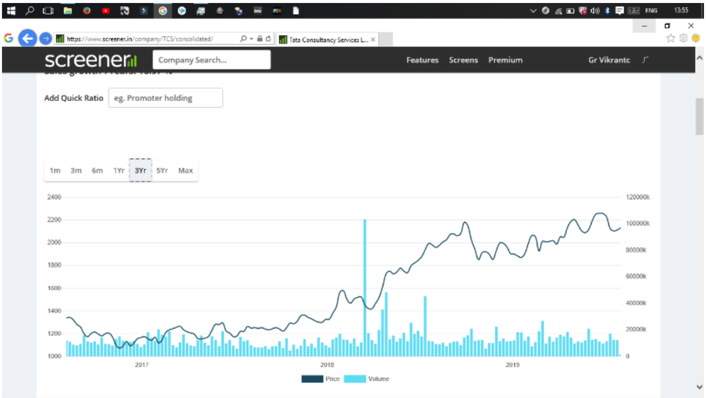
Let’s look at TCS.



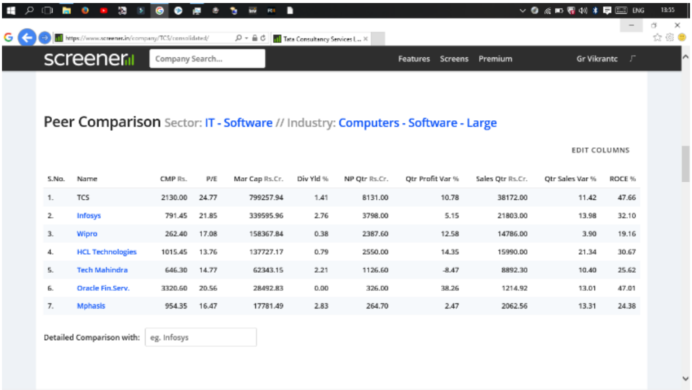
Market cap of 800,000 crores is impressive. There isn’t much difference between the 52 week h/l. Good sign.

The stock P/E is more than the industry P/E. Not a good sign, but it’s okay.

EV/EBITDA is 17.4, that’s overvalued. Plus the PEG ratio is 2.35, the company has debt.



There has been a steady growth in the past 3 years.



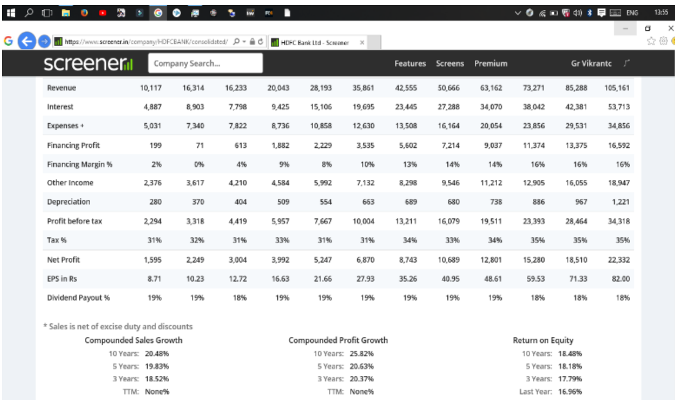
Peer Comparison Sector: IT - Software // Industry: Computers - Software - Large

EDIT COLUMNS

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	TCS	2130.00	24.77	799257.94	1.41	8131.00	10.78	38172.00	11.42	47.66
2.	Infosys	791.45	21.85	339595.96	2.76	3798.00	5.15	21803.00	13.98	32.10
3.	Wipro	262.40	17.08	158367.84	0.38	2387.60	12.58	14786.00	3.90	19.16
4.	HCL Technologies	1015.45	13.76	137727.17	0.79	2550.00	14.35	15990.00	21.34	30.67
5.	Tech Mahindra	646.30	14.77	62343.15	2.21	1126.60	-8.47	8892.30	10.40	25.62
6.	Oracle Fin.Serv.	3320.60	20.56	28492.83	0.00	326.00	38.26	1214.92	13.01	47.01
7.	Mphasis	954.35	16.47	17781.49	2.83	264.70	2.47	2062.56	13.31	24.38

Detailed Comparison with: eg. Infosys

The company is leading in it’s sector. A pretty good sign.



Revenue	10,117	16,314	16,233	20,043	28,193	35,861	42,555	50,666	63,162	73,271	85,288	105,161
Interest	4,887	8,903	7,798	9,425	15,106	19,695	23,445	27,288	34,070	38,042	42,381	53,713
Expenses +	5,031	7,340	7,822	8,736	10,858	12,630	13,508	16,164	20,054	23,856	29,531	34,856
Financing Profit	199	71	613	1,882	2,229	3,535	5,602	7,214	9,037	11,374	13,375	16,592
Financing Margin %	2%	0%	4%	9%	8%	10%	13%	14%	14%	16%	16%	16%
Other Income	2,376	3,617	4,210	4,584	5,992	7,132	8,298	9,546	11,212	12,905	16,055	18,947
Depreciation	280	370	404	509	554	663	689	680	738	886	967	1,221
Profit before tax	2,294	3,318	4,419	5,957	7,667	10,004	13,211	16,079	19,511	23,393	28,464	34,318
Tax %	31%	32%	31%	33%	31%	31%	34%	33%	34%	35%	35%	35%
Net Profit	1,595	2,249	3,004	3,992	5,247	6,870	8,743	10,689	12,801	15,280	18,510	22,332
EPS in Rs	8.71	10.23	12.72	16.63	21.66	27.93	35.26	40.95	48.61	59.53	71.33	82.00
Dividend Payout %	19%	19%	18%	19%	19%	19%	19%	19%	19%	18%	18%	18%

* Sales is net of excise duty and discounts

Compounded Sales Growth		Compounded Profit Growth		Return on Equity	
10 Years:	20.48%	10 Years:	25.82%	10 Years:	18.48%
5 Years:	19.83%	5 Years:	20.63%	5 Years:	18.18%
3 Years:	18.52%	3 Years:	20.37%	3 Years:	17.79%
TTM:	None%	TTM:	None%	Last Year:	16.96%

The revenues are growing really fast, a really good sign.

The sales growth is above 15% in 3, 5, 7 years along with ROE. A really good sign.

Finally, profit growth is above 20% period.

So, to conclude, TCS is a really good company for long term but it might go down a little in the next few weeks.

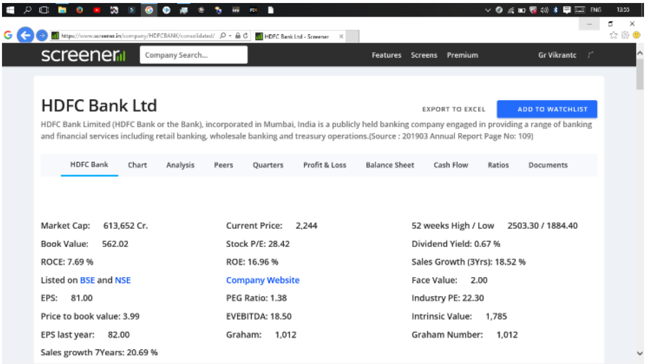
I’d wait and buy it for long term.

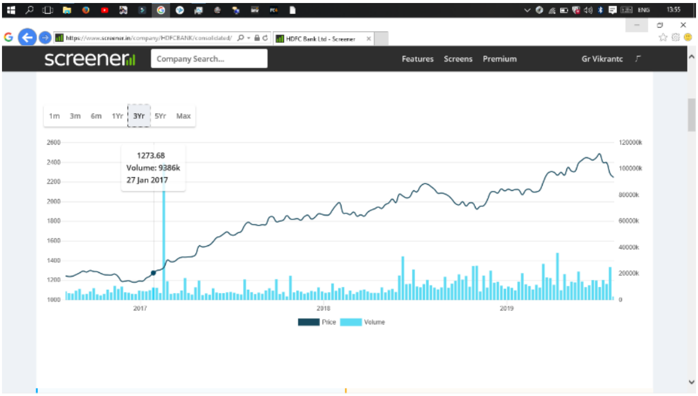
DHFL, on the other side is a slow, debt ridden company. I wouldn’t touch it with a ten-foot pole.

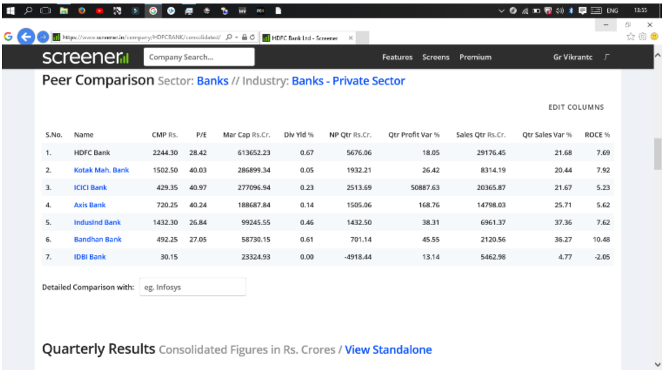
Example 2- Sector comparison.

Let’s compare 2 banks, HDFC and PNB.

HDFC.







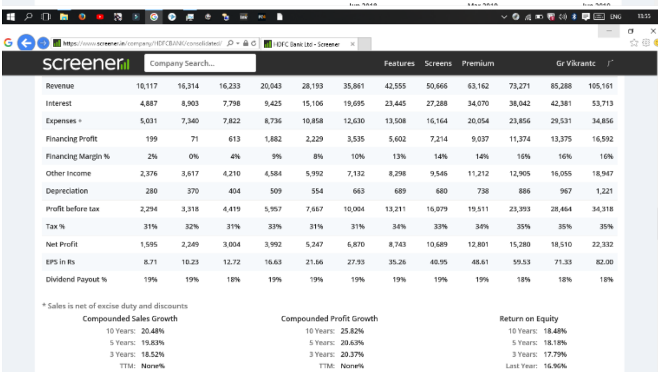
Peer Comparison Sector: Banks // Industry: Banks - Private Sector

EDIT COLUMNS

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	HDFC Bank	2244.30	28.42	613652.23	0.67	5676.06	18.05	29176.45	21.68	7.69
2.	Kotak Mah. Bank	1502.50	40.03	286899.34	0.05	1932.21	26.42	8314.19	20.44	7.92
3.	ICICI Bank	429.35	40.97	277096.94	0.23	2513.69	50887.63	20365.87	21.67	5.23
4.	Axis Bank	720.25	40.24	188687.84	0.14	1505.06	168.76	14798.03	25.71	5.62
5.	IndusInd Bank	1432.30	26.84	99245.55	0.46	1432.50	38.31	6961.37	37.36	7.62
6.	Bandhan Bank	492.25	27.05	58730.15	0.61	701.14	45.55	2120.56	36.27	10.48
7.	IDBI Bank	30.15		23324.93	0.00	-4918.44	13.14	5462.98	4.77	-2.05

Detailed Comparison with: eg. Infosys

Quarterly Results Consolidated Figures in Rs. Crores / View Standalone



Revenue	10,117	16,314	16,233	20,043	28,193	35,861	42,555	50,666	63,162	73,271	85,288	105,161
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Other Income	2,376	3,617	4,210	4,584	5,992	7,132	8,298	9,546	11,212	12,905	16,055	18,947
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Tax %	31%	32%	31%	33%	31%	31%	34%	33%	34%	35%	35%	35%
Net Profit	1,595	2,249	3,004	3,992	5,247	6,870	8,743	10,689	12,801	15,280	18,510	22,332
EPS in Rs	8.71	10.23	12.72	16.63	21.66	27.93	35.26	40.95	48.61	59.53	71.33	82.00
Dividend Payout %	19%	19%	18%	19%	19%	19%	19%	19%	19%	18%	18%	18%

* Sales is net of excise duty and discounts

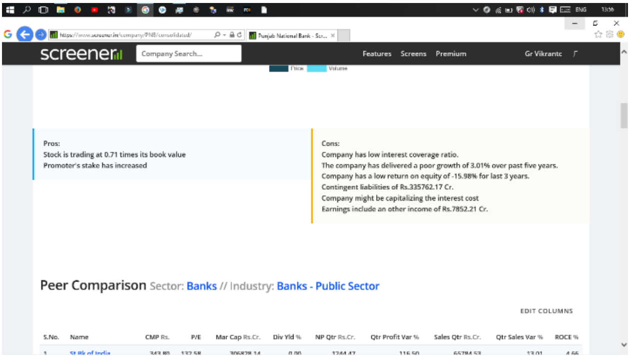
Compounded Sales Growth		Compounded Profit Growth		Return on Equity	
10 Years:	20.48%	10 Years:	25.82%	10 Years:	18.48%
5 Years:	19.83%	5 Years:	20.63%	5 Years:	18.18%
3 Years:	18.52%	3 Years:	20.37%	3 Years:	17.79%
TTM:	None%	TTM:	None%	Last Year:	16.96%

Take a minute and analyse the company on the surface level. Is it a good long term bet

YES. But why?

Huge market cap, great sales and profit growth along with low debt. It is the market leader with fast growing revenues.

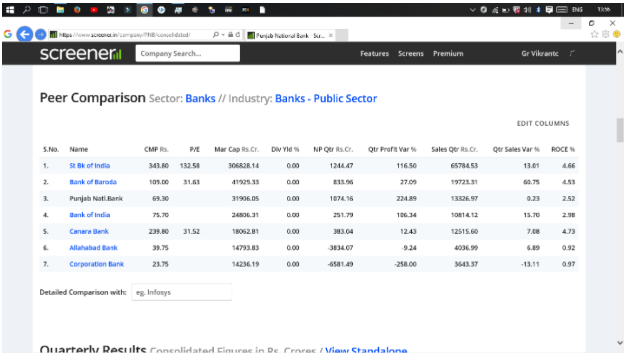
PNB.



Pros:
Stock is trading at 0.71 times its book value
Promoter's stake has increased

Cons:
Company has low interest coverage ratio.
The company has delivered a poor growth of 3.01% over past five years.
Company has a low return on equity of -15.98% for last 3 years.
Contingent liabilities of Rs.335762.17 Cr.
Company might be capitalizing the interest cost
Earnings include an other income of Rs.7852.21 Cr.

Peer Comparison Sector: Banks // Industry: Banks - Public Sector

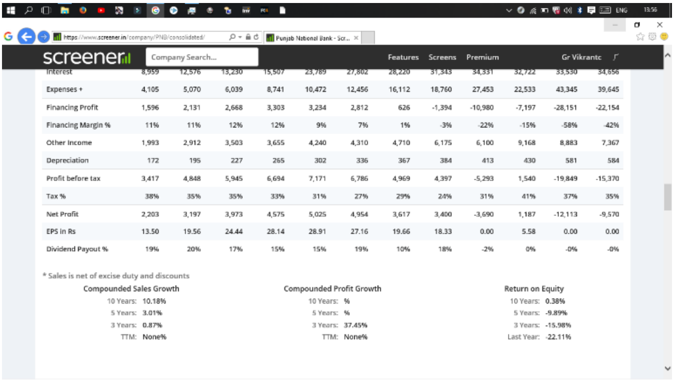


Peer Comparison Sector: Banks // Industry: Banks - Public Sector

EDIT COLUMNS

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	St Bk of India	343.80	132.58	306828.14	0.00	1244.47	116.50	65784.53	13.01	4.66
2.	Bank of Baroda	109.00	31.63	41929.33	0.00	833.96	27.09	19723.31	60.75	4.53
3.	Punjab Natl.Bank	69.30		31906.05	0.00	1074.16	224.89	13326.97	0.23	2.52
4.	Bank of India	75.70		24806.31	0.00	251.79	106.34	10814.12	15.70	2.98
5.	Canara Bank	239.80	31.52	18062.81	0.00	383.04	12.43	12515.60	7.08	4.73
6.	Allahabad Bank	39.75		14793.83	0.00	-3834.07	-9.24	4036.99	6.89	0.92
7.	Corporation Bank	23.75		14236.19	0.00	-6581.49	-258.00	3643.37	-13.11	0.97

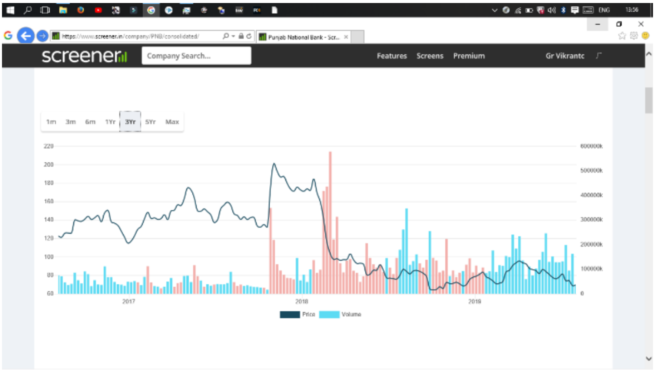
Detailed Comparison with:



Interest	8,959	12,576	13,230	15,507	23,789	27,802	28,220	31,343	34,331	32,722	33,530	34,656
Expenses +	4,105	5,070	6,039	8,741	10,472	12,456	16,112	18,760	27,453	22,533	43,345	39,645
Financing Profit	1,596	2,131	2,668	3,303	3,234	2,812	626	-1,394	-10,980	-7,197	-28,151	-22,154
Financing Margin %	11%	11%	12%	12%	9%	7%	1%	-3%	-22%	-15%	-58%	-42%
Other Income	1,993	2,912	3,503	3,655	4,240	4,310	4,710	6,175	6,100	9,168	8,883	7,367
Depreciation	172	195	227	265	302	336	367	384	413	430	581	584
Profit before tax	3,417	4,848	5,945	6,694	7,171	6,786	4,969	4,397	-5,293	1,540	-19,849	-15,370
Tax %	38%	35%	35%	33%	31%	27%	29%	24%	31%	41%	37%	35%
Net Profit	2,203	3,197	3,973	4,575	5,025	4,954	3,617	3,400	-3,690	1,187	-12,113	-9,570
EPS in Rs	13.50	19.56	24.44	28.14	28.91	27.16	19.66	18.33	0.00	5.58	0.00	0.00
Dividend Payout %	19%	20%	17%	15%	15%	19%	10%	18%	-2%	0%	-0%	-0%

* Sales is net of excise duty and discounts

Compounded Sales Growth		Compounded Profit Growth		Return on Equity	
10 Years:	10.18%	10 Years:	%	10 Years:	0.38%
5 Years:	3.01%	5 Years:	%	5 Years:	-9.89%
3 Years:	0.87%	3 Years:	37.45%	3 Years:	-15.98%
TTM:	None%	TTM:	None%	Last Year:	-22.11%



Is this a good long term stock?

Hell NO.

Why? First comes the 13k crores fraud and the 3800 crores fraud.

Then comes falling stock price with a lot of debt. Negative EPS and poor growth.

Just by analysing on thee surface, PNB is weak long term stock.

Try to analyse stocks on the surface level, if you find a lot of problems or negative points after 5 minutes of research, quit analysing. The stock isn’t worth analysing.

However if you find a decent stock, keep digging. Find out more about it. Analyse deeply.

Nifty P/E and what does it mean?

Just like individual stocks even indices like SENSEX and NIFTY have P/E ratios.

If the P/E ratio of nifty is below 15. If it is 12, 13 or 14, buy everything you can. Such a low pe is a good sign that the market will rise sharply. Store cash and invest when the pe is below 15.

A pe ratio below 15 gives enormous returns of above 30%

If the P/E of Nifty is 15-23 it means it is stable. Neither too low, nor too high.

If the P/E ratio of NIFTY is above 25, sell your shares and cash out. The market will fall sharply. You might experience -30% returns. Keep the cash ready.

However only P/E ratio cannot tell you if the market will fall or not.

You have to look at FIIs, if FIIs are heavily buying stocks, it means that the market might rise. Mutual fund managers and FIIs (foreign institutional investors) drive the stock market.

The best time to invest for long term is after everything crashes and starts to rise. You won’t lose any money.

PART 3:
Technical Analysis

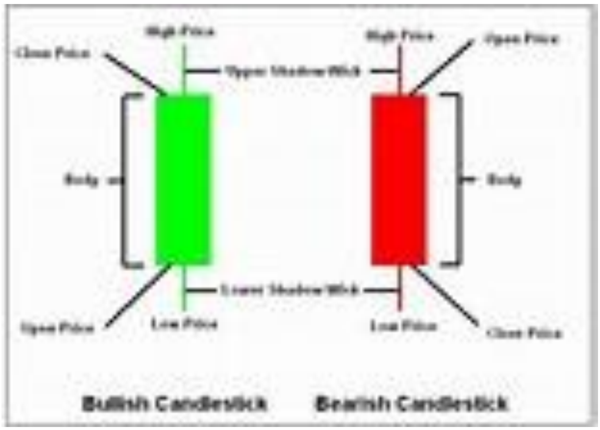
What is technical analysis?

It is a study of charts to analyse the past performance to predict the future performance.

Technical analysis is mainly used by traders rather than investors. Why should a long term investor learn technical analysis?

To predict the future trend. If you analyse the chart you might find out that the stock is about to find a strong support which might help you to buy it at a better price.

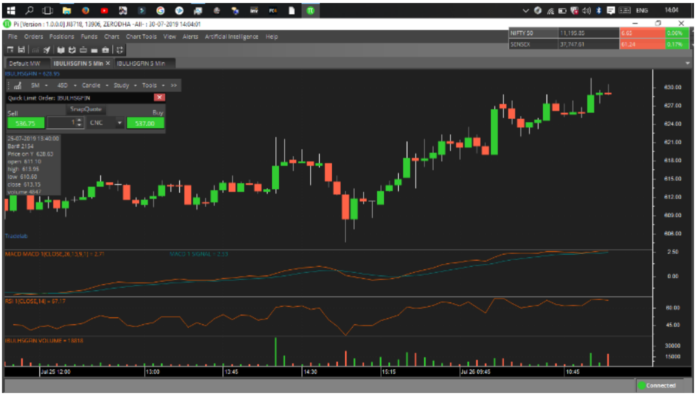
The main rule of technical analysis is that history repeats itself. Learn the basic patterns and indicators and it'll help you make better decisions.



This is a candlestick. It will help you analyse charts. The green candle means that the price has closed above the opening price. Red one means that the price has closed below the opening price.

The tail/ wick tells you the highest and the lowest point in the time frame.

1 candle can represent 1 day or 1 minute or 3, 5, 60 minutes. It tells you the price movement in the time frame.



Together these candle sticks tell you the trend of the stock.

There are only 3 ways a stock can move in-

1. Uptrend. Price going up.
2. Downtrend. Price going down.
3. Sideways. Price staying the same.

Uptrend.

This is an example of an uptrend. Each time the price goes up, it comes back a little down. This phase is called a retracement.

But overall the stock goes up.

Another major component of a chart is trendline.

Trendlines helps you to analyse which way the stock is moving. It is simply drawn above/below the candlesticks touching the wick of the candlesticks. A trendline drawn on both the ends of a candlestick is called a channel.

Eg.

The blue coloured trendlines are called channels. Channels are 2 parallel trendlines.

There might be a primary and a secondary trendline in a chart. The important part is that trendlines are always drawn on the ends of a candlestick.

Downtrend.

The stock is going down in the above picture.

A channel has been drawn through the ends of the candlesticks. This channel helps to analyse the top and bottom of a stock price.

Sideways.

The stock is neither going up nor going down in the above chart. It is simply going a little up, coming back down and vice versa.

This type of movement can lead into breakouts which can be sudden movements .

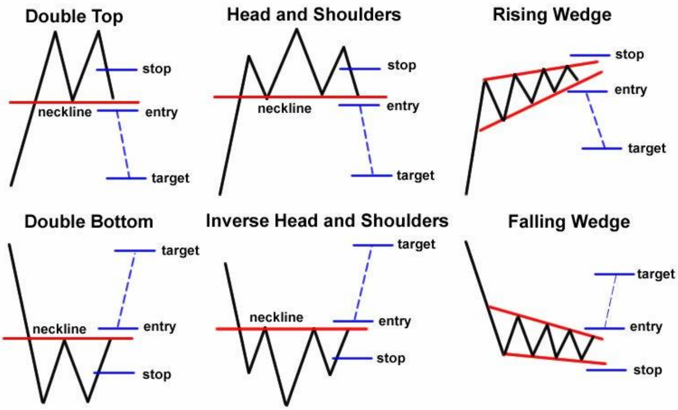
In the above chart you can see that the stock price is unable to go above the black line. That black line is called a resistance level.

Similarly the price refuses to go below the first black line in chart 2. That line is called support.

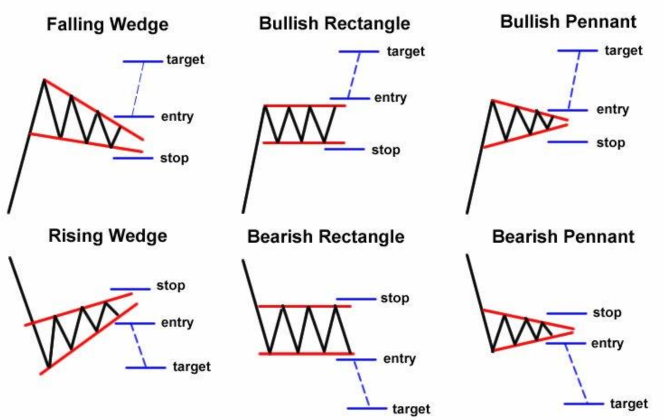
Support and resistance are important parts in trading. These help you find breakouts .

When the stock price overcomes the resistance, the resistance become the new support. Similarly when the stock price goes below the support, it acts as a new resistance. You can see that in the above chart.

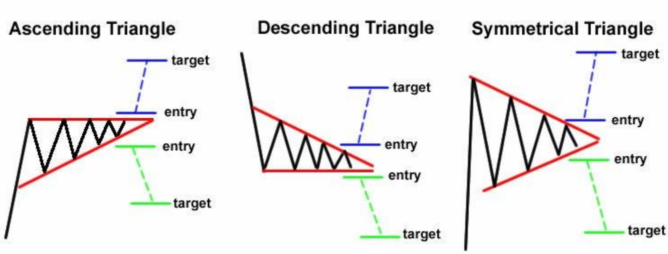
Reversal Patterns



Continuation Patterns



Bilateral Patterns



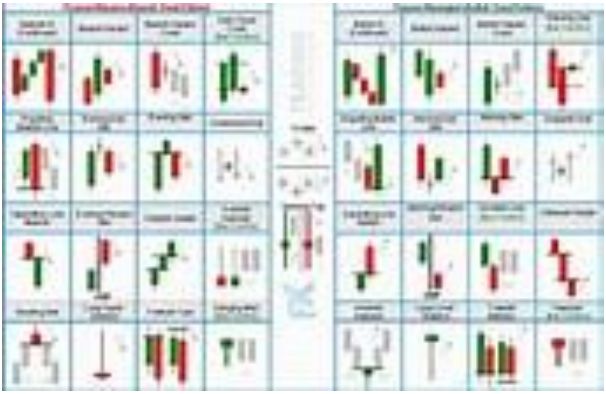
The above picture shows a few candlestick patterns. Trendlines help you find these patterns.

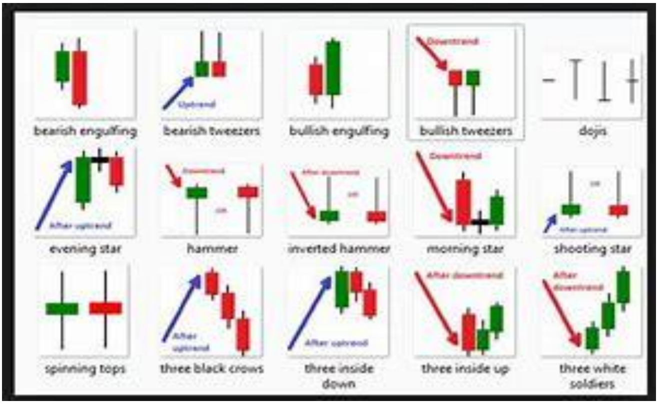
Read and learn each of the above pattern carefully as these can help you find the future movement of the stock.

Example.

The above chart shows a rising wedge causing the price to fall significantly. Analysing this wedge and shorting the stock would have proved rewarding.

Guess the stock pattern in which direction will the stock fall/rise?





Above are some candlestick patterns to pay attention to.

Whenever you see a pattern such as 3 black crows, it is a sign that the stock will fall significantly.

A bullish engulfing pattern with probably result in a rise in the stock price and a bullish engulfing pattern will probably lead into a fall in the stock price.

Technical analysis is about probability that the stock price will follow the trend. It may not be 100%c correct but it works in most of the cases.

News is above all indicators. A bad new can tumble even the best stock.

Types of traders.

1. Position sizers. These guys buy stocks for over a month without the use of leverage. They are long term investors who use fundamental analysis for stock selection. They don’t look at the prices daily and only go long. This does not require a lot of time/attention.

2. Swing traders. These traders buy stocks with a 2-4 week horizon. They mostly trade based on technical analysis or use news for stock selection. They usually use up to 5x leverage. They can also short sell in the FnO segment.

3. Intraday traders. These traders buy and sell the stocks on the same day i.e. they maybe buy a stock at 11.15

am and sell it at 2.20 pm on the same day. They use 10x-15x leverage. This type of trading usually requires a lot of time.

4. Scalpers. These are extreme traders who exit within 120 seconds. Eg- the enter a trade at 10.34 am and exit before 10.36 am. They look for small, consistent gains. They usually use 70-100x leverage.

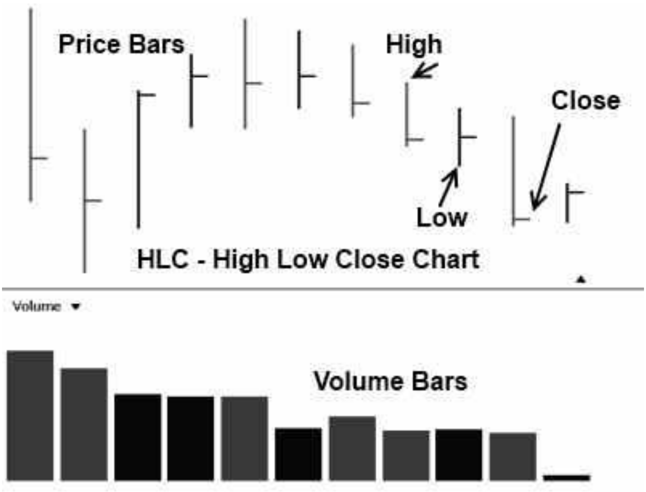
Types of stock charts.

1. Line charts.

These are the most basic charts. Even a kid can read these charts. However these charts don’t provide you with sufficient data.

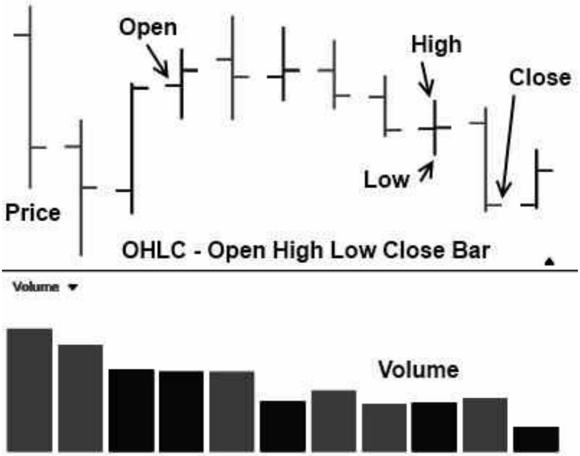
2. High low close charts.

These charts are also commonly used. They show the high, low and the closing price of a particular time period.

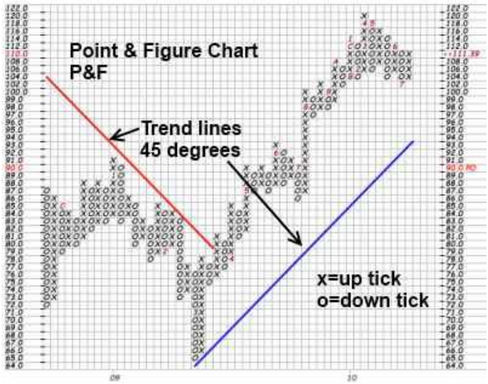


3. OHLC.

It stands for open, high, low and close. These charts show all these things for a particular time frame.



4.Point and figure.
These charts are made up of 0 and x's which indicate a particular movement.

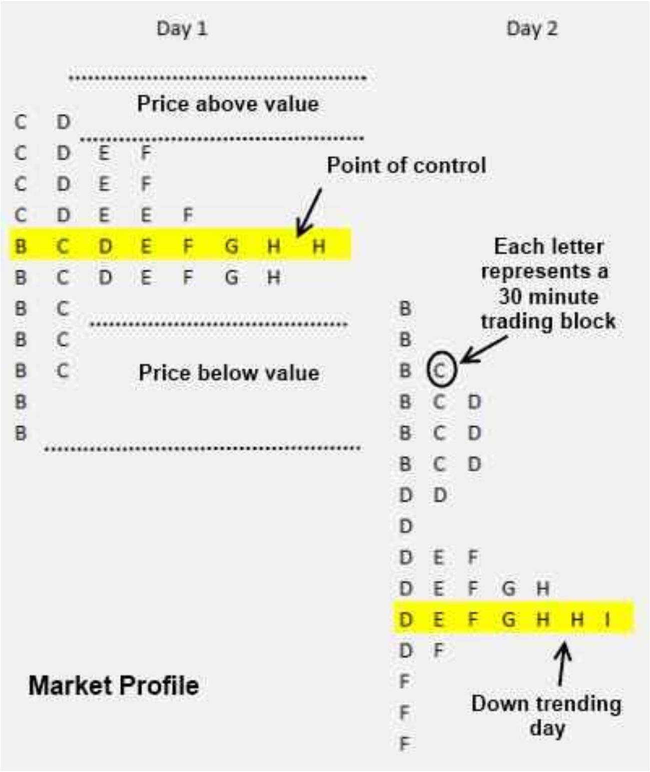


5. Volume at price candlestick.

These charts show the volume at a particular price rather than the conventional volume at a particular time.

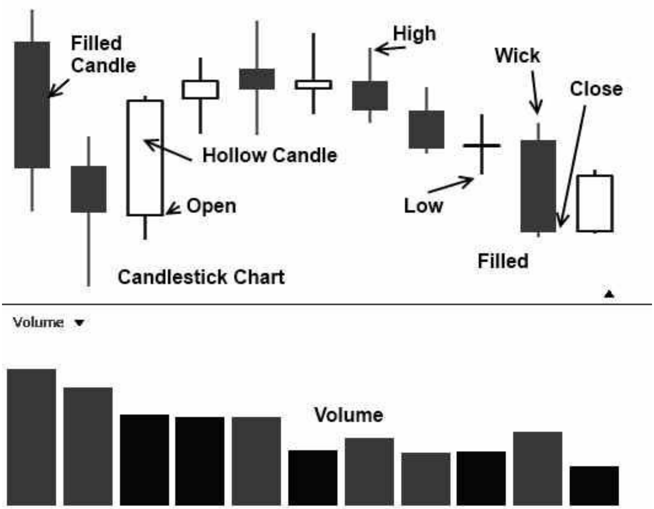
6. Market profiles.

These are not so commonly used charts which seem to be quite difficult to read.



7. Candlestick charts.

These are most commonly used charts which show everything. You only need to learn about these charts.



Technical Indicators.

Technical indicators play a major role in understanding the future price movement of the stock.

Below are some of the most common technical indicators.

1. **MACD**. It stands for moving averages convergence divergence. Sounds complicated, right? Well it isn't. it was the first indicator I learned about.

Formula- 12 EMA- 26 EMA

MACD gives you a hint when to buy/sell the stock. Beware MACD is a lagging indicator.

This is an example of MACD. The crossing of the blue and the red line above the zero line is indication for sell and below it means buy. Use MACD only when there is a huge gap between the zero line and the crossover.

2. **RSI.** It stands for relative strength index. It tells you if the stock is overbought or oversold.

Whenever the waves go above the 70 level it means that the stock is over sold and it is the time to sell it. A wave below 30 indicates an over bought zone indicating you to buy.

3. **Stochastics**. There are 2 kinds, fast and slow stochastics. Stochastics indicator compares the closing price over a time period.

Stochastics above 70 is a sell signal and below 30 is a buy signal. It is similar to RSI therefore both of them can be used together.

Formula-
%k = (C –L14/ H14- L14) X100

4. **Supertrend**. This is a less used indicator which acts as a support or a resistance in a trend. It cannot be used when the stock is going sideways.

5. **Ichimoku cloud system**. It is a Chinese indicator which acts as support, resistance, shows momentum and the trend. It is a difficult indicator.

It is composed of 5 components-

1. Conversion line aka kenkan.
2. Base line aka kijun
3. Leading span A aka senkou A.
4. Leading span B aka senkou B.
5. Lagging span aka chikou.

this is a really difficult and a deep indicator which requires a ton of time and practise to master it.

6. **Moving averages**. They are one of the most important and widely used indicators. There are 2 kinds of Mas.

Simple moving average and exponential moving average. These are legging indicators which act as support and resistance.

7. **Bollinger bands.** These are 3 moving averages which show the price extend of the stock. The middle one is a 20 day SMA and the other 2 act as support and resistance.

8. **ATR.** It stands for average true range. It is used to derive the market volatility.
9. **Williams %R**. this indicator moves from 0 to 100. 20 is overbought and 80 is oversold just like RSI.
10. **Pivot points**. These work on multiple time frames to point out S1, S2, S3 and R1, R2 and R3.

These were just 10 technical indicators but there are over hundred technical indicators. These were just the most widely used one.

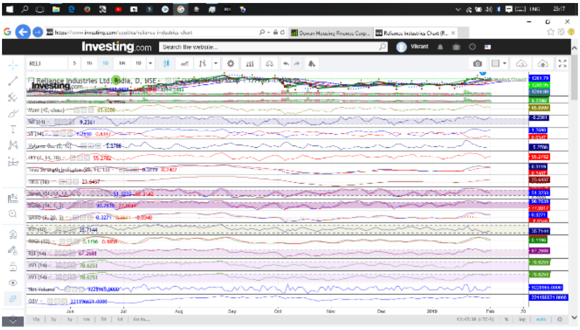
Problems with technical indicators.

The main problems with technical indicators is that they are lagging. They give you signals after the activity. They'll give buy signal after the stock has gone up and sell signal after the stock has crashed.

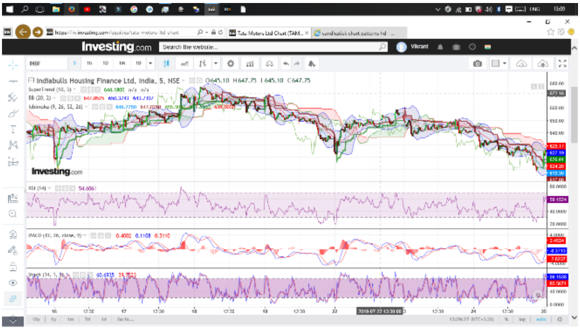
Another point to remember is that news is above all indicators. If there is a bad news published and the indicators give you buy signal, ignore them.

Never overuse them, I've seen people using 5 different indicators, which is really foolish. Try to keep your chart as clean as possible and by the time all indicators give you buy signal, it's already too late. So try to keep a clean chart.

You don’t want your chart to look like this-



Or this-



Technical indicators aren’t supposed to be used independently. You always need to understand the trend, support and resistance.

A combination of technical indicators is always useful.

For example, you 50 day SMA with RSI.

Or use RSI with Bollinger bands

Use ichimoku cloud system alone during any trends.

Bollinger bands strategies.

Bollinger band is one of the most important technical indicator.

What exactly are bollinger bands?

They are 3 simple lines which consist of various moving averages. These lines act as support and resistance.

These pink lines are called bollinger bands.

Formula.

- Middle Band = 20-day simple moving average (SMA)
- Upper Band = 20-day SMA + (20-day standard deviation of price x 2)
- Lower Band = 20-day SMA – (20-day standard deviation of price x 2)

Where SMA = the sum of closing prices over n periods / by n.

No need to remember this shit. Even I've copy-pasted this. The important part is learning strategies.

Strategy 1.

This is the basic strategy. Use the upper bollinger band as resistance and lower one as resistance.

Strategy 2.

Surfing through the bollinger bands. In this strategy you see /detect an uptrend.

Focus how the trend is followed through the upper bands. The middle 50 day SMA acts as support and upper one acts as resistance. Don't go short in this type of scenario.

Strategy 3.

Bollinger band squeeze. Remember the golden rule. Whenever the bands get too narrow a big movement will take place.

These were the only 3 strategies you need to remember. The second one is the most common one.

Bollinger bands depend on 2 things.

1. Time
2. Deviation.

This was just about Bollinger bands. There are many important indicators to learn about. I won’t be discussing them. You can learn the strategies through over detailed books or use YouTube.

Gaps.

Sometimes there is a gap between the stock chart. This mainly occurs after hours when a new trading day begins.

What you need to understand is that the stock almost always fills those gaps. If the gap is in a downtrend, the stock will go up a little and go further down and vice versa.

Technical analysis is a very broad subject. Writing everything about it will require a thousand pages. This is just a beginners book. So if you want to know more about technical analysis you can refer to books such as

1. Technical analysis explained.
2. Technical analysis of the financial markets.
3. How to make money in stocks.
4. The ichimoku cloud system.
5. Trade and become rich.

Common trading mistakes.

1. Going long in a downtrend and going short in an uptrend.
2. Overleverage.
3. Not using stoploss.
4. Lack of patience.
5. Taking too many trades too often.
6. Trading without a system.
7. Counter trading based on an indicator.
8. Booking profits too early.
9. Holding onto losses.
10. Taking 5 trades at once.
11. Lack of research.
12. Not booking profits at the rights.

Position sizing.

It simply refers to the number of shares you need to buy for keeping your capital safe.

Formula-

No. of shares = % of risk per trade x capital /

Risk per share

If the CMP of a stock is 8.60, you have 10k rupees and your risk is generally 1-3%,

Stoploss= 7.90 risk= 1- and target is also .10.

Shares= 1% x 10,000/ .70 = 143

143 x cmp i.e. 860 = 1229

Therefore it'll be ideal for you to buy 1229 shares of that company to minimise risk.

This technique is great in theory but you'll probably avoid using this every time you make a trade.

But always remember to have a proper trading system.

A trading system simply means pre decided entries and exit's. you should decide the triggers and exits before you even execute the trade.

PART 4:
General Tips/Question

There are only 2 ways to maximize your returns.

1. Price
2. Volume.

Your profit depends only on price and volume (capital and time). If you have 10k to invest, you can buy 100 shares worth rupees 100. If the stock moves 10 rupees, you make 1k rupee profit. This may take a day or a month.

But if you used 10x leverage or simply increased your capital, you just need the stock to move 1 rupee to make 1k rupees.

That’s the idea. Invest more for more returns or wait for the price to move.

Dividends.

There are 4 important dates when it comes to dividends.

1. Declaration date. This is the day when the board members announce the dividend.
2. Date of record. On this day the company tracks who all are investors in the company.
3. Ex- dividend date. Most important date, anyone who want dividends must purchase shares 2 days before the date of record.
4. Payable date. The investors receive dividends on this day.

The 52 week low trap.

When I first got into investing, I had no idea what financial ratios and statements were. I had no idea on how to invest or analyse a stock.

So I looked at the 52 week high and low of the stock. If the stock was near the 52 week low, I bought it thinking that the stock is near it's 52 week low, therefore it'll bounce back up.

Similarly if the stock is near the 52 week high, I sold it thinking it will come down.

But I was almost always wrong. The stock near the 52 week low made a new low and the stock near the 52 week high made a new high.

If RCOM was trading at 600 rupees as it’s 52 week low and 800 rupees as it’s 52 week high, would you have bought it?

If you say yes, then you must know that RCOM is currently trading at just 1.5 rupees!

Similarly if MRF was trading at 2800 as 52 week high and 2200 as it’s 52 week low, would you have sold it?

Currently MRF is trading at 59,000.

So there is no relation between the 52 week high and low.

Try to avoid the stock near the 52 week low as there is definitely something wrong with it.

If the trouble is temp like if the CEO quits/ resigns, then the stock might rise up after a few months. But if the company is bankrupt, it won’t rise. Avoid that company.

Price, quantity and quality.

Let’s say that you have 10k to invest. You can either buy 10 shares worth 1k rupees or 100 shares worth 100 rs or 1000 shares worth 10 rupees. What would you do?

Chances are you might buy the cheapest stock thinking that even if the stock goes from 10 to 11 rupees, I make 1000 rupees.

You might think that a 1000 rupee stock is overvalued and doesn’t have chance for growth.

But in most of the cases, the 10 rupee stock will go towards 5 rupees and the 1000 rupees stock might go to 2k.

Don’t expect a 5 rupee stock to go to 6 rupees in a few months. That’s a 20% increase.

Price has nothing to do with your profits. Try to avoid investing in penny stocks as these companies are garbage and can easily be manipulated.

Sometimes a 2 rupee stock can be more expensive than a 2000 rupee stock.

Sometimes not buying is the best decision. Be careful. Buy sure things.

Buying stock below it's intrinsic value.

Intrinsic value is the fair value of the stock. If the fair value of a stock is 500 rupees, try to buy it at 300 and try to sell it over 650.

How do I find out the intrinsic value of a stock?

3 methods-

1. DCF method.
2. DDM method.
3. Graham formula.

The first one is about finding out the discounted cashflow, the second one is about discounted dividend.

In this book we'll only talk about the third one- Graham formula.

This formula was proposed by Benjamin Graham. He is known as the father of value investing and the mentor of Warren Buffett. He is the author of The Intelligent Investor and Security Analysis.

Graham formula is-

i.v. = (EPS (ttm)X (8.5+2G))X 4.4/ Y

Complex? It isn't

EPS stands for earnings per share and ttm means trailing twelve months.

G means the expected growth of the company.

Y means the average annual growth of the AAA corporate bonds over the last 20 years.

This data is readily available except for G. You have to assume that.

If the current market price of a stock is 150 rupees,

Eps is 7.4 and Y is 8.

Sales growth over last 3, 5, 7, and 10 years are 11%, 15%, 13% and 15% let’s assume G as 12.5

So according to the formula, the intrinsic value of the stock is 136 rupees. That means the stock is currently over valued, avoid buying it.

The problem with finding out the intrinsic value.

The one major problem with finding out the i.v. of a stock is that you have to assume values. There is no way you can be 100% correct.

Sometimes due to small change in the assumption, the intrinsic value changes completely.

According to DCF analysis in 2015, the intrinsic value of Yes Bank was 1400 rupees by the end of 2017. But the current price is just 90 rupees!

Common scams/ frauds in the stock market.

This doesn't have much to do with investing but I think that you should know about it.

1. Insider trading. Making trades based on knowledge unavailable to the general public is called insider trading. It is an illegal practice with a fine or/ and jail time. Martha Stwert was charged for such a scam.

2. Manipulation. Some of the biggest players or institutions can easily manipulate the stock price. If they dump a lot of shares and take a massive short position, the stock will automatically fall causing

retail investors to sell it which will lead into further downfall.

3. Fake news. Sometimes a fake news about a stock is circulated causing others to sell/ buy the stock which changes the stock price significantly.

4. Cornering the market.

5. Pump and dump. Another common scam where in a person buys a lot of shares and manipulates the price and cashes out when others buy. The most famous example is ACC stock pumped from 200 to 9000 rupees by Harshad Metha.

Index funds.

If you still aren’t sure if you are capable to invest, you can consider mutual funds or index funds. I personally prefer index funds.

Index funds are the funds that compromise of the index like NIFTY50 and buys companies in the exact weightage.

If HDFC bank has 11% weightage in nifty, the fund will invest 11% of the total capital in HDFC bank and so on.

You’ll get the returns as the market gets, and remember that the market always goes up in the long long run.

An investment of 10k dollars in the S&P500 in the 1950 would be worth 50,000,000 dollars today! Plus, index funds have a very little fee compared to mutual funds.

Even Warren Buffett and Tony Robbins suggest you to invest in index funds.

Even if you know how to invest, I still recommend you putting some money into index funds.

Dollar Cost Averaging. (DCA)

DCA is a common technique to lower the loss faced.

If you had bought 100 shares of Yes Bank at 320 rupees and after 6 months the CMP is 120 rupees, you face a 20k rupees loss. But if you buy another 100 shares at 120, your average price will become 180. You'll have 200 shares at 180 rather than 100 shares at 320. Now you just face a loss of 12k rather than 20k.

Is DCA effective? Yes, it is effective in the long term but only if the stock is fundamentally strong.

Yes bank then fell from 120 to 80 rupees. You can try DCA again but now you'll have to buy 200 shares at 80 to lower your loss. You can buy 500 shares at 80 for lesser loss. But you'll have to put in a lot of capital.

Even after doing that there is no guarantee that Yes Bank will rise. Avoid DCA on weak stocks, you’ll lose more than your capacity.

DCA vs Hedging.

I’ve just explained DCA is the last chapter and hedging in the first part of the book.

What is hedging?

Imagine that you have a front yard where you decide to grow vegetables. A few weeks later there are cows and cattle destroying your beautiful plants. So you decide to build a fence to protect your plants from these animals. That fence is called a hedge.

A hedge minimises your risk by putting you in a no risk no reward situation till you break even.

If you buy 1000 shares of ONGC at 200 rupees per share and there is some bad news about the stock, you can either sell your shares and face a small loss and buy them back after they fall (which will increases brokerage) or you can hold on.

The third way is to hedge your stock. You can create a short position of 1000 shares of ONGC @200 rupees in the FnO segment.

If the stock falls, nothing happens. You have 1000 long shares and 1000 short shares. These balance themselves. When the trouble ends and the stock rises up, you clear you position in the FnO segment and enjoy watching your stock go up.

What should you do- DCA or Hedging?

It depends on the time frame. If your time frame is shorter, go with hedging. But for a longer time period go with DCA. Always remember that these two only work if the stock is fundamentally strong. If you have a shitty stock, you'll only multiply your loss.

Use it carefully.

Diversification.

You might have heard that don’t put all of your eggs in one basket, it is true. Diversification is an important and a difficult part of investing.

What is diversification?

Buying companies of various sectors to balance your portfolio in case of any emergency.

You can consider investing some money into the stock market, some into real estate and some into gold. That’s diversification.

The rule of thumb is invest 100 - your age in equity.

If you’re 30 years old, invest 70% into stocks and 30% into debt funds like bonds.

If you’re 60 years old, invest 40% into stocks and 60% into debt.

There are only two types of investments, equity and debt.

Sector investing. Don’t buy all the companies in the same sector. If you have invested in two companies in the automobile sector, try investing some into telecom or banking.

If something happens to automobile sector, your stocks in the other sectors will be safe.

Avoid over diversification. I’ve seen people buy 100s of companies. I don’t know how they manage to track their investment.

The ideal diversification is buying 8-15 stocks. Below 8 is under diversification and above 15 is over diversification

Mistakes I made while investing.

1. Buying stocks near 52 week low. This was my ONLY criteria for stock selection when I first started. Result? The stock made a new low.

2. Focusing on the price. I only invested in stocks below 100 or 200 rupees thinking I could buy more shares. I was wrong.

3. High debt companies.

4. Low profit /sales growth companies. I didn't know where to look up those numbers.
5. Penny stocks. I have only two words for penny stocks- they suck. That's it.

6. Selling winners too early. Whenever I made a 5% profit I sold all my shares.

7. Holding on to losers. Most of the times the losers never came up.

8. DCA on losers. Dollar Cost Averaging only works on winners.

9. Under diversification. I put all the eggs in one basket without proper research.

10. Over diversification. I bought a few shares of many companies. It was hard to keep track of them.

11. Ratios. I focused too much on ratios that I forgot the main business of the company. The ratios will never be perfect.

12. Listening to tips. Never listen to stock tips. Not even if Warren Buffett tells you so.

13. Lack of patience. I bought companies too early. If I'd waited a week to buy/sell those shares I'd have made 10% more.

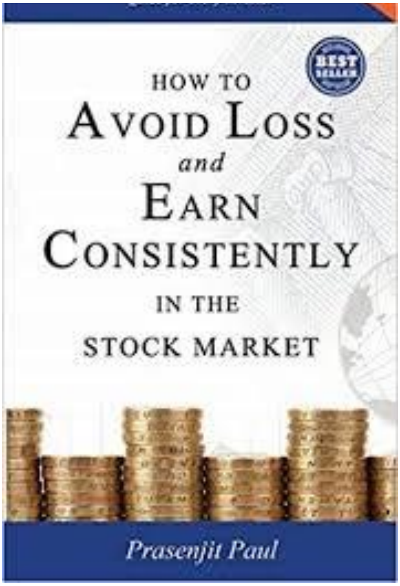
14. Too many transactions. Transactions are a huge cost in the stock market. Buying and selling too frequently adds up over time.

15. Checking prices daily. No need of that unless you're a trader.

Those were some mistakes I made that I can think of. I'm sure there are a lot more mistakes I've made.

There are still a lot of mistakes i still have to make. Keep investing.

How to avoid loss and earn consistently in the stock market?



Read this book. This will be the perfect answer to your question as the name of the book is exactly what you're asking.

Key takeaways from this book-

1. Avoid taking tips from friends, family, websites and even your broker. Do your own research.

2. Avoid trading with borrowed money. One or two huge loses
can wipe out your entire capital.

3. Avoid high debt companies. PEG ratio must be below 1.5.

4. Focus on high growth companies. 15%+ annual sales and profit growth.

5. Focus on management of the company. Promoters pledge must be less.

6. Avoid stocks near 52 week low.

7. Focus on diversification. Don't under/over diversify.

8. Never ever hold on to loss making stocks if you know that the company won’t rise back up.

9. Sell loss making stocks first rather than selling most profitable stocks.

10. Expect “real” returns. Don't expect 20% returns per Month. Be realistic. People are happy with 7% returns on FD but want 20% monthly return on stocks?

How to earn money in a bear market?

There are two ways I can think of to make money in a bear market.

1. **Short selling.** You can only sell short on intraday basis in India. For overnight positions you can short F&O of the company. But short selling has its own risks. You can lose more than 100% of your capital. So be careful. This is a traders approach.

2. An investor's approach would be to liquidate all major positions and stack up cash and wait for the market to fall. Once the dust is settled down and market starts to rise, an investor will buy fundamentally strong companies for 60 cents on the dollar.

Any investor can make money in a bull market, the real challenge is making money in a bear market and beating the index.

If you make 11% returns in a year when the index made just 4%, it’s a good sign. But if you made 20% returns and the index made 32%, you could have just invested in the index.

What is the best way for a college student to make money in the stock market?

Index funds.

Most college students either lack knowledge or money or both in most cases.

Unless you've spent hundreds of hours learning and practising about the stock market, chances are you'll lose money. If you want to make a lot of money through stocks, you have to invest a lot. Most students lack a huge capital.

If you somehow save just 10,000 rupees and put it into index funds and do nothing, after 40 years it'll become 26,78,000 @15% annual returns.

Pretty good, right?

What are index funds? S&P SENSEX and NIFTY50. What you do is you buy all the companies in the index for a low NAV. That's it. There's a very less fee and all you have to do is wait.

Why don't people do that?

1. They have no idea about index funds.
2. They are impatient.

If you put 2000 rupees every month into index funds at 12% return for 40 years, you'll make…

2, 35,29,545 rupees.

Think about it.

What are some of the best books to learn about the stock market?

1. The intelligent investor. Aka The Bible of Investing. Really tough to read.
2. Technical Analysis Explained. Good for beginners and new traders.
3. One up on Wall Street. Easy to read and good for all types of investors. New strategies explained.
4. Beating the street. Not as good as one up on wall street yet good a one.
5. The Dhandho Investor. Low risk high return principles explained.
6. Common stocks and uncommon profits. A really good one.
7. Stocks to riches. Good book to bud up a mindset. Mainly for beginners.
8. Value investing and behavioural finance.
9. How to make money in stocks. Easy to read and effective.

10. How I made over 2 million dollars in the stock market. Amazing to read and relatable.

11. The autobiography of a stock. Easy to read. Mainly for Indians.

12. Everything you need to know about investing. Covers basic principles.

13. How to avoid loss and earn consistently in stock market. Amazing one by an Indian author.

14. Romancing the balance sheet. Teaches you how balance sheets and profit statements are made.

15. Rich dad's guide to investing. Builds a strong mindset.

Is stock market a zero sum game?

What does a zero sum game mean? It is a type of game where in the loss of one person is the profit of another person. There is no win-win situation. There cannot be two winners.

The general stock market is not a zero sum game if you’re a long term investor because in the long run, wealth is created.
But if you’re talking about a short term game in the stock market like Futures and Options, then it is definitely a zero sum game. Somebody wins, somebody loses.

What are some intraday techniques?

1. Moving average as support /resistance. In this strategy you find a trending stock and plot 50 day moving average and use it as support or resistance and go long/short depending on the trend.

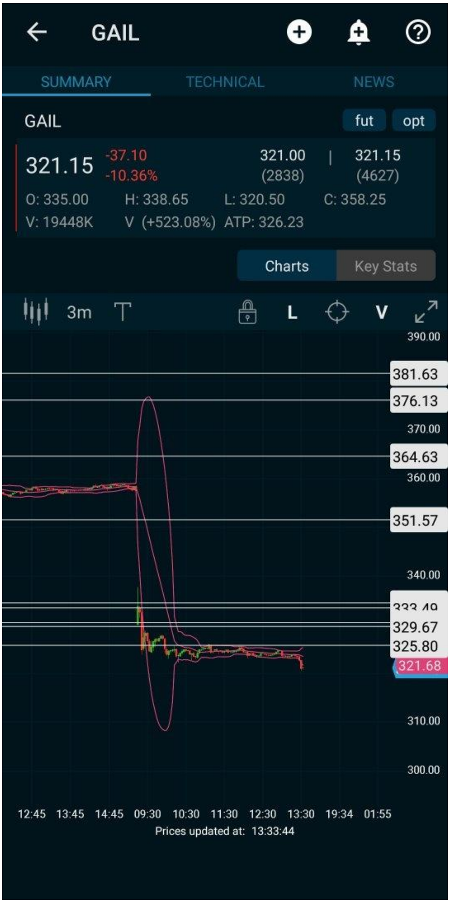
2. Support/resistance. In this strategy you'll identify key support and resistance levels and short when price consolidates after hitting resistance and go long after bouncing off of support.

3. Golden/death cross. You'll plot 2 moving averages like 50 and 250 day moving average and wait for them to cross during a trend.

If the 50 day crosses above the 250 day SMA it's a sign to go long and vice versa. This strategy doesn't always work. Be careful.

4. Breakouts. This is a common strategy when you'll go long as soon as the price goes up through the resistance and it becomes a new support. You'll go short when the support acts as a new resistance.

5. Bollinger bands squeeze. This is a really easy strategy to make a quick buck. Find areas where bollinger bands come really close and act accordingly.



6. News oriented trading. This is something I've recently started learning. You'll collect news regarding a certain stock and go long/short based on the news. If a company reports losses, you'll short it and vice versa.

It might be kind of difficult to act based on news.

7. Trendline based trading. Learn and analyse all of the patterns and act accordingly.

What are the principles of the Dow Theory?

I. The Averages Discount Everything. Every knowable factor that may possibly affect both demand and supply is reflected in the market price.

II. The Market Has Three Trends. According to Dow an uptrend is consistently rising peaks and troughs. And a downtrend is consistently rising lowering peaks and troughs.
Dow believed that laws of action and reaction apply to the markets just as they do to the physical universe, meaning that each significant movement is followed by a certain pullback.

Dow considered a trend to have three parts:

1. Primary (compared to tide, reaching further and further inland until the ultimate point is reached).
2. Secondary (compared to waves and representing corrections in the primary trend, normally retracing between one-third and two-thirds of the previous trend movement and most frequently about half of the previous move)
3. Minor (ripples) (fluctuations in the secondary trend).

III. Major Trends Have Three Phases. Dow mainly paid attention to the primary (major) trends in which he distinguished three phases:

1. Accumulation phase – the most astute investors are entering the market feeling the change in the current market direction.
2. Public participation phase – a majority of technicians begin to join in as the price is rapidly advancing.
3. Distribution phase – a new direction is now commonly recognized and well hiked; economic news are all confirming which all ends up in increasing speculative volume and wide public's participation.

IV. The Averages Must Confirm Each Other.

Dow used to say that unless both Industrial and Rail Averages exceed a previous peak, there is no confirmation of inception or continuation of a bull market. Signals did no have to occur simultaneously, but the quicker one followed another – the stronger the confirmation was.

V. Volume Must Confirm the Trend. Volume increases or diminishes according to whether the price is moving in direction of a trend or in reverse. Dow considered volume a secondary indicator. His buy or sell signals were based on closing prices.

VI. A Trend Is Assumed to Be continuous Until Definite Signals of Its Reversal. The overall technical approach in market analysis is based upon the idea that trends continue in motion until there is an external force causing it to change its direction - just like any other physical objects. And of course there are reversal signals to be looking for. (You don't need to learn this. It's all copy pasted.)

What are some financial tips for a 21 year old?

1. Save money. Enjoy your life but save at least 10% of your paycheck.

2. Learn how to invest. This isn't something we learn in schools.

3. Learn it through outside sources.

4. Invest. Invest the money you've saved only after you learn how to invest.

5. Diversify. Don't put all your eggs in one basket. I always hated this advice but it's true for most of us.
6. Take risks. Avoid gold and bonds. Try equity. Even if the market goes down, it'll eventually come up.

7. Index funds. Invest some portion on index funds. I personally prefer index funds over mutual funds.

8. Read books. Read books like the intelligent investor, the lean startup, good to great. Read finance books.

9. Try to start a side gig. If you have time at night try to do something to earn more online. Try freelancing or content creation.

10. Understand leverage. I've said it before and I'm saying it again, leverage is powerful. Use leverage to make more money or gain more power.

11. Avoid debt. There's something as good debt and bad debt. Do you really need a 50k rupees phone while you earn 35k/month?

How do I invest money in the stock market?

Step #1. Learn about stock market. We spend 4 years studying engineering and another 2 years to master it but we expect to make profits in the stock market from day 1. That's not possible.

Learn technical and fundamental analysis. Learn how to read balance sheets and analyse financial statements. Learn the key financial ratios and technical indicators.

Watch videos on YouTube and read articles on Investopedia.com

Read books. The perfect book for you is Dollars on Cents (my book). It'll teach you everything you need to know.

Step #2. Demo trading/investing.

Open a demo account on sites like money control or apps like stock trainer. Get a basic idea of the market. Check stock prices and trends. Look for news articles about various stocks or industries. Do this for a month.

Step #3. Open a demat account.

You can either open a 3 in 1 account (high brokerage) or a trading and demat account. There are a ton of videos on YouTube about it. Have all the necessary documents ready. This process can take 2-4 weeks depending on your speed and efficiency.

Step #4. Allocate funds in the demat account. When you first start investing /trading, allocate only a little money. Don't go all in. Learn how to operate the account and use little money for the next 1-6 months.

You'll soon get the idea. Buy some shares, analyse companies and hold ‘em. Look at your portfolio after 6 months.

Step #5. Analyse your mistakes. You'll have lost about 50% after 6 months. Write down all the mistakes you've made and what can you do to avoid them.

Step #6. Learn more. When you practically invest your money, you understand better. You'll be more cautious and learn deeply. Reread old concepts and learn more.

Step #7. Diversify. Don't put all your eggs in one basket. Diversify your portfolio. Invest in various sectors and about 8-15 companies.

Step #8. Improve.

There are over 5000 companies listed. How do I know which company to invest in?

I'll give you a quick 5 minute way to find amazing companies.

Step #1 Go to screener.com

Step#2. Write a query.

A query is simply a list of characteristics you want in your company like-

1. ROE 20%+
2. Debt- equity ratio should be less than 1.
3. Market cap should be above 1000 crores.
4. CAGR 12%+

And so on. Write a list of all the things you want in your company (don't be too specific) and the website will show you all the companies which meet your criteria. There will only be 50-100 companies in this criteria.

This will make your job a lot easier. Choose the best companies from the 50-100 shown companies. You'll save a ton of time.

What are the top three things we should do or should not do when the Bear market hits?

Things to avoid in a bear market-

1. Selling everything just to buy them back at a lower price. This might sound good in theory but in practical life, you gotta pay commission in those trades which will add up to a lot. (you can consider hedging if you are confident).

2. Selling winners first. Whenever you have to sell something from your portfolio, sell top losers. Sell the stocks on which you've lost 60%. Chances are you won't break even anytime soon. Avoid selling your top performing stocks. (unless they're highly overvalued.)

3. Try to time the market. You can get lucky once or twice in trying to time the market but it's not possible over the long run. There's no way to tell that “this” is the rock bottom. Avoid buying anything and only buy once the market rise up.

Things to do during a bear market-

1. Staying away. Don't buy anything when prices are slipping. Even if it's a fundamentally strong company. Chances are it'll tank due to the market sentiment.

2. Short selling. This point is only valid for traders. Avoid going long. Shorting will help you make quick money. Most stock prices are going down, so no matter what you pick you'll make money. But always place a stoploss. Shorting has unlimited loss. A stoploss is compulsory.

3. Keep your cash ready. Sell your stuff if necessary. Every bear market gives a strong bull market and vice versa. Have ample of cash so that when the bear phase ends, you'll have money to buy dollars on pennies.

That's it. I don't think there's much you can do during a bear market. Sit back and enjoy while accumulating money on the side for the bull phase.

What is the single most effective piece of financial advice you've ever received?

Invest early.

Imagine investing 2k rupees per month the age of 15 for the next 50 years at 13% annual return through index funds, it'll become 12 crore rupees by the time you're 65. Pretty good, right?

Now that's a good sum even after inflation.

If you invest 2k per month at the age of 25, at 13% returns per year, around 3.3 crores which is much less.

If you invest 5k a month for 40 years it'll be 5.8 crores but if you invest the same amount for 50 years, it'll be 19.5 crores which is almost 4x more.

The last 10 years made all the difference.

What will happen to a SIP of 5k for 100 years? It'll become 7,600 crores! You'll basically become a billionaire!

Now you might not be around to enjoy that but you get the idea. 5k after 50 years will be 19 crores but in the next 50 years, it'll become over a billion dollars.

That's the power of compounding. Now even if you know nothing about investing, you can invest in index funds and expect 12% returns. That's a no brainer. Time plays a very important role in investing.

The earlier you start, the better.

Should kids/ students invest in the stock market?

Hell yeah!

I started investing when I was in 9th grade. Since then I've learned a lot.

If you wanna invest to make money to buy “stuff”, forget it. You won't make enough. Maybe you'll be able to buy a chocolate nothing more.

Invest to learn in the initial stages. Don't ask your parents for a lot of money. You'll lose it I guarantee you that.

Start with as little as 2-10k. Invest that first. Learn and improve. Track your investments. Soon you'll realise it isn't easy. It's tough work. You'll realise how much you still have to learn.

Learn and improve. Try to stay green. Chances are you won't.

Investing in school gives you an insight into the financial world and sometimes helps you in math or economics. Not much just a little. You'll soon be “that” kid. It's awesome to be “that” kid.

Money rules the world. The sooner you accept it and learn to play with it, the better.

Only invest some money at the beginning. Be ready to lose it all. If you wanna invest heavily, earn it. Don't borrow it. NEVER. BORROW MONEY TO TRADE/INVEST in the beginning. Once you're a pro, you can leverage money.

Difficulties -

1. Lack of knowledge. You won't know anything. It's hard to start. You don't know about how to buy/sell. What is a demat account.

2. Time. You'll not have much time to invest. You'll have to track the market after hours.

3. Studies. It probably won't hamper your studies. I traded heavily in 10th grade yet I scored pretty good.

4. Stress. You'll learn about risk management and stress. Don't take it too seriously.

5. Money. Your parents may be reluctant to give you money to invest. My idea is that don't buy anything for your birthday rather open a demat account and use the money required for the gift to buy shares. It's a tough decision.

Learning about money and investments in school will give you a huge edge. It's the edge that matters.

Why do people invest in penny stocks?

Low price syndrome.

Many new (and some experienced) investors go into penny stocks only because of their low price.

They think “HDFC stock is 2000 rupees. In 4k I can buy only 2 shares. But Suzlon stock is 4 rupees. I can buy 1000 shares.”

If the price goes from 4 rupees to 5 rupees, they make a 1000 rupee profit. They think that HDFC stock can't go 500 up.

But going from 4 to 5 rupees is a 20% rise. This is rarely possible in penny stocks. But 20% hike is possible in fundamentally strong stocks.

Sometimes people think

low price =under valued and

high price =over valued.

Quantity is the major reason for buying penny stocks. You can buy a lot of shares with less capital. But penny stocks suck. They are garbage most of the times.

Invest only in fundamentally strong stocks. Penny stocks have low volume and they can be easily manipulated.

Choose quality over quantity.

What are some of the fastest growing sectors?

1. FMCG. The demand for everyday products will not decrease any time soon. Companies like HUL, ITC, Dabur are expected to have high growth.

2. Automobile. The demand for electric cars will either increase a lot or companies like OLA and Uber will reduce the demand.

3. Health care. In a country of over 1.3 billion people this industry has a huge scope.

4. IT. This sector isn't maxed out yet. There's a lot of things yet to explore /invent.

5. Finance. This is an evergreen sector. Banks hardly close.

6. Virtual reality/AI. This is also a part of IT. But these industries will grow much faster than other IT industries.

7. Food. Even 50 years from now people will require food for survival. New population will increase the demand.

8. Housing. More people =more houses=more demand= growth.
9. Media & Entertainment. People will be interested in movies and stuff 50 years from now.

10. Ecom. More and more stuff would be available online. Things we couldn't imagine would be for sale online. Not just good but services too.

These are just the sectors I think will have high growth. I may be wrong and some other new sectors might growth much faster.

What do I do after losing 90% of my trading capital?

To break even a 90% loss you have to make a 900% profit! It's almost impossible to recover from this loss.

Reasons for loses-

1. No stoploss.
2. Trading based on advice from others. Or following your instincts rather than logic.
3. Over leverage.
4. Hit the wrong stock (it happens).
5. Not knowing the basics (technical analysis).

And a hundred other reasons.

What should you do?

Start with a small amount which you can afford to lose. Maybe it's 2000 or 5k or 10k. Next up learn the basics. If you already know the basics, learn again. Read books and watch videos.

Now you know the theory. Start trading. Mention all of your deals in a book. Time of the trade, price, reason of buying, etc.

Analyse the trades after a week and find the common problem. Next up try to avoid these problems.

Do this for 6-12 months and if you're still making a loss even after trading with patience and discipline, trading is not your cup of tea.

What is the most common scam new investors fall into?

Stock tips.

Let us assume that you've opened a new demat account. You get messages like 99. 99% accurate stock tips. Try 4 day free trial. You are new. You decide to give your email address as it is free.

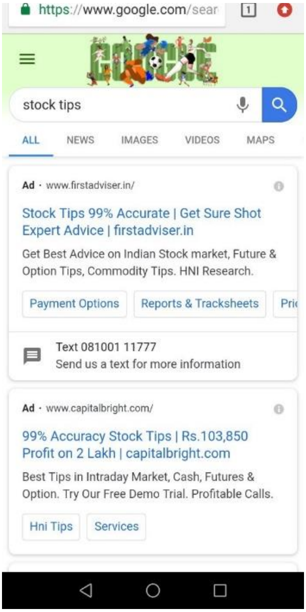
Day 1. You get a tip that Infosys (random example) will go up. It actually goes up.

Day 2. You get a tip that Infosys will go up again. Again it does.

Day 3. Infosys will go down. It actually goes down.

Day 4. It will go up. It happens. Now you're shocked. You realise that this isn't just a coincidence.

You subscribe to a membership. 20k rupees for 6 months and 30k for 1yr. You buy it.



Now how did it happen?

The company gives free tips to 5000 people. It divides the group into 2 parts.

It tells 2500 people that stock will go up and other half that stock will go down. Now there are only 2 possibilities. Either the stock will go up or down.

Stock goes up. Now the 2500 people are divided into 2 groups. 1250 in each group. Again the same advice is given.

Finally on day 4, 312 people are left. They get a correct advice for 4 consecutive days.

Out of 312 people let's assume that 50% are impressed and buy 1 yr membership. 30k x 156.

The company makes 30lacs for a year for doing nothing.

Day 5. The tip is random. It may not work today. The company already has your money.

This is a very common scam that new investors fall into.

Is it legal? I don't know. Maybe it is maybe it isn't.

Sometimes the company sends you a text with a number similar to your broker.

But one thing is for sure. Never take stock tips. Not even from your friends/family. Do your own god damn research.

What kind of stocks should I avoid?

1. High debt stocks. The debt should go down every year and the debt to equity ratio should always be less than one.

2. Illiquid stocks. Avoid stocks whose traded value is just 100 per day. It's hard to sell them without fluctuations.

3. Penny stocks. Unless you're a pro avoid penny stocks. They have very little background and there's a reason why they are so cheap. Strictly avoid it if you're not a pro.

4. Crashing stock. Just because a stock is at it's 52 week low doesn't mean it will go up. Find a fundamentally strong stock and buy it after it is trading lower than its intrinsic value.

5. Low growth/profit stocks. The numbers should at least be double digits.

And many more. You gotta analyse the management and moat of a company which is a tough job. You also need to analyse financial ratios like EV/EBIDA, P/E, EPS etc. But the above 5 principles matter the most.

There are two stocks (both belonging to the same sector), one with P/E ratio 25 and the other with P/E ratio 40. Which stock should I invest in, considering other factors to be the same?

Lets consider the two companies as

Tata Motors and Ashok leyland. Just for comparison purpose.

Lets start with P/E ratio. The lower the P/E ratio the better the stock is. That's simple logic. But this is not enough. As a real investor you need to consider the intangibles. The moat and other stuff.

Lets say that the P/E ratio of Tata Motors is 25. Logically you should buy it if all the other financials are the same. But when you dig deeper you find the moat. Ashok Leyland is the leading manufacturer of buses and trucks. Even the Indian Govt. gives Ashok leyland orders. Tata motors on the other hand, its main income comes from JLR. So what do you think will outperform?

You also need to see the range of the stock. Is it near the 52 week low or high? What is its intrinsic value? How is the management of the company?

There are a lot of intangibles which you need to consider. Just the P/E ratio won't help. So dig deeper and find the better deal. Some companies are great. But their P/E ratio is high. Like MRF had a P/E ratio of about 60. The stock is now trading at 60k level. So do your own research..

What are the 7 habits of highly successful traders?

According to me (in no particular order)

1. They use stop loss
2. They don't get greedy and overtrade.
3. They always use a strategy.
4. They don't trade just to trade. They bet on sure things.
5. They don't try catching a falling knife (stock going down.)
6. They don't over leverage.
7. They don't hold on to their losses.

A final note.

We’ve now come to an end, you now know the basics of fundamental and technical analysis.

You’ve learnt the basic terms and financial ratios, you’ve also learned about technical indicators and the general tips.

But this doesn’t mean that you’re ready to invest/trade. You’ve just learnt the basics, there is still a lot more to learn. You may know about the indicators but there are still tons of strategies you don’t know about.

I recommend you to take a little time everyday and learn more about the stock market or money. Open a demat account if you don’t have one and start investing with a small amount.

Start following the news and check the stock prices. Use what you’ve learned in the book and improvise. Don’t expect to hit big from the start but once you master these important skills, you’ll definitely make money.

My advice to you is just start. Even if you don’t know anything. Just start. Pick up the next book on stock market. Watch YouTube videos or watch channels like CNN, CNBC or MSNBC. Use Google to learn more. The best way to learn something is to start.

Also you must follow the basic rule of investing/trading which is, “always protect your capital”. Remember the to overcome a 50% loss you must make a 100% profit. Play safe and be patient.

Rome wasn’t built in a day but Hiroshima was destroyed in less than a day. Don’t throw darts on the board, Always bet on “sure things” as Gordon Gekko says in the movie Wall Street (you’ll soon realise that there are no “sure things” in the market).

“Only a sucker bets on things he doesn’t know the end result of.”

-Vikrant C.

Thank You,

Vikrant C.

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