SAMPATTI

THE FINANCIAL LITERACY GAZETTE

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SAMPATTI

In the words of Benjamin Franklin- **“An investment in knowledge pays the best interest”**, and what would be a better subject than finance?

Unfortunately, only 24% of the Indian population is financially literate. In comparison to other major emerging economies, the financial literacy rate of our country is the lowest. Thus, financial literacy is the need of the hour for a brighter, more aware and more prosperous India. However, “How do I become financially literate?”, is what you may ask and the best answer to it is 'Sampatti!' At Sampatti apart from spreading knowledge about the complex concepts of finance, we also aim to discuss the basic concepts in detail, that a large part of the population is not completely aware of.

For instance- you might think that you know everything about insurance but really, do you? We will cover all the various nuances of even such common and general topics, so that you are no longer oblivious to anything. We will move from simple to complex, providing you a holistic approach to the realm of finance, easily understandable by every age group. This is also what makes us unique from our fellow counterparts. Moreover our gazette will consist of an article on the basics of stock market and investment in all its editions, in continuation to the previous one. This would allow you to gradually go through all topics in this vast concept, at your own pace and become the very best in it.
We hope, that through this endeavor we can assist you widen your horizon of knowledge and skills, and help you excel in the field of finance. Looking forward to a strong association with you, hereon.

Stay safe, stay healthy and fight back!
Team Sampatti

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WHAT IS FINANCIAL LITERACY?

Financial literacy is the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing. Financial literacy is the foundation of your relationship with money, and it is a life-long journey of learning. The earlier you start, the better off you will be, because education is the key to success when it comes to money.

COMPONENTS OF FINANCIAL LITERACY

1.Earn: Understanding your paycheck- Before spending, saving, and investing, you need to know how much money you make. If you make the same amount each month, this part is pretty easy. Take a good look at your paycheck to identify your gross and net income, and note any other deductions, such as employer-sponsored health insurance or a retirement plan.

2.Spend: Creating a personal budget- A personal budget is just a plan for how you want to spend your money, but it's also the most useful tool for achieving your financial goals. To create a monthly personal budget, you'll need to track your spending over the course of one month, and then break everything down into categories.

3.Save: Determining your financial goals- It's important to save money, but it's hard to spend less than you earn without specific financial goals to work towards. Your financial goals will depend on your unique situation, but should include:

- Saving for an emergency fund.
- Planning for retirement
- Saving for a big purchase (buying a car house or paying for educational institutes)
- Paying off personal debts- Paying off loans on time (or ahead of schedule) can save you thousands of rupeesin interest.

4.Borrow: Credit cards, loans, and your credit score- At some point, you may have to borrow money to cover a large expense like a home or car, among others. Borrowing isn't necessarily a bad thing—as long as you know how to compare loans and maintain a healthy credit score.

APR (Annual Percentage Rate) is the key to comparing loans and credit cards. APR takes into account both the interest rate and fees to give you a more accurate idea of how much interest you'll pay each year.. A low APR means you'll pay less interest over time, but how do you get one?

In general, the higher your credit score, the less interest you'll be charged. Thus, if you've had financial difficulties in the past, you can get stuck in a vicious cycle where all of your money goes to paying off interest. That's why building healthy credit is one of the most important steps to becoming financially literate.

A credit score in India ranges between 300-900. You should always take measure to bring your credit score **closer to 900**. A higher credit score increases your chances of getting a good deal on loans as well as credit cards.

Keeping a balance on your credit card is one of the easiest ways to rack up debt, but choosing the right credit card and using it responsibly can actually help you improve your credit score. The following link will provide you further information about the relationship between your credit cards and credit scores:
https://www.paisabazaar.com/credit-card/how-credit-cards-affect-credit-score/#:~:text=The%20balances%20you%20carry%20on,be%20affected%20in%20this%20case.

5.Protect: Preventing fraud and buying insurance- Once you've set yourself up with a solid budget and investment strategy, it's important to protect the money that you've made. This means regularly reviewing your bank accounts and credit card statements for mistakes or suspicious activity; keeping documents and passwords secure to prevent scams and identity theft; and buying the right kind of insurance to protect yourself in the event of an emergency.

INSURANCE

Writer- Ahaan Bhandari

Life is full of uncertainties. The chances of occurrence of an event causing losses are quite unpredictable. Thus, insurance becomes a valuable part of our life. In this article, we will discuss everything that you need to know about insurance so that you are always prepared .

MEANING OF INSURANCE

Insurance is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pool client's risks to make payments more affordable for the insured. It is the most effective risk management tool which can protect individuals and businesses from financial risks arising out of various contingencies. The emotional and psychological loss can never be compensated, but at least the financial loss can be compensated with insurance. Though there are uncertainties in life which you cannot mitigate, but insurance will surely help you transfer the financial risk associated with the same.

INSURANCE POLICY COMPONENTS AND TERMINOLOGIES

Policy Limit- The maximum amount that an insurer pays under a policy for a covered loss. Maximums may be set per period (e.g., annual or policy term), per loss or injury, or over the life of the policy, also known as the lifetime maximum.

Insurer- The organization providing financial coverage and protection to anyone with the policy.

Insured- The person or organization being insured/assured

Indemnify- To restore the one who suffers a loss, in whole or in part, by payment, repair or replacement to the same condition they were in prior to the loss.

Premium- A policy's premium is its price, or the payments made to the insurer for the insurance services provided.

Market value- The fair price of something that can be sold in its current condition.

HOW DOES INSURANCE WORK?

Insurance involves 'risk pooling'. When you buy any insurance policy, for a specified period with specific cover, you will make regular payments (referred to as premiums) towards the policy. Similarly, the Insurance Company collects premium from all its clients (i.e. insured) and pools the money collected, to pay for losses arising out of an insured event, for all of them. If you don't make a claim during the specified policy period, no benefits will be paid to you. However, there are various products offered by insurance companies which also involve savings element attached to them.

Deductible- A specific amount the policy-holder must pay before the insurer pays a claim. Deductibles serve as deterrents to large volumes of small and insignificant claims.

Surrender value- The amount payable to a person who surrenders a life insurance policy.

Maturity value- The amount payable to an investor at the end of a holding period.

GOLDEN PRINCIPLES OF INSURANCE

The Principle of Utmost Good Faith

Both parties involved in an insurance contract—the insured (policy holder) and the insurer (the company)—should act in good faith towards each other. Both parties must disclose relevant information with each other, including such that would affect the amount of premium to be paid.

The Principle of Insurable Interest

The subject matter of the contract must provide some financial gain by existing for the insured (or policyholder) and would lead to a financial loss if damaged, destroyed, stolen, or lost. The insured must have a genuine interest in protecting the subject matter.

The Principle of Indemnity

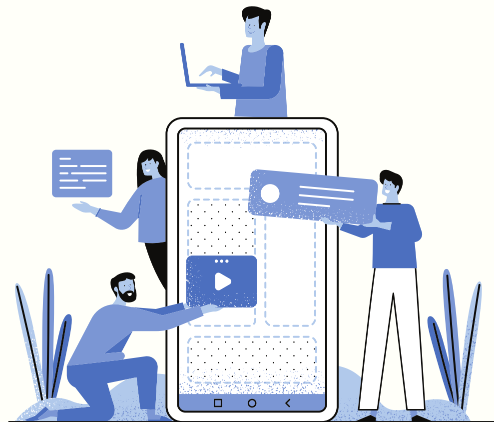
Indemnity is a guarantee to restore the insured to the position he/she was in before the uncertain incident that caused a loss for the insured. The insurer (provider) compensates the insured (policyholder). Compensation is provided of an amount not greater than loss.

The Principle of Subrogation

Subrogation is substituting one creditor (the insurance company) for another (another insurance company representing the person responsible for the loss). After the insured (policyholder) has been compensated for the incurred loss on a piece of property that was insured, the rights of ownership of this property go to the insurer so that the insured person cannot make profits off the subject matter of insurance.

The Principle of Contribution

Contribution establishes a corollary among all the insurance contracts involved in an incident or with the same subject. It allows for the insured to claim indemnity to the extent of actual loss from all the insurance contracts involved in the claim.

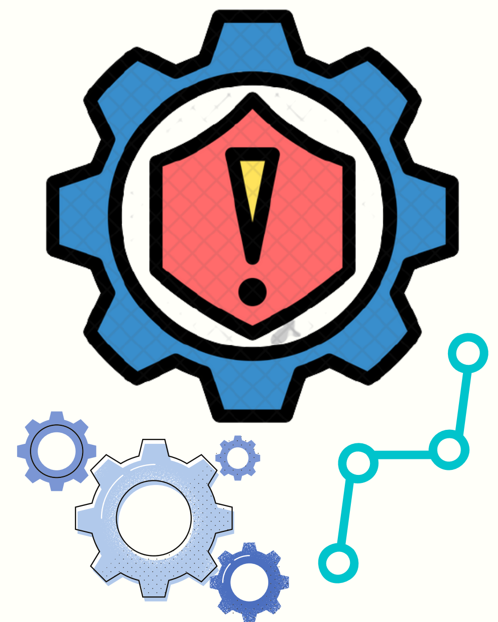


The Principle of Proximate Cause

The loss of insured property can be caused by more than one incident even in succession to each other. Property may be insured against some but not all causes of loss. When a property is not insured against all causes, the nearest cause is to be found out. If the proximate cause is one in which the property is insured against, then the insurer must pay compensation. If it is not a cause the property is insured against, then the insurer doesn't have to pay.

The Principle of Mitigation

This is our final principle that creates an insurance contract. In an uncertain event, it is the insured's responsibility to take all precautions to minimize the loss on the insured property.



TYPES OF INSURANCE

There are a number of insurance policies that can be taken, broadly, there are two major ones, namely Life Insurance and General Insurance.

Life Insurance

Life Insurance acts as financial protection for your family in case of your death or a payment made to you on surviving the policy term. In return for this payment, you make periodic fixed payments to the life insurance company. In certain types of policies, there is the option to get critical illness benefits or create additional protection for your family if you pass away from an accident.

WHY DO I NEED LIFE INSURANCE?

Illness Protection: As you head towards retirement, life insurance policies that cover critical illnesses become important. Some life insurance policies offer features that cover you from severe ailments like heart attacks and cancer. These types of policies can protect you from some of the world's most deadly diseases.

Family Support: If you have a spouse and kids, building a safety net for them becomes important. You would want to protect them from financial hardship in case of your untimely demise. You can also get good returns with life insurance by investing in some policies.

Savings Growth: In your early years of working, some life insurance plans can be a useful way to save and invest your money. Unit Linked Life Insurance Policies allow you to invest in equity and debt markets. Under current tax laws (which are subject to future amendment), you also get tax benefits for investment in life insurance policies and on the maturity amounts of such policies.

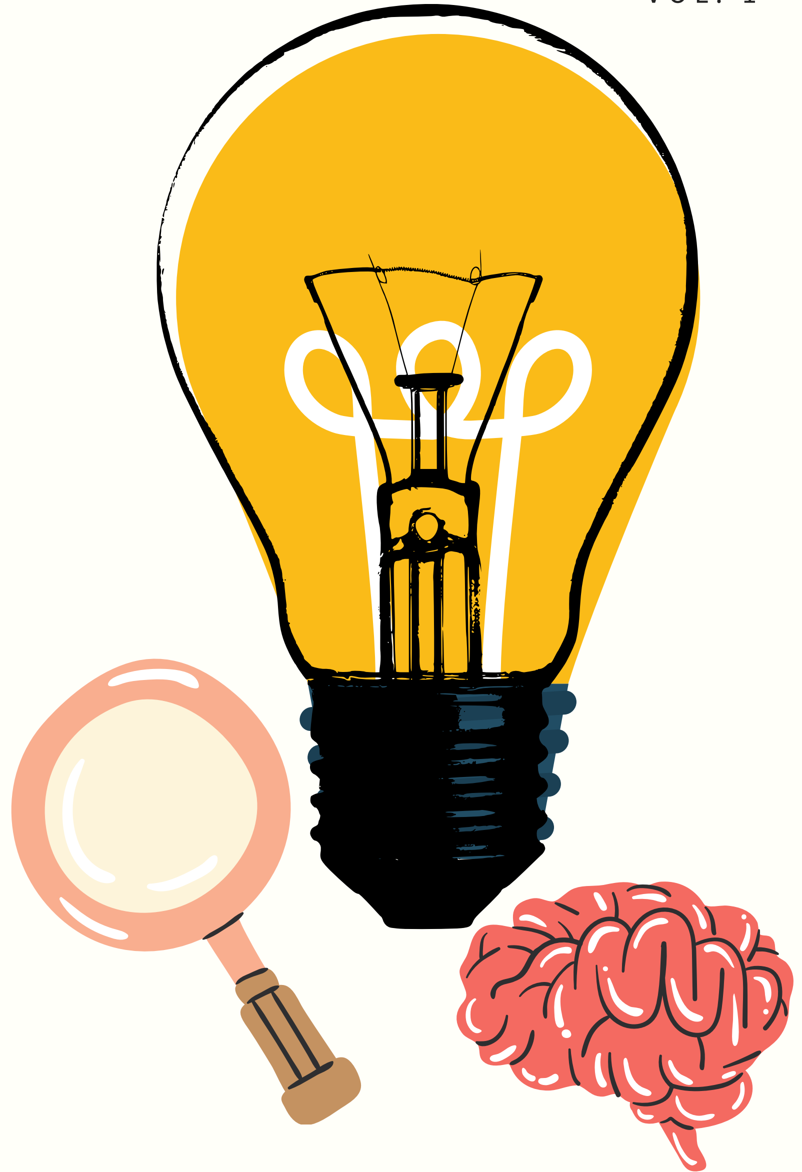
Debt: We often take large loans in our working life, especially when it comes to buying a house. An untimely death while the loan is still due can have grave economic consequences for our families. In such a scenario, life insurance money can be used to pay off the loan.

IMPORTANT LIFE INSURANCE TERMS

Policyholder- A policyholder is a person who owns the life insurance policy. Usually, they are the one insured under the policy. However, sometimes, the policyholder may be a relative of the insured, a corporation or a partnership. The policyholder has the right to exercise all privileges that are provided in the life insurance contract.

Sum Assured- Sum assured is a predetermined fixed amount that a policyholder's family receives in case of policyholder's death. It is basically the total sum policyholder is covered for. Sum assured is chosen by the policyholder and is always mentioned by the company in the policy details.

Nominee- In life insurance parlance, a nominee is a person who receives the sum assured and other benefits in case of an insured person's death. The choice of nominee depends totally on the policyholder and the name is usually mentioned while buying the life insurance policy. In most cases, the nominee is someone from the family.



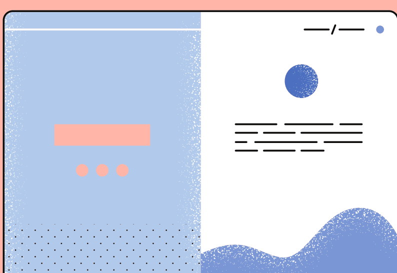
DIFFERENCE BETWEEN POLICY TERM AND PREMIUM PAYMENT TERM

A policy term is the time period for which you are covered. A premium paying term is the duration for which you have to pay the premium of the policy. For instance, the policy term as a whole can be of 50 years but the premium paying term can be of 25 years. This means that you need to pay a premium for 25 years but you are covered for 25 additional years.

GENERAL INSURANCE

Under General Insurance there are several more that one can explore like –

- Health Insurance
- Home Insurance
- Fire Insurance
- Marine Insurance
- Commercial General Liability Insurance
- Directors and Officers Insurance
- Cyber risk insurance
- Professional Indemnity Insurance
- Group insurance plans etc



Unlike Life Insurance, General insurance is the insurance of assets, financial assets included. If, due to a contingency which is covered under the plan, there is an economic loss, the loss is compensated by general insurance policies.

Some advantages of taking General Insurance -

Financial Security - The plans cover financial losses and compensate you for the losses that you suffer. As such, general insurance plans provide you financial security even in the case of contingencies.

Legal Protection - In some cases, general insurance plans are mandatory by law. For instance, motor insurance plans are mandatory as per the Motor Vehicles Act, 1988. When you buy such mandated plans, you fulfil the legal obligation and save yourself from violation offence.

Encourages Savings - General insurance plans help in protecting your savings in emergency situations. You can, therefore, use your savings to fulfil your financial goals.

Tax Savings- Health insurance plans, which are a type of general insurance plan, allow you tax benefits. This deduction helps in lowering your taxable income which, in turn, lowers your tax liability and helps you save tax.

WHAT DO YOU NEED TO CONSIDER BEFORE BUYING GENERAL INSURANCE POLICIES

Suitability - Choose a plan which you require. Health insurance plans are a must and if you have a vehicle you also need motor insurance. Travel insurance plans are relevant when you are going on a trip. So, understand your coverage requirements and then buy a plan

Protection Status - Ensure that the coverage level is optimal to cover your financial losses.

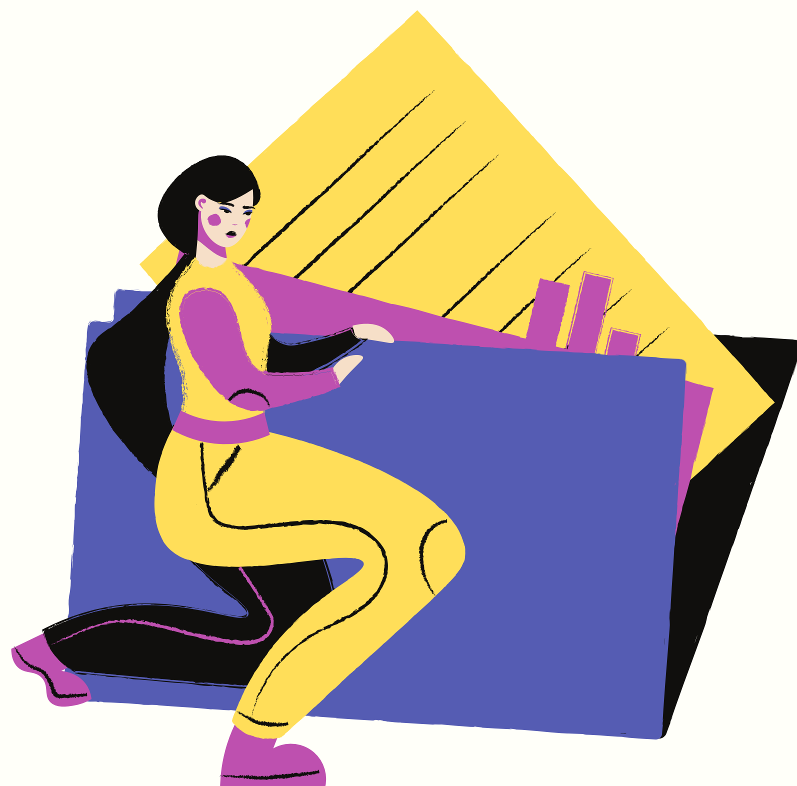
Financial Capability - The premiums of the plan should be affordable so that you don't face a financial strain in paying for the policy

Comparing - Always compare before buying. There are different policies available in the market and each policy offers something better than the other. When you compare you would be able to find the best general insurance policy which not only provides extensive coverage but also comes at a lower premium.

PERSONAL FINANCES

Writter- Nalin Jayaswal

With constantly rising prices and standard of living today, it is essential that we manage and utilize our money to the best of our capacity. Personal Finance allows us to make the most of our income and savings. It helps us distinguish between good and bad financial advice and make informed decisions. As we all are becoming independent in every field possible, why not also become well versed in personal finances? This article aims to give you enough information to understand the building blocks of personal finance, along with guiding you, if you want to pursue the field further.



WHAT ARE PERSONAL FINANCES?

It is a very subjective term but experts agree that it encompasses managing your money as well as saving and investing. It includes budgeting, banking, insurance, mortgages, investments, retirement planning, and tax and estate planning. Often times it also refers to the financial services industry.

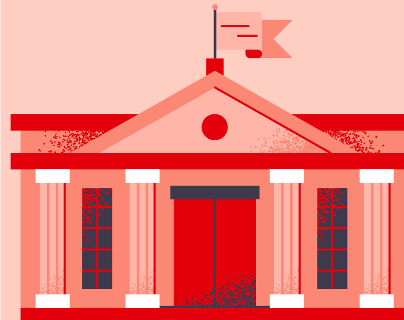
WHY ARE PERSONAL FINANCES SO IMPORTANT?

- **Ensures your money is meeting your needs-** There is a need to establish a proper way to manage your income and assets. It is not as simple as earning and spending. There is a need for this to prepare for financial crisis, debt, retirement and even simply for purchasing your favourite pair of jeans.
- **Prevents overspending and underspending-** Learning personal finances allows you to prioritise your spending, it gives a roadmap to spending money.
- **Family security-** Personal finances allow you to take sound decisions regarding spending, investments and insurance to achieve something which everyone longs for but few achieve, family financial security.
- **Cash flow management-** Learning where and how your money is spent allows you to grow your assets wisely and cut unnecessary expenses.

WHERE TO START? A FEW KEY PRICIPLES-

- **Making a budget-** A budget keeps you within your financial limits and also allows you to slowly grow your wealth. Here is a sample framework-
- (The 50-30-20 framework is very common where 50% of earnings are used for living essentials, 30% for luxurious comforts and 20% for future savings)
- This will also help build an emergency fund which is vital.
- **"If you look on Amazon and you do a search for personal finance, there are literally 20,000 books written on personal finance, and there's no real reason for it. I mean, personal finance is pretty simple-** in the words of Aaron Patzer

- **Understand how credit cards work-** credit cards are debt traps and missing payments can lead to debt building up which as to be paid back with interest which is often compounded in a short period of time. Use your credit cards cycles wisely and ensure you spend within limits you can pay back. Credit card companies can be your worst enemies or your best friends.



- **Keep money in the bank-** Keeping money in the bank protects it from destruction and theft, banks provide you a myriad of ways to access your money, banks allow you to make interest on your money and slowly but safely grow your wealth. Also building a relationship with your bank allows you to obtain better services. Find a bank which charges a low fee and pays the highest interest.

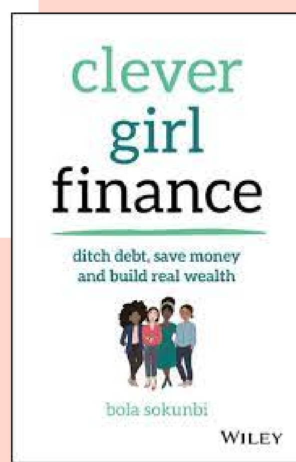
- **Be safe while using mobile banking-** Be sure to use a secure network and not an open one. Create strong passwords and log off from financial accounts. Delete texts from your banks after reading them.
- The rule of 72 tells you in how many years will the value of your initial investment double. Divide 72 by the rate of interest and you will find the time frame.
- Divide and classify your goals as short term and long term. You also need to decide the timeframes for both. Short term goals usually cover a year and are about staying financially secure for an emergency. Longer term goals are usually for retirement.

TECHNOLOGICAL TOOLS FOR PERSONAL FINANCE

- **YNAB (You need a budget**) is an app which helps build and maintain a budget thus helping you keep track of your expenditure.
- **Personal Capital** is a free net worth tracker and retirement planning tool which helps to manage flow of money. It has a simple user interface which can be understood by anyone.
- **Quicken** is a tool which allows you to achieve all financial analysis in a single app. It also has an online backup and is extremely secure. It also allows for you to bring your baking and credit cards together to see all cash flows in one location.
- **BankTree** is a resource which allows you to track your personal finances in multiple currencies.
- **HPDOS** is an accounting software and allows you to manage your inventory, accounts and bills.

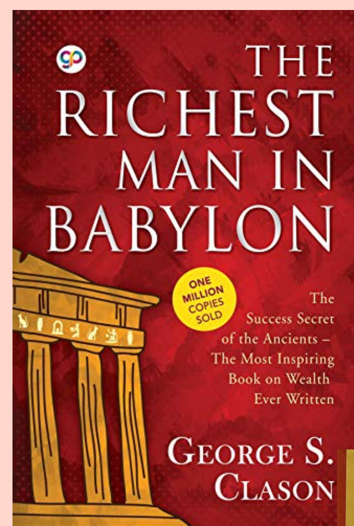
Courses for learning more in this field

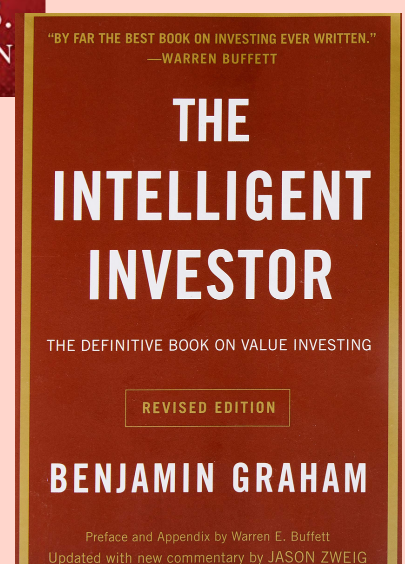
- Certain courses for learning more about this field-
- Trading basics by the Indian School of Business (Coursera)
- Personal Financial Planning by Rachana Phadke (YouTube)
- Udemy's Personal Finance 101: Everything You Need to Know (Udemy)
- edX's Finances for Everyone: Smart Tools for Decision Making (Edx)
- Clever Girl Finance Free Personal Finance Courses (Clever Girls Blog)



Books on financial literacy

- Rich Dad Poor Dad by Robert Kiyosaki
- The richest man in Babylon by George Clayson
- The Intelligent Investor by Benjamin Graham





NET BANKING AND ASSOCIATED SERVICES

Writer- Kunjal Malik

Our society is fast changing and a paperless society equipped with online services is now the 'new normal'. In such times, if you feel that you are falling behind and are oblivious to net banking and associated services, then don't worry. We are here to help. In this article we will discuss everything that you need to know so that you never find net banking challenging again.

1.WHAT IS NET BANKING?

Net Banking is a facility offered by banks and financial institutions that allow customers to use banking services over the internet. Customers need not visit their bank's branch office to avail each and every small service. Not all account holders get access to internet banking. If you would like to use internet banking services, you must register for the facility while opening the account or later. You have to use the registered customer ID and password to log into your internet banking account.

Features of Online Banking

- Check the account statement online.
- Open a fixed deposit* account.
- Pay utility bills such as water bill and electricity bill.
- Make merchant payments.
- Transfer funds.
- Order for a cheque book.
- Buy general insurance.
- Recharge prepaid mobile/DTH

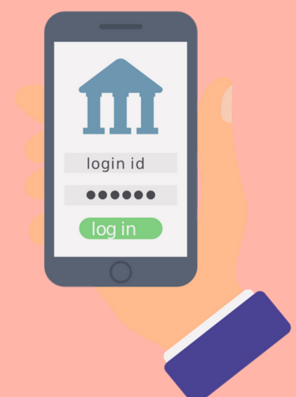
*Fixed deposit- In this type of account the depositor deposits a fixed amount of money for a fixed period.

ADVANTAGES

- Availability
- Easy to Operate
- Convenience
- Time Efficient
- Activity Tracking

DISADVANTAGES

- Internet Requirement
- Transaction Security
- Difficult for Beginners
- Securing Password



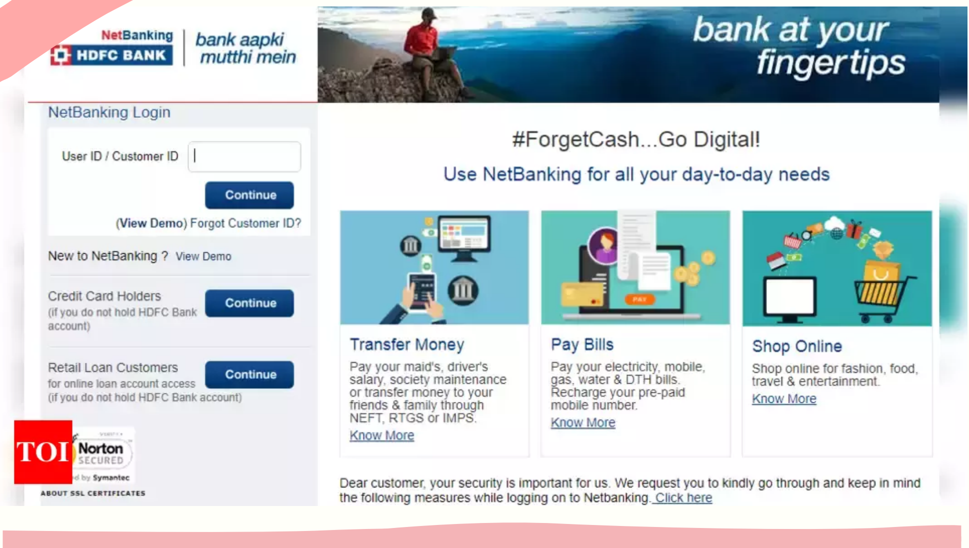
SETTING UP INTERNET BANKING

If you have never used Internet Banking in the past, you'll first have to set up your Internet Banking account. Most banks nowadays open an online banking account for you when you apply for a new account. However, if you've been using your bank account for a long time, you can get in touch with your bank for creating an Internet Banking account for you. Your bank will provide you with a User ID and Password for your online banking account through e-mail or by post. You can use these credentials to log in to Internet Banking

MODES OF NET BANKING

1.**National Electronic Funds Transfer (NEFT)-** Using NEFT, you can electronically transfer money from your bank account to a person holding an account in the same or a different bank.

·Transfers happen in batches every half hour; they aren't done in real time. The minimum transaction value is one rupee and maximum transfer limit varies with each bank. NEFT transfers made through a bank's mobile app or net banking facility do not attract any charges. But if you go to your branch to do a NEFT transfer, there are charges.



2.**Real Time Gross Settlement (RTGS)-** The money is credited in the beneficiary's account in real time, that is, immediately. The RTGS system is primarily meant for large-value transactions that require immediate clearing. It's widely used by corporates and institutions for fund transfers on a real-time basis. The minimum amount that can be transferred through RTGS is Rs. 2 lakh and maximum transfer limit varies with the bank, but there is no upper ceiling set by the RBI. There are no transaction charges for RTGS initiated through online modes (i.e. internet banking, mobile apps), but some banks charge fees for transacting through bank branches.

DIFFERENCE BETWEEN NEFT, RTGS AND IMPS

BASIS OF COMPARISON	NEFT	RTGS	IMPS
Minimum transfer value	Re. 1	Rs. 2 lakh	Re. 1
Payment options	Online and offline	Online and offline	Online
Maximum transfer value	No limit	No limit	Rs.2 lakh
Settlement type	Half hourly basis	Real time	Real time
Inward transaction charges	No charges	No charges	Decided by the individual member banks and PPIs

paisabazaar

3.**Immediate Payment Service (IMPS)-** IMPS provides real-time fund transfer facility on online channels of banks such as mobile banking, net banking, through SMS and via ATMs. ·In the IMPS system, the National Payments Corporation of India (NPCI) facilitates the transfer of funds between member banks. The transfer from your account to the beneficiary account is instant. You will require the beneficiary bank account number and IFSC code to complete the transaction. ·You can transfer the amount using IMPS system throughout the year, 24/7. The minimum transaction value is Re 1 and the maximum amount that can be transferred is Rs 2 lakh. It's widely used for small-value transactions by retail customers. Depending on the bank, the transaction charges may vary.

Why use IMPS when NEFT is also available 24/7?

With IMPS, transfer of funds happens instantly on a real-time basis using net-banking and mobile banking. It's suitable for small-value online transactions up to Rs. 2 lakh. NEFT transfers happen in batches, every half-an-hour; it's not in real time. If the beneficiary doesn't need the amount instantly, you can use this method to transfer the funds. Also, you can use this method to transfer high-value amounts as the maximum transaction limit is set by the bank, which goes up to Rs. 10-20 lakh.

What information is required when using the RTGS or NEFT funds transfer service?

The few essential details required are as follows: amount to be transferred (remitted), beneficiary customer's account number, name of the beneficiary bank and branch, name of the beneficiary and the IFSC code of the beneficiary bank branch.

E- WALLETS ARE THE ENGINES OF COMMERCE

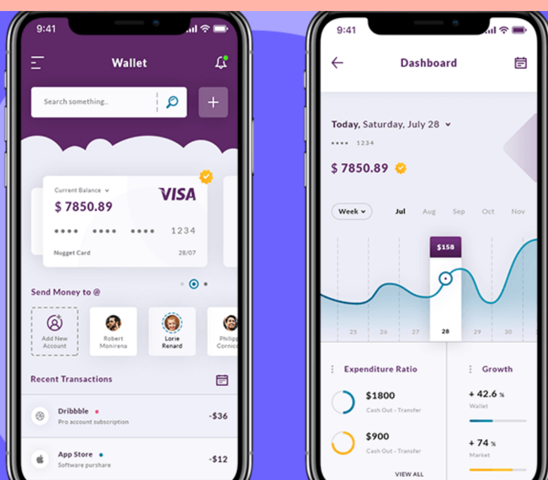
1.**Definition**: E-wallet is a type of electronic card, used for transactions made online through a computer or a smartphone. Its utility is same as a credit or debit card. An E-wallet needs to be linked with the individual's bank account to make payments.
2.**Description**: E-wallet is a type of pre-paid account in which a user can store his/her money for any future online transaction. An E-wallet is protected with a password. With the help of an E-wallet, one can make payments for groceries, online purchases, and flight tickets, among others.

E-wallet has mainly two components, software and information. The software component stores personal information and provides security and encryption of the data. The information component is a database of details provided by the user which includes their name, shipping address, payment method, amount to be paid, credit or debit card details, etc.

Setting up an E -wallet account

First, the user needs to install the software on his/her device, and enter the relevant information required. After shopping online, the E-wallet automatically fills in the user's information on the payment form.

To activate the E-wallet, the user needs to enter his password. Once the online payment is made, the consumer is not required to fill the order form on any other website as the information gets stored in the database and is updated automatically



Types of E wallets

Following are the three types of Digital wallets

i) <u>Closed Wallet-</u> A company selling products and/or services can develop a closed wallet for customers. Users of a closed wallet can use the funds stored to make transactions with only the issuer of the wallet. The money from cancellations, returns, or refunds is stored in the wallets. Amazon Pay is an example of a closed wallet.

ii) <u>Semi-closed Wallet-</u> It allows users to make transactions at listed merchants and locations. Although the coverage area of such wallets is restricted, both online and offline buying can be done through the wallets. However, merchants need to enter into agreements or contracts with the issuers for accepting payments from the mobile wallets.

iii) <u>Open Wallet-</u> Banks or institutes partnered with banks issue open wallets. Users with open wallets can use them for all transactions allowed with a semi-closed wallet in addition to withdrawal of funds from banks, ATMs and transfer of funds.

Examples of Digital Wallets available- Paytm, Mobikwik, Alipay, American Express, Apple pay, Microsoft Wallet, Samsung Pay, for example, are digital wallets. The largest companies to provide users with this service are Google, Amazon, and Paypal.

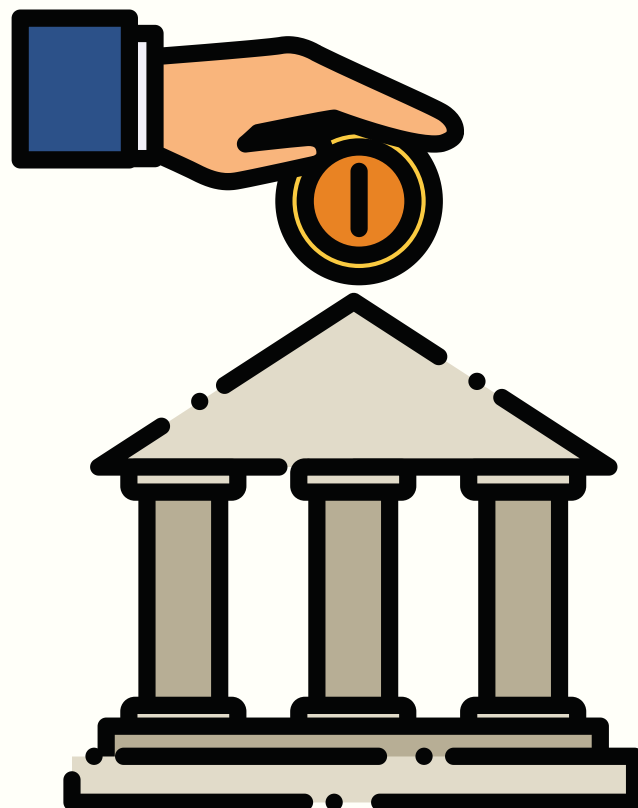
STOCKS AND INVESTMENT- PART I

Writers- Ananya Bansal and Srijan Sanghera

In this article, we will explore the basics of investment in two of the most common asset classes namely, equity shares and mutual funds, and learn the art of investing early to earn a better income.

Investing refers to taking charge of our financial security. It allows us to grow our wealth but also generates an additional income stream if needed ahead of retirement or other unexpected adversities. However often innumerable questions arise in the minds of investment beginners and enthusiasts. Which security is the best to invest in? How much money shall I invest? What if I incur a loss? How do I judge the right time to invest? How do I evaluate if my investment decision was right? How do I churn my investment choices?

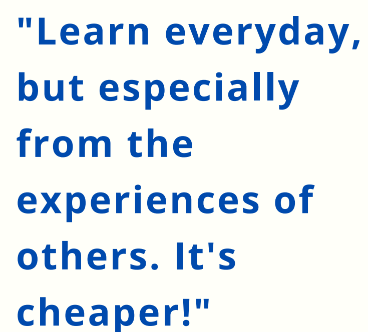
If all these questions perplex you too, then this series of articles is meant just for you!



STOCK MARKET

A stock market refers to the collection of markets and exchanges where regular activities of buying, selling, and issuance of shares of publicly held companies take place. Such financial activities are conducted through institutionalized formal exchanges which operate under a defined set of regulations. There can be multiple stock trading venues in a country or a region which allow transactions in stocks and other forms of securities.

While both terms - stock market and stock exchange - are used interchangeably, the latter term is generally a subset of the former. If one says that he/she trades in the stock market, it means that she buys and sells shares/equities on one (or more) of the stock exchange(s) that are part of the overall stock market. For instance- The leading stock exchanges in India are NSE (National Stock Exchange) and BSE (Bombay Stock Exchange). These leading national exchanges, along with several other exchanges operating in the country, like Calcutta Stock Exchange Ltd., Indian Commodity Exchange Limited, Metropolitan Stock Exchange of India Ltd. among others, form the entire stock market of India.



STOCK MARKET INDICES

A stock market index is a statistical measure which shows changes taking place in the stock market. Such an index consists of a few similar kinds of stocks, which are chosen from amongst the securities already listed on the exchange and then are grouped together.

There are various criteria for this stock selection. The value of the stock market index is computed using the values of the underlying stocks. Any change taking place in the underlying stock prices impacts the overall value of the index. If the prices of most of the underlying securities rise, then the index will rise and vice-versa. In this way, a stock index reflects overall market sentiment and the direction of price movements of the various securities.

Market sentiment refers to how most investors feel about a particular market or stock i.e. if their price would rise or fall.

Stock markets are unpredictable, uncertain and unprecedented, where investors often can find themselves in huge dilemmas, second guessing and questioning their rationale. In such situations, Stock market indices facilitate investors in identifying the general pattern of the market. Investors often take the stock market as a reference to decide about which stocks to go for investing.

"A stock market index acts like a barometer showing the overall conditions of the market."

STOCK MARKET INDICES OF INDIA

Nifty and Sensex are the stock indices of India.

Known as the Sensitive Index, Sensex is the stock market index of the Bombay Stock Exchange (BSE). It is the market-weighted stock index which includes shares from the top, well-established 30 companies, based on their performance and financial soundness. The performance of the 30 selected stocks is directly reflected by the level of the index.

The National Stock Exchange Fifty (Nifty) is the stock market index of the National Stock Exchange (NSE). Alternatively, also known as NIFTY 50 and CNX Nifty, it comprises 50 stocks that are actively traded on NSE and is owned and managed by India Index Services and Products Ltd. (IISL), a subsidiary of NSE.

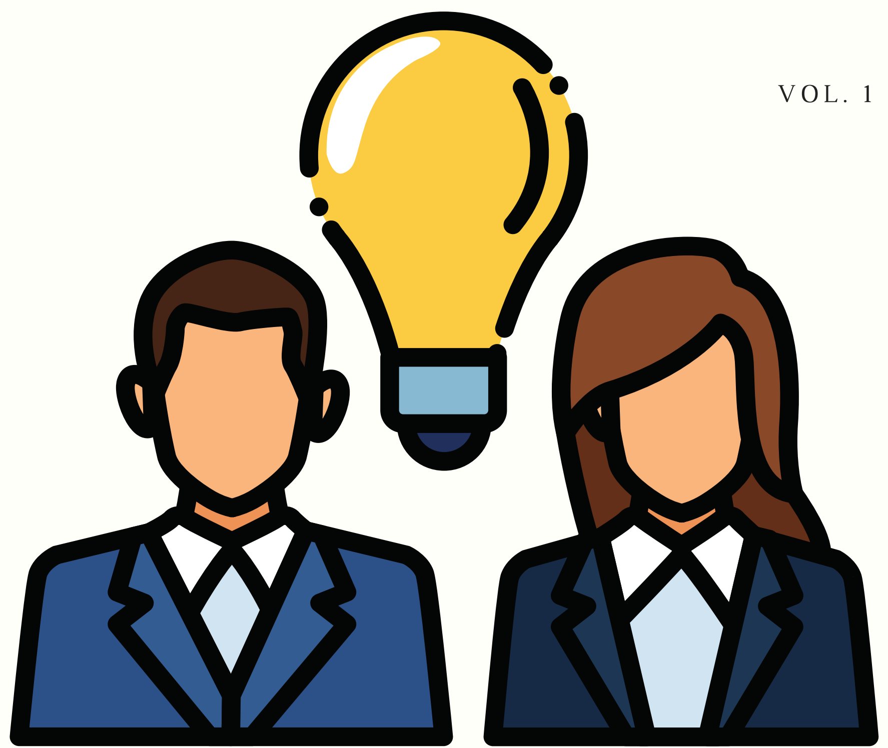
EQUITY SHARES

The capital of a company is divided into small units called shares. Each share has its nominal value. For example, a company can issue 1,00,000 shares of Rs. 10 each for a total value of Rs. 10,00,000. An equity investment is money that is invested in a company by purchasing shares of that company in the stock market, traded on a stock exchange. The person who purchases the shares becomes the owner and shareholder of the business. Equity investors purchase shares of a company with the expectation that they will see a rise in value in the form of capital gains, and/or generate dividends. If an equity investment rises in value, the investor would receive the monetary difference if they sold their shares, or if the company's assets are liquidated and all its obligations are met.

CHARACTERISTICS OF EQUITY SHARES

1. They pose high risks.
2. Consequently, they provide high returns.
3. They are highly liquid i.e. can be converted into cash easily, when required.
4. They can be stored in a dematerialized (demat) account. A demat account is an account to hold financial securities in electronic form. Thus, the securities cannot be forged, duplicated or misplaced.
5. They are complicated to understand and require a detailed analysis of the stocks.

A DETAILED EXPLANATION OF ALL YOU NEED TO KNOW ABOUT EQUITY SHARES AND MORE, AWAITS YOU IN THE FUTURE EDITIONS OF OUR NEWSLETTER. SO, HANG ON!



TYPES OF STOCKS

1. **Penny Stocks:** A penny stock refers to a small company's stock which trades at very low prices (below ₹10) and are mostly illiquid.
2. **Growth stock:** Growth stocks are the stocks of those companies which are expected to grow sales and earnings at a faster rate than the market average.
3. **Cyclical stocks:** Cyclical stocks are affected by macroeconomic changes, where the stock price changes according to the price changes in the economy. They are highly volatile and are expected to produce higher returns than the market average.
4. **Dividend stocks:** Dividend stock is a stock that regularly distributes a portion of its profits to its shareholders, allowing the shareholders to amass long term wealth through a steady stream of income on a systemic basis. Generally, more established companies with steady incomes pay the best dividends.
5. **Blue-Chip Stocks:** Blue-chip stock is the stock of a company which is financially stable and well established in their industry. They are considered as relatively safe investments.

TYPES OF INVESTING

1. **Passive Investing-** It refers to investing directly by duplicating the composition of a market index. Investment is made by following the weightage of the companies given on the market index. Thus, the return would also be similar to the return of the market index.
2. **Active Investing-** It refers to making investments without following the market index, wherein the investor takes investment decisions on his/her own. It is based on market research and analysis.
3. **Value Investing-** Governed by a simple principle: buy stocks that are cheaper than they should be. Finding stocks that are under priced takes a lot of research on the fundamentals of the underlying companies.
4. **Growth Investing-** A relatively riskier strategy, growth investing involves investing in smaller companies that have high potential for growth, blue chips and emerging markets. Growth investors look for companies that exhibit signs of above-average growth, through revenues and profits, even if the share price appears expensive in terms of metrics such as price-to-earnings or price-to-book ratios.
5. **Momentum Investing-** Momentum investors ride the waves. They believe winners keep winning and losers keep losing. They look to buy stocks experiencing an uptrend. As they believe losers continue to drop, they may choose to short-sell those securities.

Market Timing- It refers to an investing strategy through which an investor makes decisions by predicting the price movements of a financial asset in the future. Investors following the strategy aim to outperform the market by taking a long position (buying) at market bottoms and a short position (selling) at market tops.

FIND THE MEANING OF ALL NEW TERMS AT THE END!

MUTUAL FUNDS

A mutual fund is an open-end professionally managed investment fund that pools money from many investors to purchase securities.
Investments in mutual funds are called schemes. The schemes are compared to a benchmark and if the return is less than the benchmark then the schemes are said to have underperformed.

CHARACTERISTICS

1.The purpose of investing in mutual funds is to earn higher returns than what other investment options offer. These returns are the result of more extensive market exposure and professional management of the funds.

2. Mutual funds are easy to invest in, as the investment can be made with a small amount and provides more diversification. Diversifying our investment refers to spreading it among various types of securities. In this way, we are exposed to less risk of losing our money and in case of an unfavourable movement in the value of one of the security types, we still get income from others, which are less or not affected at all

3.Diversification can also be done while investing in only one type of security, which would be elaborated upon in our successive editions.

4. They are more tax-efficient than traditional investments. Short-term as well as long-term gains from mutual funds are taxed in a way that it doesn't eat into returns. They make more sense as long-term investments because the longer you stay invested, the more profits you earn.

5. With more than 2000 schemes in mutual funds, investors often fall prey to confusion and exploitation by middlemen. Mis-selling by middlemen like distributors and mutual fund agents is prevalent whereby, investors are persuaded to invest in high commission generating schemes.

All these basic concepts can catapult you to the mind bending, challenging yet intriguing world of investment and stock markets. This might be the end of this article, but it is certainly just the start of your fascinating journey to becoming investment slayers and financial tycoons. However, there's more! Stay tuned and follow all our editions to delve deeper into the realm of investment and equity shares.

KEY WORDS

1. **Securities-** Tradable financial instruments used to raise capital in public and private markets. Primarily, three in types: equity (provide ownership rights to holders); debt (loans repaid with periodic payments) and hybrids (combine aspects of debt and equity).
2. **Dividends-** The periodic payment made by companies to their shareholders, in return for investing in their company. They are only provided to equity shareholders when the company earns enough to pay for all its other claims and additionally pay the dividends as well. Thus, dividend payments are not compulsory.
3. **Macroeconomic Factors-** An influential financial, natural, or geopolitical event that affects a regional or national economy. For example- Unemployment rate, national poverty, etc.
4. **Volatility-** Rate at which the price of a security increases/decreases and shows the range of the same.
5. Liquidate- Converting assets into cash by selling them in the open market. It is also a term used in bankruptcy procedures, where an entity chooses or is forced by a legal judgment/contract to turn assets into a liquid form (cash).
6. **Traditional Investments-** In finance, they refer to putting money into well-known assets (such as cash, real estate i.e. property, and equity shares) with the expectation of capital gains, dividends, and interest earnings.
7. **Short-Sell-** A fairly simple concept—an investor borrows a stock, sells the stock, and then buys the stock back to return it to the lender. Short sellers are betting that the stock they sell will drop in price. If the stock does drop after selling, the short seller buys it back at a lower price and returns it to the lender. The difference between the sell price and the buy price is the profit.