

Understanding Capital Markets

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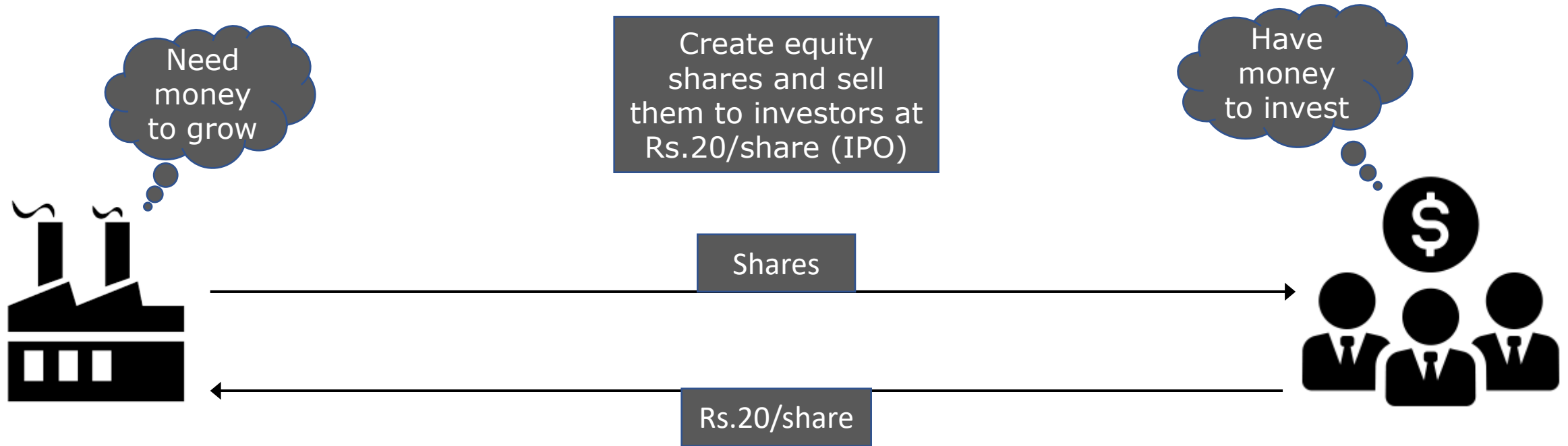
Introduction

- Let us say you want to start a business. You will put in some of your own money, borrow some from banks etc. But beyond a certain size, where will you get more money from?
- Capital market: A place where people & organisations in need of long term capital are brought together with people & organisations will to provide this long term capital
- The capital market is composed of 2 segments; the primary market (street name: IPO market) and the secondary market (street name: share market)
- There are 2 main type of securities in the capital market; shares and bonds

Role of capital market in the economy

- Savings mobilization
- Enhancement of income
- Productive use of income
- Capital formation
- Price determination and discovery
- Sale mechanism to investors
- Better information dissemination

Primary Market



- In the primary market, fresh financial instruments are created and sold to investors
- The company gets the money to grow and become bigger and the investors get the financial instrument (like shares)
- Now why would an investor buy the shares? (at Rs.20 in the present case)

Secondary Market

A platform



I got the shares at Rs.20

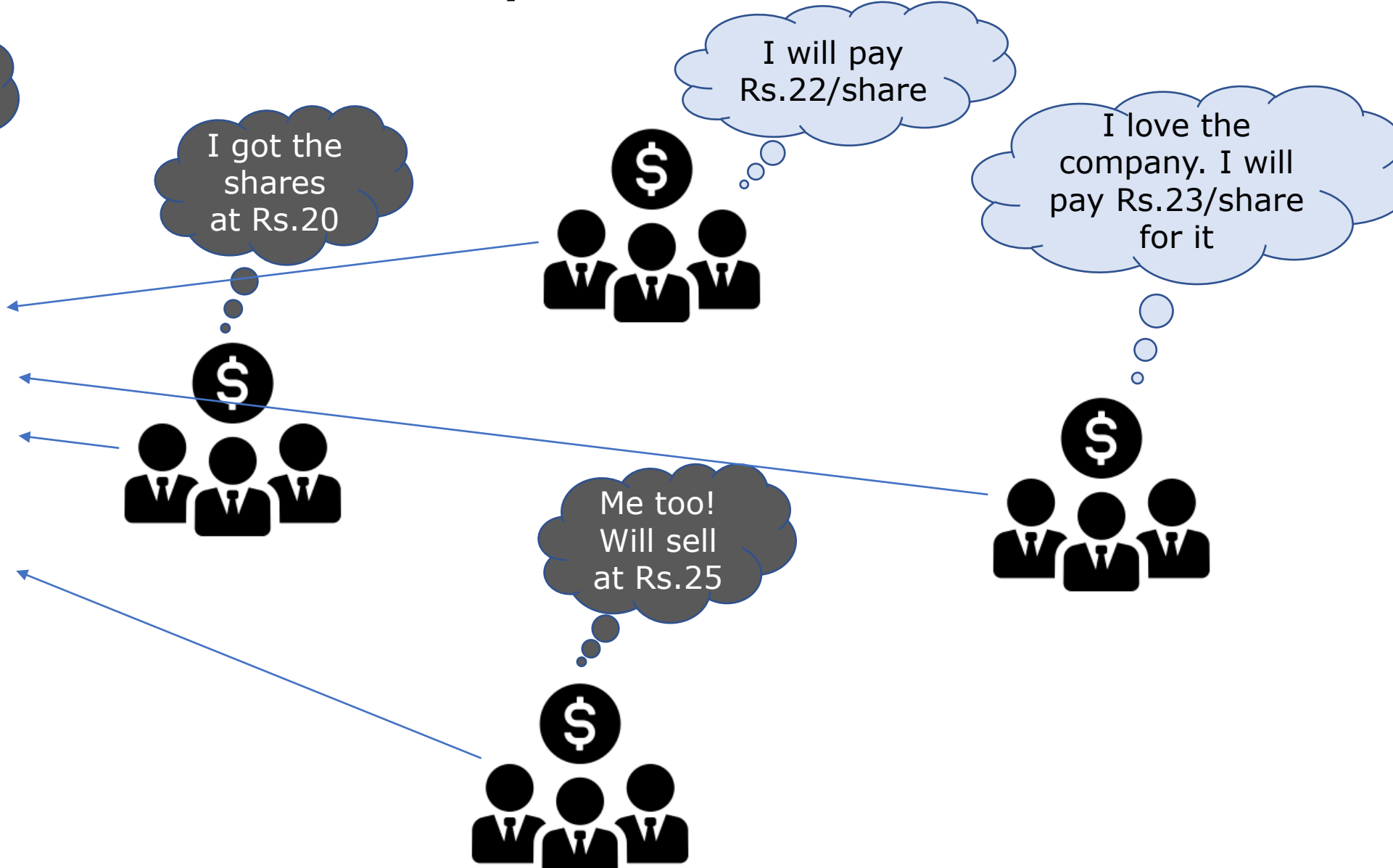


I will pay Rs.22/share

I love the company. I will pay Rs.23/share for it

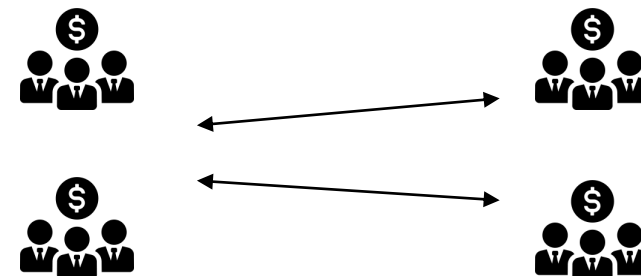
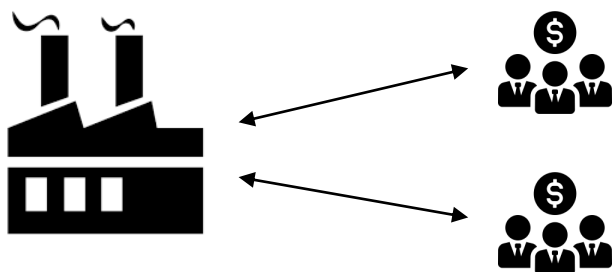


Me too! Will sell at Rs.25



Secondary Market

- In the secondary market, investors buy and sell shares among themselves. Where did these shares come from?
- But how will these investor buyers-sellers find each other? That is where the platform comes in; the stock exchange
- Investors get money when they sell shares they own to other investors. The company gets nothing
- So, if Infosys stock price goes from Rs.800/share to Rs.1300/share, does Infosys get richer?



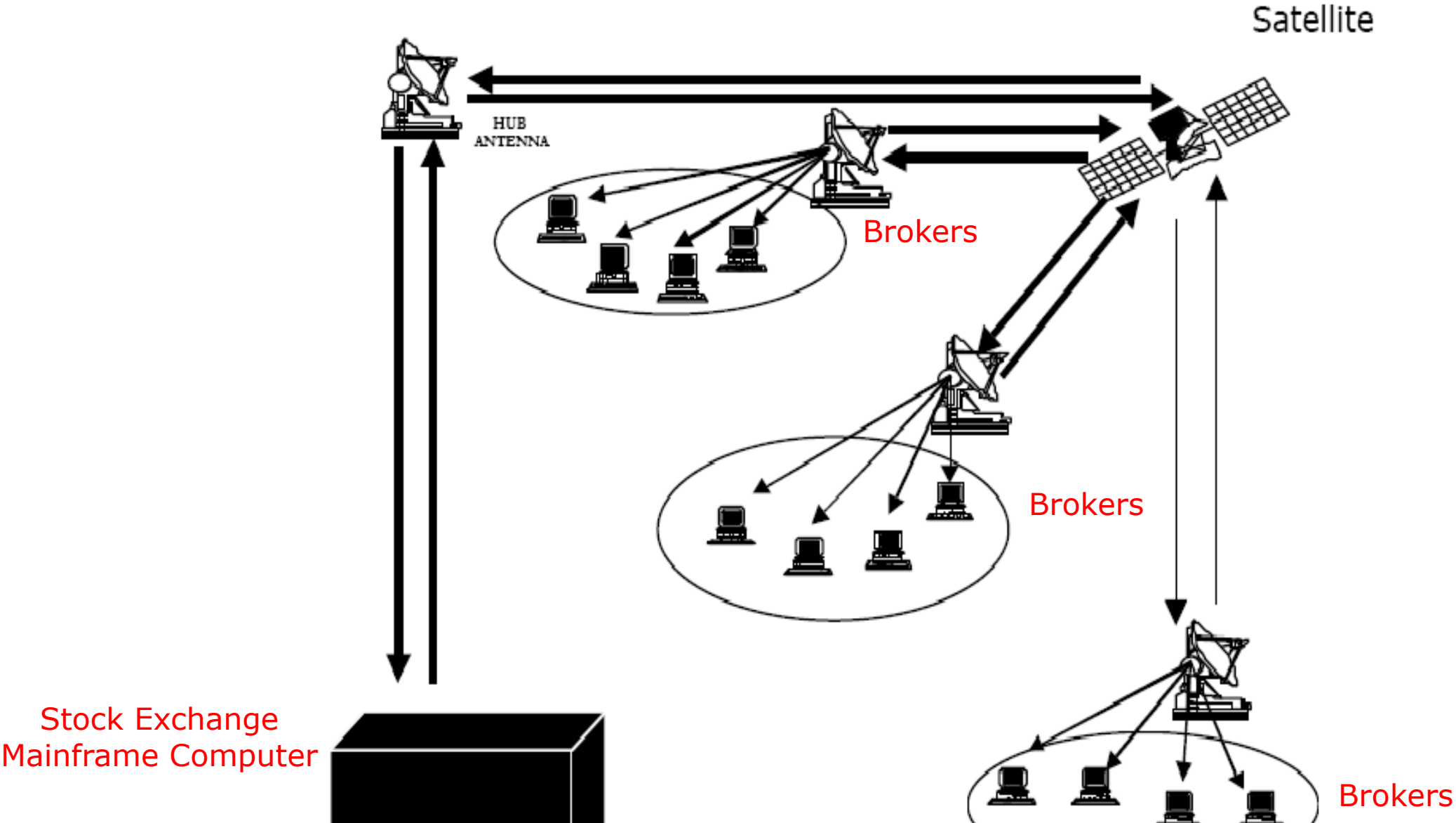
The Stock Market – how we began

- Video of BSE
- <https://www.youtube.com/watch?v=VfW-jmQvv8I>

The Stock Market – where we are today

- Physical share certificates have been converted into electronic form (technically known as dematerialisation of shares; demat)
- Just like your money is stored in your savings bank account, your electronic shares are stored in a demat account
- The physical ring has been replaced by computer systems (saving many from getting a black eye!)
- You place your buy/sell orders online and can see their status etc online
- Technological advancements are continuously changing the way our markets function. Algo trading, for example
- So how does one start?

The Actual Infrastructure



The characters in the mad-house



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India



Retail Investors

HNI Investors

Mutual Funds

Insurance Companies

Foreign Investors

Portfolio Managers

How is it important for you?

- Finance / non-finance student; it doesn't matter. You will be exposed to the 'stock market' in a variety of ways in life
- Having a basic understanding of how it works is a must
- More importantly, having an idea of how to avoid the big blunders is a must
- Some important points to remember
 - There is no guarantee (practically and legally)
 - If it's too good to be true, it's surely not true
 - All stock market stories will always end with you going 'woooooow'
 - Survivorship bias
 - Perverse incentives everywhere
 - Mutual funds are the best, indirect way to invest in stocks

