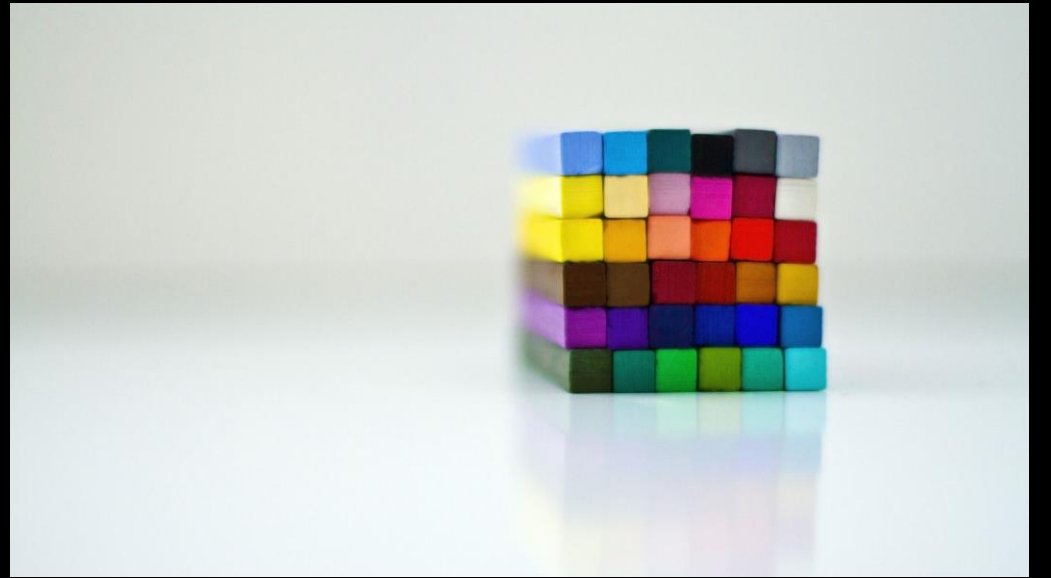


# UNDERSTANDING STOCK MARKETS

CA. MANOJ TRIVEDI



# Agenda

- Context and Disclaimer
- What is a Stock?
- What is a Stock Market?
  - Primary vs Secondary Markets
- What do we want to do there?
  - Investment vs Trading?
- Investing in Stock Markets
  - Busting some Myths
  - Fundamental Analysis
- Trading in Stock Markets
  - Technical Analysis
- QnA

# Context & Disclaimer

- Context

- We all understand Stock Markets, or
- at least we think we understand Stock Markets, but
- we don't understand stock markets, and
- we won't understand Stock Markets
- However, People (read clients) think we understand Stock Markets

- Disclaimer

- No specific stocks will be discussed or even commented upon.
- I head the Research and Advisory practice of a FinTech firm, which is a Corporate SEBI RIA. We offer an Equity Advisory Product. References have been made to our Investment philosophy and our performance to the extent necessary. There is no intention to market/ sell our service.

# What is a Stock?

Stock, or Share, as we understand, is part ownership of a business.

It entitles us to Dividends, Voting Rights and protection of Limited Liability.

- It is akin to owning a partnership business
- We also understand it as Equity

# What is Stock Market?

- Primary Market for Shares
  - Market where a security is created.
  - Primary Objective is to provide Capital to Issuer
    - IPO, FPO, Private Placements
  - Is investing in an IPO a good idea?
- Secondary Market
  - Market where securities change hands
  - Primary Objective is to provide Liquidity to Investor
    - Market for Shares
    - Market for ETFs
    - Market for Derivatives
      - Stock Derivatives, Index Derivatives, Currency Derivatives
    - Market for Bonds
    - Commodity Markets

# What do we want to do in the Stock Market?

- We want to make money / grow our wealth
- Investment vs Trading
- Investment is a cash outflow in anticipation of Expected Future Returns
  - Can be short term or Long Term
  - It is NOT necessary to Buy AND Sell shares. Just one leg is Ok.
- Trading is buying AND selling with the intention of making profit – selling price being higher than buying price
  - Hedging vs Speculation vs Arbitrage
  - Both Buy and Sell transactions need to be executed

# Busting some Myths

- Investment in Stock Markets is full of risk
- You can easily make a lot of money in stock markets
- Stock Market is a Gambler's Den
- You need lot of money to invest in Stock Markets.
- All I need is that one/few multi-bagger(s)
- Stock prices are manipulated. You never get the best price
- One needs "expert knowledge" to invest in stock markets
- One needs to spend a lot of time to invest in Stock markets

# Route to Investing in Stock Markets

## Professional Help

- Mutual Funds
- Portfolio Management Services
- Portfolio Advisory Services

## Direct Equities

- Research Reports
- Broker Recommendations
- TV Channels / Business Papers
- Tips/ Insider Information
- Own Research



# Fundamental Analysis

An effort to predict the future performance of the company by studying the environment in which it is operating and its ability to take advantage of the same.

Macro Economic Analysis – GDP, Money Supply, Interest rates, Exchange rates, Investment Environment, Taxation, etc

Industry Analysis – Industry specific Factors, Competitive Landscape, Entry and Exit Barriers, Bargaining power of Suppliers and Customers

Company Analysis

Top- Bottom Approach vs Bottom –Top Approach

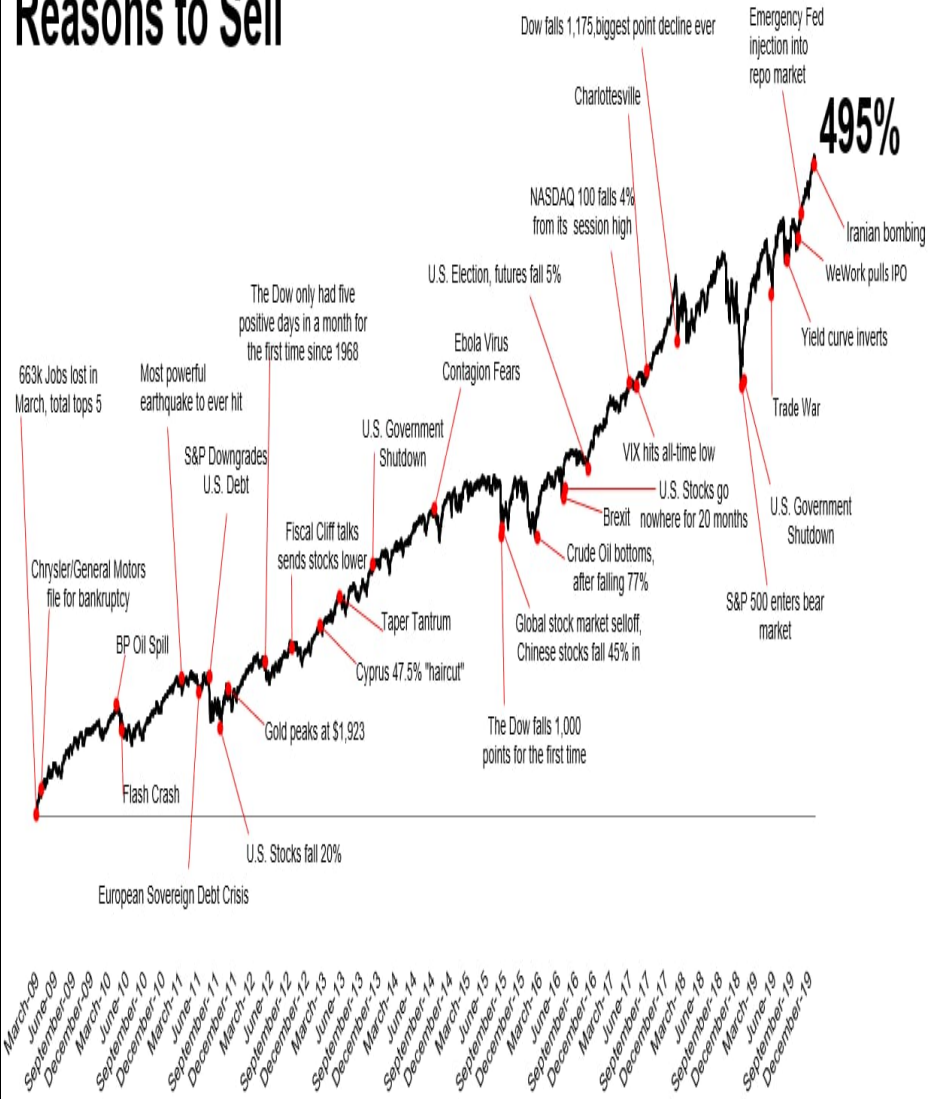
# Value vs Price

- Value – is what we think a share is worth
- Price – the rate at which it can be bought/ sold
  
- Value is “subjective” and “Price” is objective
  
- Value > Price – Buy
- Value < Price – Sell
  
- How do we determine what is Value?
  - Which “Valuation model” do we use?

# Macro Economics

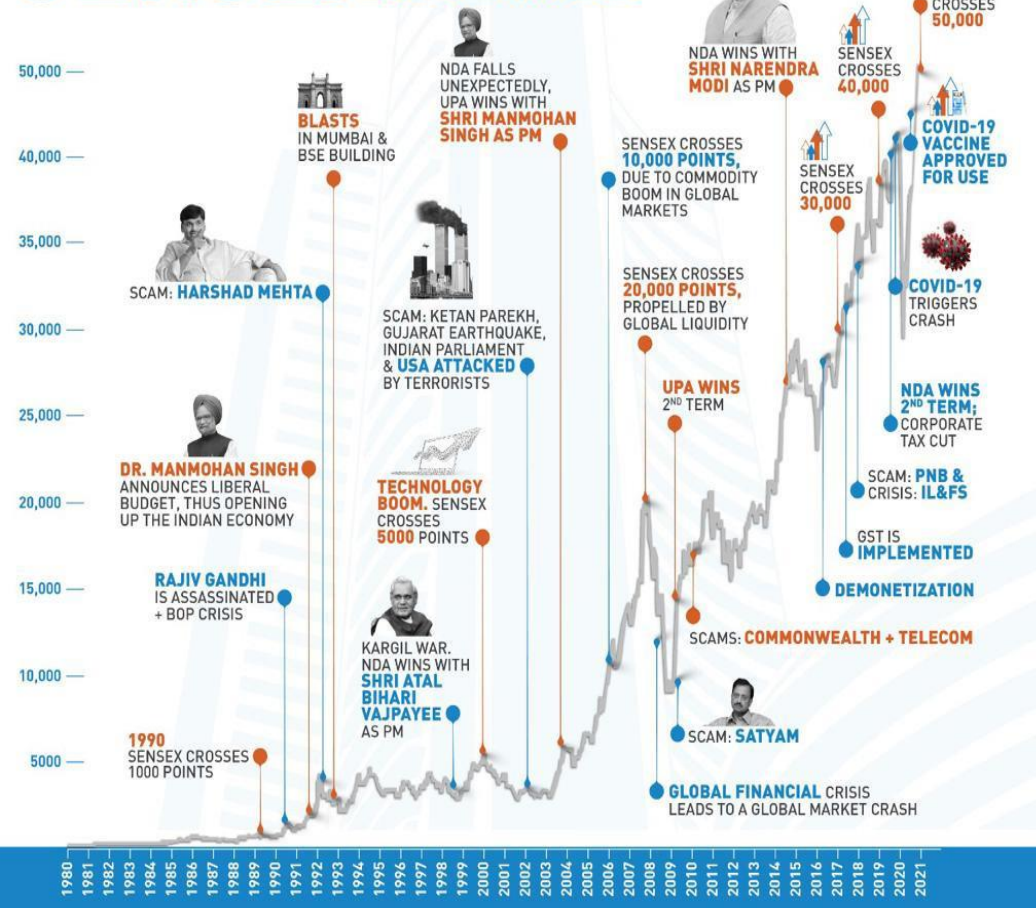
- Information overflow. Too much emphasis on this aspect.
- Useful to a Global Investor evaluating economies.
- LIQUIDITY (Money Supply) is a major determinant.
- Macro policies and Macro Environment impacts Liquidity. Hence, this data is very useful for “Traders”
- Other Macro Factors can also be used for a better understanding of the environment and fine-tune your strategy
- For Long Term Investors focussed on one economy, Macro data helps generate “Intelligent talk”

# Reasons to Sell



Data Source: StockCharts.com. S&P 500 Total Return

# JOURNEY OF SENSEX



# Industry Analysis

- One must know what business one is entering into.
- Many Industries are difficult to Understand ( e.g. Chemicals, Engineering) with too many sub-classifications.
- Almost every Industry will have “potential” to grow
- Portfolio returns are greater when there is greater weightage of “growth” industries.
- Diversification helps, but be aware of the risk-return trade-off
- Industry leaders in a mature industry can deliver better returns than Industry laggards in a Growth Industry

# Company Analysis

- Ultimately, this is the business you will be partly owning.
- 5000+ listed companies. About 3000 get traded on and off.
- Market Cap of listed companies on NSE as on Dec 31, 2020:  
Rs.182 lakh crores
- Which “Cap” do you wish to wear?
  - Large Caps: 100 companies -Rs.136 lakh Crores (approx: 75%)
  - Mid Caps: 150 companies - Rs. 28.5 lakh crores (approx.: 15%)
  - Small Caps: Rs. 17.5 lakh crores (Approx: 10%)
- Data driven, unemotional, unbiased analysis

# Our Investment philosophy - Roots & Wings

- Roots

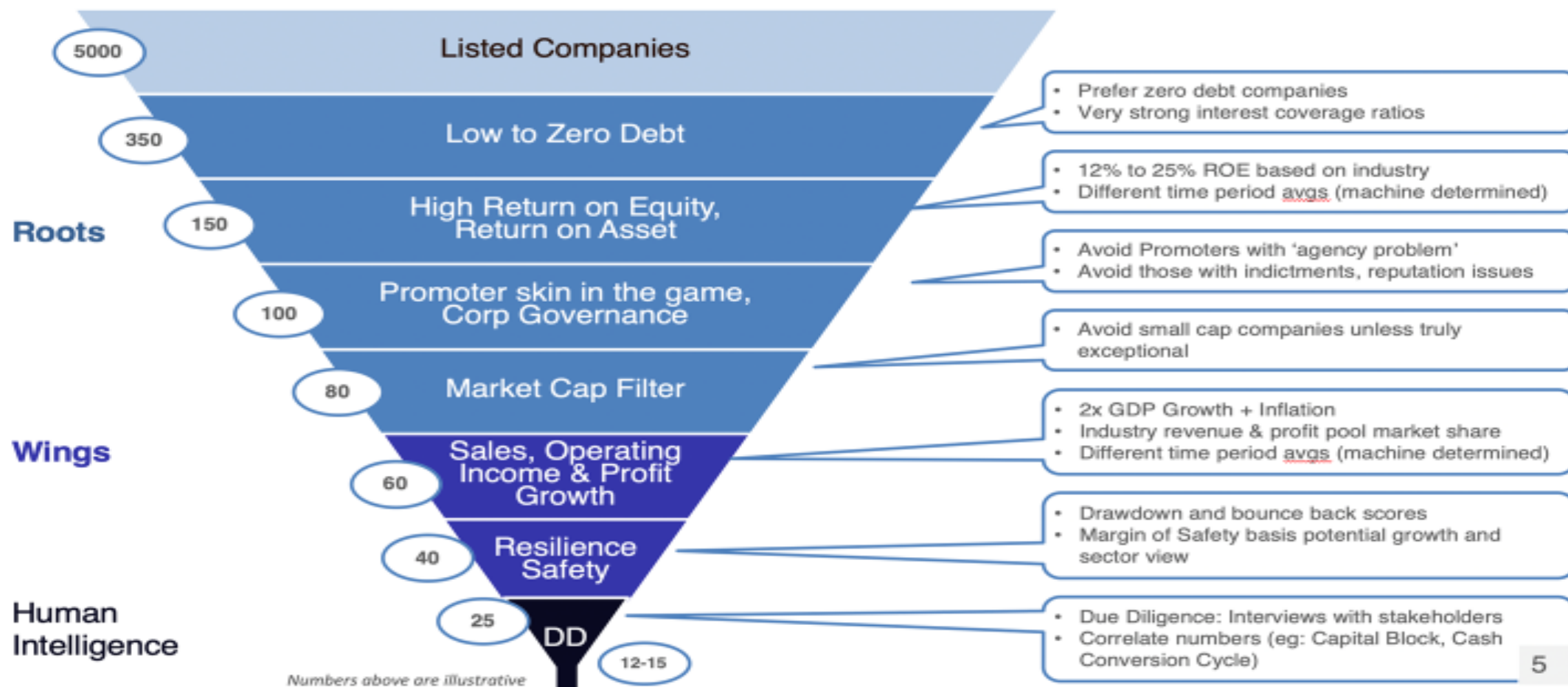
- Low Debt
- Return on Equity
- Promoter Values
- Stamina/ Pedigree
- Corporate Governance

- Wings

- Topline Growth
- Profit Growth
- Operating Cash flow growth
- Margin Growth
- Market Share

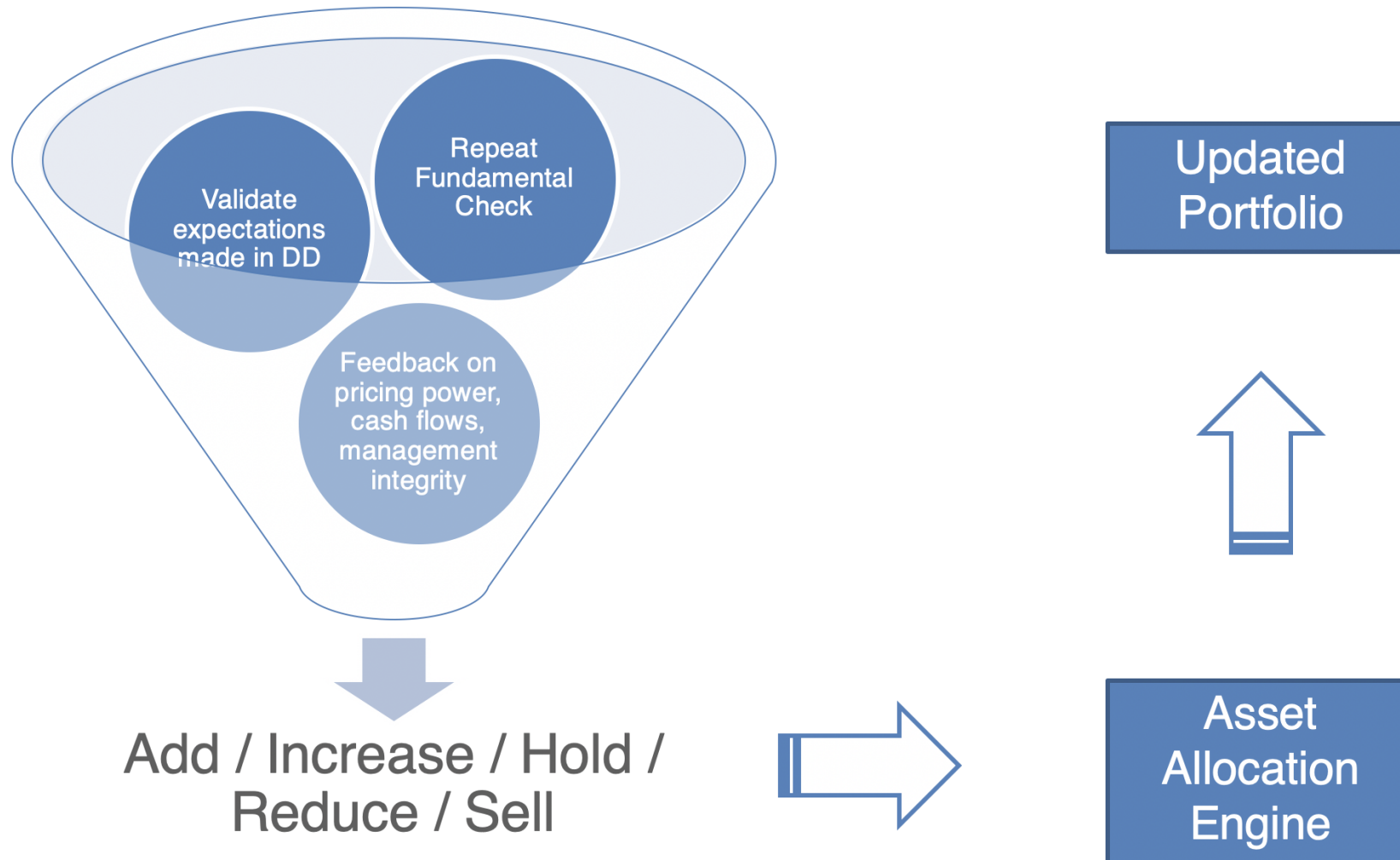
# Stock Selection - Filtering Process

## Investment Philosophy: "Roots & Wings"

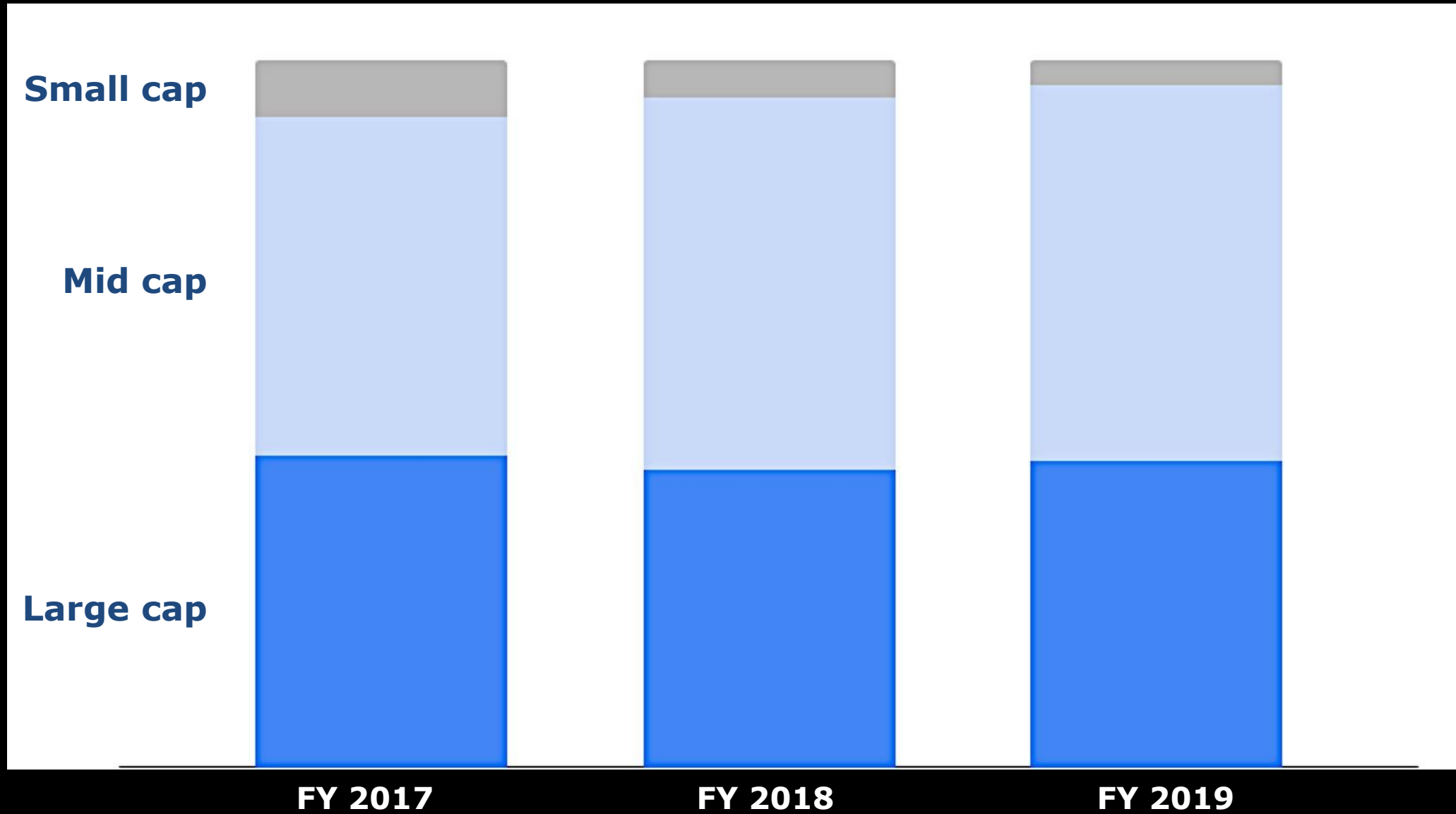




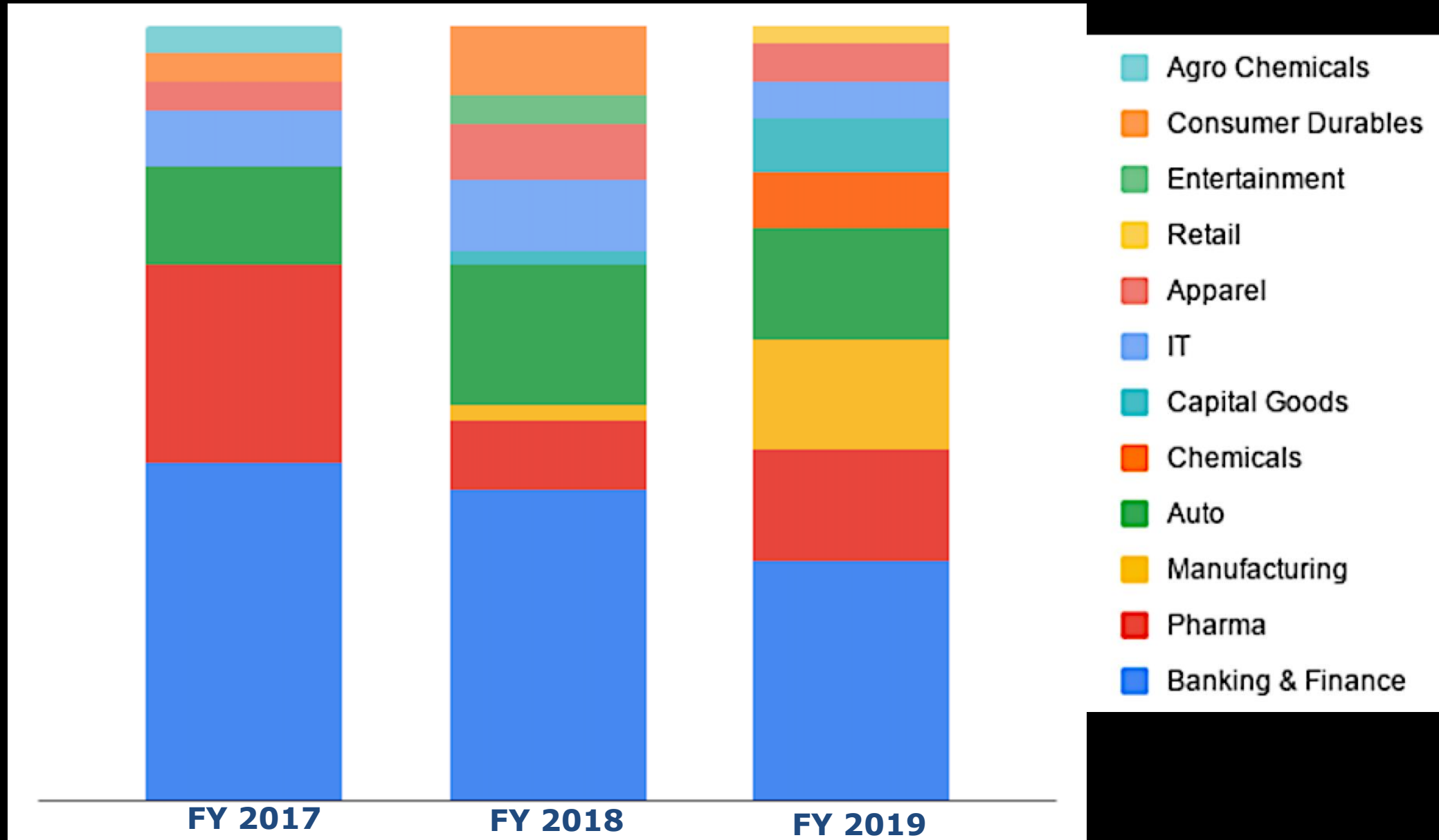
# Careful Picking is followed up with rigorous monitoring and creative churn.



# A large & mid cap focus preserves wealth without compromising growth



# We focus on Businesses across Sectors



# Comparative returns

Performance- Best in Class	10 yr Returns	
	CAGR	Absolute Returns
Nifty TRI	10.06%	161%
Motilal Oswal Next Trillion Dollar Opportunities Fund (PMS)	17.48%	401%
Alchemy High Growth (PMS)	10.90%	182%
Canara Robeco Equity Diversified -Regular plan Growth (MF)	13.38%	251%
UTI Equity Fund Growth (MF)	15.40%	319%
Our Portfolio	26.95%	987%

# Technical Analysis

- No concept of Value. Only “Price”. “Volumes” is another aid.
- Same knowledge/ strategy can be used across markets.
- Markets know everything. Everything is reflected in Price
- Use of Price patterns and Trading Signals, and nothing else!
- Reflection of Market Psychology
- Trend lines, Moving Averages, Patterns (Candle Stick, Head and Shoulder, Evening Star),
- Trade with the Trend, look for Breakouts, ride the momentum
- Lot of Software is now available to help traders
- Our firm does not use Technical Analysis. We are working on a different “Momentum” portfolio

# In Conclusion

- There is nothing right or wrong about Investment Strategies.
- It is possible to consistently generate Superior Returns (Alpha)
- Invest with Conviction
- Believe in Consistency
- Remove Emotion out of the Equation
- Do not compromise on Values (Corporate Governance)
- It is alright to go wrong!
- You Don't have to be the investor earning the highest returns.  
There is no competition going on
- Happy Investing!

Q n A