

# Contents

	PAGE
<i>Foreword</i>	I-5
<i>Chapter-heads</i>	I-7
 <i>Part One</i>	
<b>SECURITIES MARKET</b>	
 <i>CHAPTER ONE</i>	
<b>INVESTMENT CONCEPTS &amp; ASSET CLASSES</b>	
 <i>Preview</i>	3
<i>About this topic</i>	3
<i>Topic Objectives</i>	3
◆ Investment styles	4
◆ Speculation	6
◆ Gambling	7
◆ Shorting	8
◆ Trading	9
◆ Hedging	10
◆ Diversification	10
◆ Immunisation	11
◆ Arbitrage	11
◆ Leveraging	12
◆ Margin Trading	13
◆ Ethical Investment	14
◆ Asset Classes	14
◆ Financial Asset Classes	16
◆ Physical Asset Classes	20
<i>Review</i>	31
<i>Suggested answers to Self-assessment Exercises</i>	32
<i>Checklist</i>	33

CHAPTER TWO**FINANCIAL INVESTMENT PRODUCTS**

<i>Preview</i>	34
<i>About this topic</i>	34
<i>Topic Objectives</i>	34
◆ Equity shares	35
◆ Preference Shares	39
◆ Debentures	41
◆ Fixed Deposits	43
◆ Savings Bonds	44
◆ National Savings Certificate VIII (NSC)	45
◆ Mutual Funds	45
◆ Derivatives	48
<i>Review</i>	53
<i>Suggested Answers to Self Assessment Exercises</i>	54
<i>Checklist</i>	55

CHAPTER THREE**STATISTICAL AND MATHEMATICAL TOOLS**

<i>Preview</i>	57
<i>About this topic</i>	57
<i>Topic Objectives</i>	57
◆ Functions	58
◆ Rate of change of a function (Derivative)	58
◆ Graphs and equations	60
◆ Compounding	62
◆ Discounting	64
◆ Compounded Return	66
◆ Geometric Mean	67
◆ Arithmetic mean	69
◆ Time-weighted mean	69
◆ Mode	70
◆ Median	70
◆ Frequency distribution	71

## CONTENTS

I-11

	PAGE
◆ Normal distribution and Skewed distribution	72
◆ Expected Value/Volume weighted mean	73
◆ Variance and Standard Deviation	74
◆ Z scale	77
◆ Standard error of mean	79
◆ Confidence Intervals and Levels of Confidence	79
◆ Co-variance	80
◆ Correlation	82
◆ Regression	84
◆ R-square ( $R^2$ )	86
◆ Concave Curve & Convex Curve	86
<i>Review</i>	87
<i>Suggested Answers to Self-Assessment Exercises</i>	88
<i>Checklist</i>	89

## CHAPTER FOUR

### RISK AND RETURN

<i>Preview</i>	91
<i>About this topic</i>	91
<i>Topic Objectives</i>	91
◆ Economics of Choice	92
◆ Utility Analysis	100
◆ Absolute Returns	103
◆ Relative Returns	103
◆ Risk adjusted returns	103
◆ Portfolio Return	103
◆ Portfolio Risk	104
<i>Review</i>	108
<i>Suggested Answers to Self-Assessment Exercises</i>	109
<i>Checklist</i>	109

## CHAPTER FIVE

### PORTFOLIO ANALYSIS & SELECTION - PART 1

<i>Preview</i>	111
<i>About this topic</i>	111

	PAGE
<i>Topic Objectives</i>	112
◆ Portfolio Possibilities Curve	112
◆ Efficient Frontier	115
◆ Single Index Model	121
◆ Multi-Index Model	125
◆ Industry Index Model	126
◆ Constructing the Optimal Portfolio - Single Index Model	129
◆ Constructing the Optimal Portfolio - Single Index with shorting	131
◆ Constructing Optimal Portfolio - Constant Correlation Model	132
◆ Role of Skewness	134
<i>Review</i>	135
<i>Suggested Answers to Self-Assessment Exercises</i>	136
<i>Checklist</i>	137

## CHAPTER SIX

### **PORTFOLIO ANALYSIS & SELECTION - PART 2**

<i>Preview</i>	139
<i>About this topic</i>	139
<i>Topic objectives</i>	139
◆ Beta ( $\beta$ )	140
◆ Capital Asset Pricing Model	141
◆ CAPM Assumptions	145
◆ Arbitrage Pricing Model	145
◆ Investments abroad	148
<i>Review</i>	151
<i>Suggested Answers to Self-Assessment Exercises</i>	152
<i>Checklist</i>	153

## CHAPTER SEVEN

### **EFFICIENT MARKETS**

<i>Preview</i>	154
<i>About this topic</i>	154
<i>Topic Objectives</i>	154
◆ Concept of Efficient Market	155

## CONTENTS

I-13

	PAGE
◆ Forms of Efficient Markets	155
◆ Research into efficient markets	157
◆ Implications of efficient markets	158
◆ Efficient markets and corporate treasurers	159
◆ Prohibition of Insider Trading Regulations, 1992	160
<i>Review</i>	166
<i>Suggested Answers to Self-Assessment Exercises</i>	167
<i>Checklist</i>	168

## CHAPTER EIGHT

### SECURITIES MARKETS

<i>Preview</i>	169
<i>About this topic</i>	169
◆ Primary Market	169
◆ Secondary Market	183
<i>Review</i>	194
<i>Suggested Answers to Self-Assessment Exercises</i>	195
<i>Checklist</i>	196
<i>Appendix</i>	198

## CHAPTER NINE

### DEPOSITORY & INVESTMENT PROCESS

<i>Preview</i>	201
<i>About this topic</i>	201
<i>Topic Objectives</i>	201
◆ Depository	202
◆ Investment evaluation process	209
◆ Investment execution process	222
<i>Review</i>	228
<i>Suggested Answers to Self-Assessment Exercises</i>	229
<i>Checklist</i>	230

CHAPTER TEN**REGULATORY FRAMEWORK**

<i>Preview</i>	232
<i>About this Topic</i>	232
<i>Topic objectives</i>	232
◆ Regulation of Derivatives	233
◆ Regulation of Foreign Institutional Investors (FIIs)	242
◆ Regulation of Collective Investment Schemes	247
◆ Grievance Redressal Mechanisms in the capital market	249
◆ Regulatory framework	251
◆ Corporate Governance	255
<i>Review</i>	260
<i>Suggested Answers to Self-Assessment Exercises</i>	261
<i>Checklist</i>	262
<i>Appendix</i>	264

Part Two**MONEY MARKET**CHAPTER ONE**DEBT INSTRUMENTS - BASIC CONCEPTS**

◆ Introduction	269
◆ Characteristics of debt securities	269
◆ Classification of Debt Securities	272
◆ Special kinds of Bonds	273
◆ Related Terms	276

CHAPTER TWO**INDIAN DEBT MARKETS**

◆ Introduction	278
◆ Market Segments	278
◆ Market Participants	280
◆ Primary Market	283
◆ Secondary Market	283
◆ Participant Profile	284

CHAPTER THREE

**CENTRAL GOVERNMENT SECURITIES**

◆ Introduction	286
◆ Evolution of Government Securities Market	287
◆ Types of Government Securities	289
◆ Features of Government Securities	291
◆ Participants in the Government Securities markets	291
◆ Primary Issuance Process	292
◆ Primary issuance of Government Debt and the RBI	295
◆ Primary Dealers	295
<i>Annexure 1-4</i>	299

CHAPTER FOUR

**TREASURY BILLS**

◆ Definition	305
◆ Primary issuance of T-Bills	305
◆ Primary Dealers and Treasury Bills	307
◆ Participants/Investors in T-Bills	308
◆ How is the yield for a treasury bill calculated?	308
◆ Secondary Market trading	308
◆ Factors influencing yields on T-Bills	309
◆ Secondary activity in T-Bills	309
<i>Annexure 1</i>	311

CHAPTER FIVE

**STATE GOVERNMENT BONDS**

◆ Introduction	314
◆ Receipts	316
◆ Market Borrowings	318
◆ Ownership Pattern of State Government Bonds	320
◆ Reserve Bank's Initiatives	320

CHAPTER SIX

**CALL MONEY MARKETS**

◆ Introduction	322
◆ Features	322

	PAGE
◆ Functions of the Call markets	323
◆ Participants in the call money markets	323
◆ Recent amendment in eligibility of participants	323
◆ Volumes in the Call Market	324

#### CHAPTER SEVEN

### **CORPORATE BONDS**

◆ Introduction	326
◆ Issuance of Corporate Bonds	327
◆ Regulation of the debt markets	328
◆ Regulation of Corporate Debt	328
◆ Issue Process	329
◆ Form of Holding	331
◆ Trading	331
◆ Current Corporate Bond Spreads over Gilts of Comparable Maturity	332

*Annexure 1-2*

333

#### CHAPTER EIGHT

### **COMMERCIAL PAPER AND CERTIFICATES OF DEPOSIT**

◆ Introduction	342
◆ Definition and Features	342
◆ Denomination	343
◆ Participants in the CP markets	343
◆ Regulations with respect to CPs	343
◆ Issue Mechanism	344
◆ Mode of Issuance	346
◆ Secondary Market Trading and Settlement	346
◆ Factors affecting the Pricing of CPs	347
◆ Growth of the CP Markets in India	347
◆ Proposals announced in the Monetary and Credit policy for the year 2003-04	349
◆ Certificates of Deposit	349
◆ Features	350
◆ Form of CDs	350
◆ Primary Issuance Procedure	350
◆ Yield and price calculations	351



## CONTENTS

I-17

	PAGE
◆ Settlement	351
◆ Volumes and trends in the CD market	351
<i>Questions and Answers</i>	352

### CHAPTER NINE

#### **READY FORWARD CONTRACTS OR REPOS**

◆ What is a Repo?	353
◆ Calculating Settlement amounts in repo transactions	354
◆ Uses of Repo	355
◆ Repo markets in India	356
◆ RBI guidelines for Repos	357
◆ Collateralized Borrowing and Lending Obligation (CBLO)	358
◆ Volumes in the CBLO	360

### CHAPTER TEN

#### **BOND MARKET INDICES AND BENCHMARKS**

◆ What are Benchmark rates?	361
◆ Benchmark rates in India	362
◆ Government Securities Indices	363

### CHAPTER ELEVEN

#### **SECONDARY MARKETS AND TRADING IN GOVERNMENT SECURITIES**

◆ Platforms for trading	367
◆ Brokers and brokerage commissions	373
◆ Market Infrastructure	374
◆ Subsidiary General Ledger (SGL) and Constituent Subsidiary General Ledger (CSGL)	378
◆ Retailing in Government Securities	379
◆ NSE-VaR System	380
<i>Questions and Answers</i>	380

### CHAPTER TWELVE

#### **REGULATORY AND PROCEDURAL ASPECTS**

◆ Introduction	382
◆ Public Debt Act, 1944	383

	PAGE
◆ SEBI (Issue and Listing of Debt Securities) Regulations, 2008	385
◆ Market Practices and Procedures	385
<i>Annexure 1</i>	387

### *CHAPTER THIRTEEN*

#### **BOND VALUATION**

◆ Introduction	398
◆ Time path of a bond	399
◆ Accrued interest	399
◆ Valuing a Risk-less Bond	400
◆ Different Bond yield and return measures	400
◆ Yield-Price Relationships	402
◆ Price-yield relationship - Some principles	403
<i>Questions and Answers</i>	403

### *CHAPTER FOURTEEN*

#### **THE YIELD CURVE**

◆ Introduction	406
◆ Term Structure of Interest rates/Yield Curve	407

### *CHAPTER FIFTEEN*

#### **DURATION**

◆ Introduction	416
◆ What is Duration?	417
◆ Characteristics of Duration	417
◆ Calculating Duration	418
◆ Types of Duration	419
◆ Interest rate elasticity and interest rate risk	421
◆ Limitations of duration	421

### *CHAPTER SIXTEEN*

#### **FIXED INCOME DERIVATIVES**

◆ Introduction	423
◆ Interest Rate Swaps	423

## CONTENTS

I-19

	PAGE
◆ Forward Rate Agreements	426
◆ Limits	427
◆ Risks in IRS and FRAs	427
◆ Interest rate futures	428
◆ Interest rate options	428
◆ Fixed Income Derivatives in India	430
◆ Usage of Fixed Income Derivatives	432
◆ Recent Developments	433
<i>Questions and Answers</i>	434

### Part Three

## TECHNICAL AND FUNDAMENTAL ANALYSIS

### CHAPTER ONE

## INVESTMENT DECISION MAKING PROCESS

◆ What is investment?	437
◆ Measuring return and risk	444
◆ The other aspect - Understanding investor's needs	450
◆ Stating investment policy	451
◆ Investment portfolio management process	454
◆ Investment avenues	455

### CHAPTER TWO

## INTRODUCTION TO EFFICIENT MARKET HYPOTHESIS

◆ Perfect capital markets	457
◆ Efficient market hypothesis	458
◆ Implications of efficient market hypothesis for technical and fundamental analysts	462

### CHAPTER THREE

## INTRODUCTION TO FUNDAMENTAL AND TECHNICAL ANALYSIS

◆ Basic philosophies and underlying assumptions	465
◆ Advantages and disadvantages of each methodology	471
◆ Concept of intrinsic value	472
◆ Top down versus bottom up approach to fundamental analysis	473

CHAPTER FOUR**ECONOMIC ANALYSIS**

◆ Economic Analysis	476
<i>Annexure 1</i>	489

CHAPTER FIVE**INDUSTRY ANALYSIS**

◆ Industry Analysis	490
---------------------	-----

CHAPTER SIX**COMPANY ANALYSIS**

<i>Company Analysis</i>	509
◆ Analysis of Management	510
◆ Analysis of Competitive Advantage and Competitive Strategies of a Company	511
◆ Analysis of Company on the Key Success Factors for the Industry	512
◆ Financial Analysis	513
<i>Conclusion</i>	521

CHAPTER SEVEN**VALUATION**

◆ Valuation	522
<i>Conclusion</i>	534

CHAPTER EIGHT**TECHNICAL ANALYSIS**

◆ Basic philosophy and assumptions of technical analysis	535
◆ Technical analysis is based on the following assumptions	536
◆ Major challenges to technical analysis	538
◆ Technical trading rules and indicators	539
◆ The Dow Theory	540
◆ Select major chart patterns	546
◆ Major Technical Analysis	558
◆ Conclusion	564