



Contents

	PAGE
Preface to Fifth Edition	I-5
Acknowledgements	I-9
Syllabus	I-11
Chapter-heads	I-15

1

INVESTMENTS : AN OVERVIEW

Learning Outcomes	1
1.1 Investment	2
1.2 Financial Investment vs. Real Investment	2
1.3 Objectives of Investment	3
1.3.1 Features (or Factors affecting Investment)	4
1.4 Speculation	6
1.5 Risk Return Trade off	8
1.6 Investment Environment	9
1.7 Investment Decision Process	13
1.8 Direct Investing and Indirect Investing	16
1.9 Approaches to Investing - Active Investing (Investment) and Passive Investing (Investment)	18
1.10 Diversification, Hedging and Arbitrage	19
1.11 Impact of Taxes on Investment	20
1.12 Impact of Inflation Investment	21
Summary	22
Test Yourself	22

2

INDIAN SECURITIES MARKET

Learning Outcomes	26
2.1 Structure of Indian Securities Market	27
2.1.1 Market Participants	27
2.1.2 Market Segments	29
2.2 Trading Mechanism on Exchanges	34
2.2.1 National Securities Clearing Corporation Limited (NSCCL)	35
2.3 Stock Indices	37
2.4 Sources of Financial Information	41
2.4.1 Types of Information	41
2.4.2 Sources of Information	41
2.4.3 Precautions while using financial information sources	43
2.4A Regulation of Securities Market in India (SEBI)	44
2.4A.1 Reforms Introduced by SEBI	45
2.5 Latest Developments	52
2.6 Other developments in Indian stock market since 1990	54
2.6.1 Screen based trading and Online (Internet based) trading system	54
2.6.2 Depository system, dematerialisation and scrip less trading	55
2.6.3 Book building	59
2.6.4 Derivatives	61
2.6.5 Rolling settlement	61
2.6.6 Securities lending scheme	63
2.6.7 Regulation regarding prohibition of Insider Trading	65
2.6.8 Regulation of Unpublished Price Sensitive Information	67
Summary	70
Test Yourself	72

3

ANALYSIS OF RETURN AND RISK

Learning Outcomes	75
3.1 Return	77
3.2 Types of Returns and their Calculation	80
3.2.1 Average Return	80

	PAGE
3.2.2 Expected Return (Based on probability distribution)	85
3.2.3 Return of a portfolio	86
3.2.4 Holding Period Return	88
3.2.5 Limitations of HPR	88
3.2.5A Effective Annualized Return	89
3.2.6 Absolute Return	90
3.2.7 Risk-adjusted Return	90
3.3 Risk	91
3.3.1 Causes (or Sources) and Types of Risk	91
3.4 Systematic Risk	92
3.5 Unsystematic Risk	94
3.6 Types of Investors	98
3.6.1 Risk Aversion, Utility Analysis and Indifference Curves	98
3.7 Calculation of Total Risk	101
3.7.1 Coefficient of Variation: A relative measure of Risk	103
3.8 Calculation of Systematic Risk	104
3.9 Unsystematic Risk	107
3.10 Expected Return (based on Capital Asset Pricing Model)	108
3.10.1 Abnormal Return	109
3.11 Impact of Taxes on Investment Return	109
3.12 Impact of Inflation on Return from Investment	111
Solved Problems	112
Summary	126
Test Yourself	127
Project work	133

4

FIXED INCOME SECURITIES - VALUATION, YIELDS AND RISKS

Learning Outcomes	134
4.1 Bond Fundamentals	135
4.2 Types of Bonds	137
4.3 Bond Valuation (or Valuation of a fixed income security)	143
4.4 Interactions between Bond Value, interest rate (required rate of return) and time to maturity	150
4.5 Valuation of Convertible debentures	157

4.6	Valuation of Deep Discount Bonds (or zero coupon bonds)	159
4.7	Bond Yields	160
4.8	Risks in Bonds	171
4.9	Malkiel's Properties regarding Bond Pricing (Bond Prices, interest rate (or yields) and Time to maturity)	173
4.10	Bond Duration (Frederick Macaulay Duration)	174
4.11	Credit Rating	177
4.11.1	Credit Rating Agencies in India	179
4.11.2	Credit Rating Methodology	181
4.11.3	Advantages of Credit Rating Agencies	182
4.11.4	Limitations of Credit Rating Agencies	183
	Solved Problems	184
	Summary	198
	Test Yourself	199
	Project work	206

5

EQUITY ANALYSIS - FUNDAMENTAL ANALYSIS

	Learning Outcomes	207
5.1	Approaches to Security Analysis	208
5.2	Fundamental Analysis	210
5.3	EIC Framework	211
5.3.1	Economic Analysis	211
5.3.2	Industry Analysis	214
5.3.3	Company Analysis	217
	Summary	224
	Test Yourself	225
	Project work	226

6

TECHNICAL ANALYSIS

	Learning Outcomes	227
6.1	Technical Analysis	228
6.2	Difference between Fundamental Analysis and Technical Analysis	228

	PAGE
6.3 Basic Tenets (Propositions) of Technical Analysis	230
6.4 Tools of Technical Analysis	231
6.4.1 Charts	231
6.4.2 Technical Indicators and Technical Chart Patterns	236
6.5 Specific Stock Indicators	245
6.6 Limitations of Technical analysis	253
Summary	254
Test Yourself	255
Project work	257

7

EFFICIENT MARKET HYPOTHESIS

Learning Outcomes	258
7.1 Random Walk Theory (RWT)	259
7.2 Efficient Market Hypothesis	259
7.3 Forms of Market Efficiency	260
7.3.1 Weak Form Hypothesis	260
7.3.2 Semi Strong Form	261
7.3.3 Strong Form of Market Efficiency	262
7.4 Implications of EMH	262
7.5 Tests of Market efficiency	263
Summary	267
Test Yourself	268
Project work	269

8

VALUATION OF EQUITY SHARES

Learning Outcomes	270
8.1 Peculiar features of Equity shares	271
8.2 Valuation of Equity share	272
8.2.1 Discounted Cash Flow Models' Dividend Discount Models	272
8.2.2 Earnings Multiplier Approach or Price-Earnings Model (P/E based model) for share valuation	284
8.2.3 Capital Asset Pricing Model (CAPM)	288

Solved Problems	289
Summary	302
Test Yourself	302
Project work	307

9**PORTFOLIO ANALYSIS AND SELECTION**

Learning Outcomes	309
9.1 Portfolio Management Process	310
9.2 Portfolio Analysis - Markowitz Model	313
9.2.1 Portfolio return	313
9.2.2 Portfolio risk	314
9.2.3 Limitation of Markowitz Model of Portfolio Analysis	316
9.3 Portfolio Selection	328
9.3.1 Portfolio Theory of Harry Markowitz (1952) or Mean Variance Optimisation Model	329
9.3.2 Capital Market Theory	334
9.3.3 From Capital Market Theory to Capital Asset Pricing Model (CAPM)	340
9.4 Capital Asset Pricing Model	344
9.5 SML and CML	351
9.6 Uses of CAPM	352
9.7 Criticism/Limitations of CAPM	352
Solved Problems	353
Summary	380
Test Yourself	381
Project work	386

10**PORTFOLIO PERFORMANCE EVALUATION
AND MUTUAL FUNDS**

Learning Outcomes	387
10.1 Portfolio Performance Evaluation	388
10.2 Risk Adjusted Measures or techniques for Evaluating Performance of Portfolios	389

	PAGE
10.3 Mutual Funds	395
10.4 Evolution of Mutual Funds in India	396
10.5 Mutual Fund Schemes	400
10.6 Latest Developments Regarding Mutual Funds	405
10.7 Evaluating Performance of Mutual Funds	410
Solved Problems	414
Summary	420
Test Yourself	420

11

FINANCIAL DERIVATIVES - FORWARDS, FUTURES AND OPTIONS

Learning Outcomes	426
11.1 Introduction to Derivatives	426
11.2 Classification of Derivatives	427
11.3 Participants (or Traders) in Derivatives Market	428
11.4 Forwards	429
11.5 Futures	431
11.5.1 Futures contract terminology	432
11.5.2 Comparison between forwards and futures	433
11.5.3 Types of financial futures contracts	433
11.5.4 Pricing (or valuation) of futures contract (or a forward contract)	435
11.6 Options	438
11.7 Financial Derivatives Market in India	462
Solved Problems	465
Summary	476
Test Yourself	477

12

INVESTOR PROTECTION

Learning Outcomes	482
12.1 Role of SEBI in investor Protection	483
12.2 Investor's Grievances and Redressal System of SEBI	484
12.3 Scores (SEBI Complaints Redress System)	486

PAGE

12.4	Securities Ombudsman	488
12.4.1	Grounds of complaints	489
12.5	Other Regulators/Authorities to approach for complaints other than those dealt by SEBI	490
12.6	Reforms brought up by SEBI	491
12.6.1	Amendments in Listing Agreement	491
12.6.2	Regulation regarding prohibition of Insider Trading	495
12.6.3	Regulation of Unpublished Price Sensitive Information	497
12.7	Investors' Awareness	500
12.7.1	SEBI Investor Protection and Education Fund	502
12.8	Role of Stock Exchanges in Investor Protection	504
12.8.1	BSE initiatives for Investor Protection	504
12.8.2	NSE initiatives for Investors' Protection	507
12.9	Investors' Activism	509
12.9.1	Investors' Activism in India	510
	Summary	512
	Test Yourself	512
	B.Com. (Hons.) 2015 Paper : Fundamentals of Investment	515
	B.Com. (TYUP) 2016 Paper : Security Analysis & Portfolio Management	525
	B.Com. (Hons.) 2017 Paper : Fundamentals of Investment	536
	B.Com. (H)/III/NS 2017 Paper XX : Fundamentals of Investment (C-305)	548
	B.Com. (Hons.) 2018 - Sem. VI : Fundamentals of Investment	557
	B.Com. 2018 - Sem. VI : Fundamentals of Investment	565
	B.Com. (Hons.) 2019 Sem. VI : Fundamentals of Investment	574
	B.Com. 2019 Sem. VI : Fundamentals of Investment	582
	B.Com. (Hons.) 2020 Sem. VI : Fundamentals of Investment [Open Book Exam]	591
	Mathematical Tables	597