The Exponent Group of Journals For Shares And Stock Market

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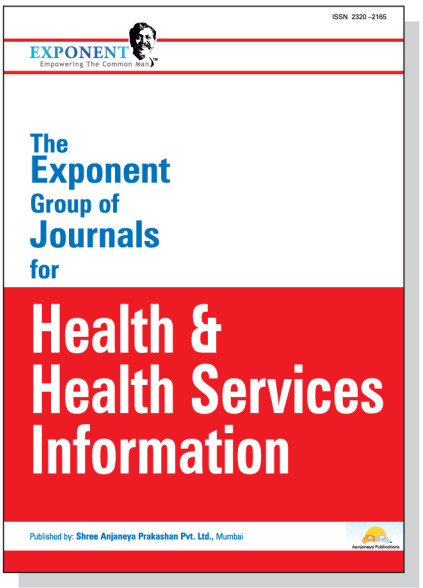
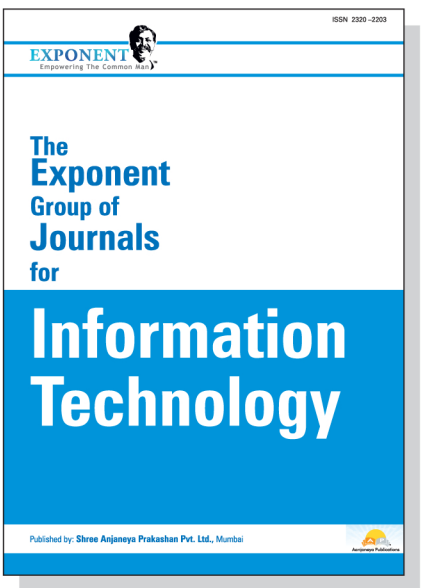
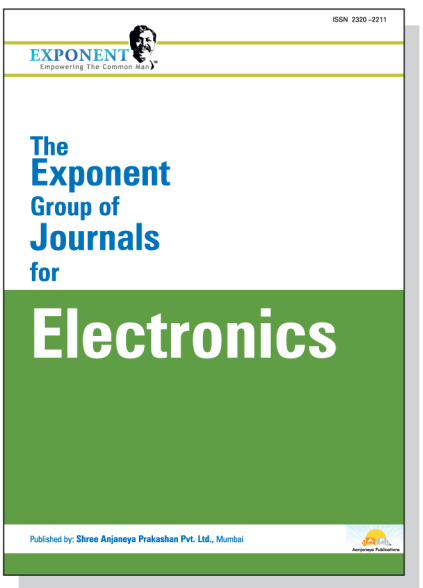
The EXPONENT GROUP OF JOURNALS

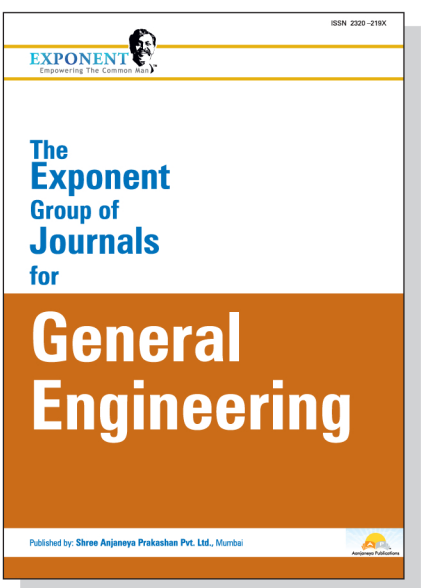
Empowering The Common Man

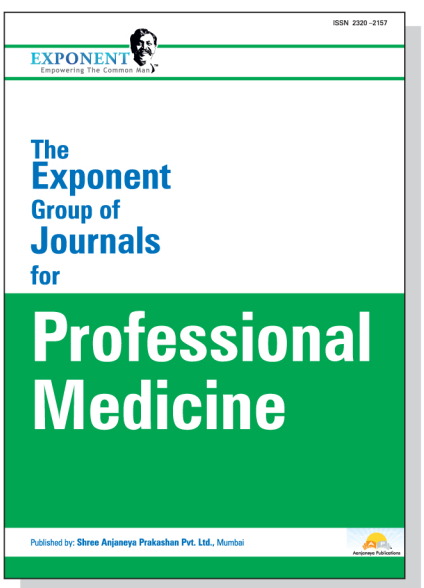
The Exponent Group of Journals

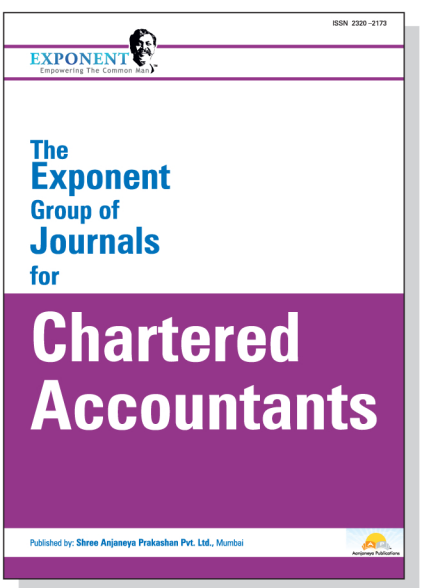












Editorial

- Sanket Pradhan

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Just saw a video being send on WhatsApp where an eighth standard student is asking the current RBI governor as to when the Indian Economy would get strong enough so that our stock markets do not get impact due to Federal rate changes or any other countries economic policy changes. Every one appreciated this question. The response given by the governor was apt. He mentioned that no country in this world should carry out any economic reforms which will impact the other countries. While this is true and needs to be followed, how many times do we see this happening? We have Federal Rates, Greece crisis which heavily impact our Sensex or Nifty. Hence it is very important to understand the economy and its impact on the markets. That is why we precisely include at least one article related to the economy in our journal. In the current edition, we would discuss about BRICS and the new development bank that has been formulated to help the growth of the BRICS economy.

Recollect the days when the elders in the family used to caution on investing in the stock market. For them it was always a gamble. There were valid reasons that time since the markets were operated in trading halls and it did not have the transparency that exist now. But still there are people who just speculate in the market. Speculation without any study is nothing but gambling and no one gains from gambling. We present to you an excellent article to help you differentiate between an Investor, Trader & Gambler.

With focus on Digitalization across the globe, there is a lot of focus on automation, straight through processing, etc. In the stock market, the trading strategies are now implemented directly on the trading platform / software. This keeps on monitoring the share prices and basis the logic implemented it would get into a trade. There are many algorithms that are automated for trading. We will discuss this in detail on our article on Algorithmic Trading where you will gain more insights.

Hope you enjoy reading this edition. Please do share your feedbacks so that we can improvise further.

Initial Public Offering (IPO)

- Dharmesh Trivedi

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What is an Initial Public Offering (IPO)

IPO is the first sale of stock by any Company to the Public. IPOs are often issued by smaller and young companies who seek capital to expand their business. In todays markets even the large privately owned Companies prefer to seek IPO and like to be publicly traded.

IPO Market in India

In India the IPO market experienced the boom since the opening of the economy in the year 1990. Since 1990 more and more companies started issuing capital thru the IPO route.

The IPO went thru a lot of policy changes and reforms with the most important being the abolition of the Controller of capital issues and resulting in Free pricing mechanism of the IPOs. This resulted in companies being permitted to fix their own prices for the public issue at competitive prices.

The Government also introduced the Securities Exchange Board of India (SEBI) in the year 1992 to regulate the IPO market. SEBI was given the authority to monitor the activities of the bankers, portfolio managers, stockbrokers etc.

The IPO market experienced its boom in the year 1994 in India.

Advantages of IPO

Why should a company go for the IPO and what advantages does a company derive from raising money through the IPO route. Lets analyse the same. The following are the advantages of the IPO

a. It enables company to raise huge amount of Capital to fund the Capex and expansion.

b. Money raised thru the IPO does not carry any interest burden and the money is to be repaid only on winding up.

c. Post the company going Public, it is easy for any company to raise capital

d. The IPO commands a better pricing for the company as the share prices reflects the financial soundness.

e. The owners can sell their stake thru the IPO and diversify their holding and reduce the risk of personal portfolio.

f. IPO increases the visibility and reputation of the

company.

g. IPO increases the liquidity to the investors as the shares are traded on stock exchange.

h. It helps companies to increase the pride and confidence amongst the employees and helps them to attract best talent.

i. Post the IPO the company can expand by way of Mergers and acquisitions.

Eligibility Criteria for the IPO

The Companies planning to raise the Capital thru the IPO route have to satisfy the following criteria.

Net Tangible assets of atleast Rs.3 crores in each of the preceeding three years of which 50% is held in monetary assets.

Minimum of Rs 15 crores as average pre tax operating profit in the three years immediately preceeding five years.

Net worth of atleast Rs. 1 crores in each of the preceeding 3 full years

The issue size should not exceed 5 times the pre issue net worth.

Since the last few years there have been a series of the IPOs over the last few years and amongst them the top 10 IPOs in india as well as in the world are as under.

IPO data In India since 2007

In India since 2007 the number of Companies that have gone for the IPO and the success and the failure rates of the IPOs can be seen from the following data.

Year	No. of IPOs	Amount Raised (In Rs Crore)	Issue Succeeded	Issue Failed
2007	108	33,946.22	104	4
2008	39	18,339.92	36	3
2009	22	19,306.58	21	1
2010	66	36,362.18	64	2
2011	40	6,043.57	37	3
2012	27	6,865.94	25	2
2013	39	1,645.87	37	2
2014	47	1,479.68	45	2
2015 *	20	3,188.35	20	0

Present Scenerio of the IPO

The Number of Companies going for the IPO over the last few years have seen a decline inspite of the fact that the secondary market is almost at very high levels. Many IPOs were also called off. The reason for the poor IPO can be the following

- The IPO prospectus does not have crucial data of the expected profitability.
- Promoters and lead managers price the issue exorbitantly and get away with it and resulting in stock prices crashing post the issue.
- Apprehensions of the regulators view on the valuations
- Lack of appetite of big issues from infrastructure , power and other sectors.

Conclusions

We hope that sanity will prevail and the greed of the promoters and the lead managers will reduce and help in reviving the sagging IPO markets. The revival of the IPO market is very important as it helps the companies to raise capital for the expansion and for capex expenditures.

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Difference between Trader, Investor and a Gambler

- Chetan Potdar

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Different people - different opinions. If I ask you whether you are a "trader" or an "investor"- you may say, I am "long term" investor without even understanding what it means.

Here's my take on this subject.

An investor is usually a "buy and hold" types. He lives on hope. He buys a security and hopes that the price will go up. He does his "fundamental analysis" (whatever little that he does) and falls in love with his/her investment. Even when the price of security is going down, he doesn't believe in selling it because he is convinced about his analysis. He doesn't believe in timing the market but a strong believer in "valuation" and "growth" of companies whose securities he owns. If his analysis turns out to be true, he makes money in the "long term". Otherwise, he ends up losing badly.

A trader is usually an "opportunistic" person who believes in inefficient market theories. He believes that markets are driven by human emotions like greed/fear and due to demand / Supply. No stock is fairly priced at any point of time. He tries to take advantage of these mispricing and profit's from the excessive "greed" and "fear".

A trader always uses "probability". He never uses words like "should" or "will". He knows that no one can predict the markets and he never even tries. Like the markets "will" do this or the markets "should" do that. It is always, something "may" happen or "may not". He is always optimistic that a trade might work out but turns into a "realist" when it doesn't. He changes his opinion as many times as the market changes its direction. That's how he always manages his risk and believes in cutting his losses. Traders take 'directional" bets and also use some "leverage" to enhance their returns. Traders also use "market timing" techniques to get an edge in the market. A trader can choose to trade a "single market" or "multiple markets" like stocks, commodities, currencies, etc. Trading multiple markets helps him to reduce his risk.

Usually when we hear the word "trader" we start thinking of "short term traders or intraday traders" who buy and sell 50 times in a day. Contrary, Swing trading last for 5-7 days, Position trading last for a month and long term trading often last for 3- 12 months. So difference between a "trader' and an "investor" is not the time frame but rather the difference in their thinking, approach and attitudes.

Next is the category of people who calls themselves "investors" or "traders" but are actually gamblers. They say that they are in the markets to "make money" but actually are in the market "for excitement". They treat markets like a "casino". They DO NOT have any EDGE in the markets. They look for new ideas everyday, they buy and sell lots of securities everyday. They DO NOT understand risk! They get on a "high" when they are winning and then they start to overtrade. This results in heavy losses and they get into "depression" when they lose money. In order to "recover" their money, they double their bets and lose even more! In the end, they lose their money and confidence.

So, simply put.....

If you are only interested in Buying / Selling and your profits - you are a Trader.

If you are interested in understanding the "Business" of the company AND invest in the business of the company by doing "Fundamental Analysis", you are a Investor.

However, if you are not interested in either and the hard work the above requires but simply wants to become rich very quickly - you are simply a Gambler.

Capital Market Scams In India – A Review Tree Plantation Scam

- Nitin Joshi

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"You can deceive all people for some time, some people for all time, but you cannot deceive all people for all time"

Introduction

Investment is a field where one requires tremendous patience backed by in-depth knowledge about the investment product irrespective of nature of product i.e. mutual fund or shares or cheat fund. In India every now and then a new type of scam emerges because scammers know it very well that Indian people want money in real time and they don't bother for studying the investment product. They want their money to be grown on tree and Anubhav group planted this dream in their mind. 'Natesan' the founder of Anubhav Group introduced the "Tree Plantation Scheme" which offered enormous returns to its investors (21-24% rate of interest).

At that time the stock markets were not performing well and banks were also cutting back interest on deposits so the plantation schemes appeared attractive for investors.

About Natesan

- Commerce Graduate and Dropout from C.A
- Began his career in 1983 by launching the consultancy firm "Yours faithfully"
- In 1983 he entered into construction business with three partners
- In 1992 he established Anubhav Group and became the Chairman of it.
- Anubhav Plantations Ltd. (Anubhav) was floated as a public limited company.
- Anubhav umbrella expanded to include various other companies such as Anubhav Homes Ltd., Anubhav Resorts Ltd., Anubhav Finance & Investments, Anubhav Communications & Advertising (Pvt.) Ltd., Anubhav Royal Orchards & Exports, Anubhav Hire Purchase Ltd., Anubhav Green Farms & Resorts (Pvt.) Ltd., Anubhav Agro, Anubhav Security Bureau, Anubhav Interiors and Anubhav Health Club.etc.
- By 1998, Anubhav had become Rs 250 crore group backed by a nationwide infrastructure of 91 offices and over 1,800 employees.

Modus Operandi of Natesan

Anubhav was the market leader in plantation business. It operated through four companies: Anubhav Agrotech, Anubhav Green Farms & Resorts, Anubhav Plantations, and Anubhav Royal Orchards Exports. He introduced different attractive schemes for investors to invest like:

Scheme	Details
Anubhav Teak Farm Scheme - Option A	A 20 year scheme, it offered a 77 times return on a minimum deposit of Rs 6000 (maximum Rs 60,000). One Rs 6000 unit fetched the investor 300 square feet (sft.) of land with three teak saplings. The investor was promised Rs 1,000 every year for the first 6 years; additional Rs 6,000 at the end of the 6th year; and another Rs 12,000 after the 12th year. Finally, at the end of the 20th year, the investor was to receive Rs 3 lakhs or 40 cubic feet of teak, whichever he preferred.
Anubhav Teak Farm Scheme - Option B	Same as Option A, except that the annual returns in the first 6 years were replaced by a payback of Rs 15,000 at the end of the 6th year.
Good Earth Unit Scheme	For an investment of Rs 6,000, the investor got outright ownership of the land, as well as a 5-year lease of 100 sft. He, in turn, sublet the land to Anubhav, with the returns amounting to bi-annual payments of Rs 500, and Rs 5,000 at the end of the 5th year, and a bonus 1.13 cubic meters of teak - valued at Rs1 lakh - at the end of the 20th year.

Source: ICMR

Natesan has used various tactics for creating a positive image of his business in the society, he willfully associated his business with World Wide Fund for Nature (WWF). He not only trained his staff for courteous behavior but he made them look very helpful to investors which was unexpected for them.

Natesan had plans to forward-integrate from teak into furniture and to get imported machinery to make it. However, his growth strategy was focused mainly on mobilizing funds from investors. The Natesan raised vast sums of money from the public in the form of fixed deposits, teak units, and a combination of fixed deposits and teak units. While raising money he willfully maintained secrecy about the financial performance of the Anubhav Group.

Natesan chose interior low cost land of Tamilnadu for his business. The cost of land where Anubhav's plantations were situated were very low, averaging Rs 35,000 for 43,560 sft. Thus, the cost of a 300 sft piece of land offered to the investor worked out to just Rs 240. Another cost of Rs 10 for the saplings and other expenses, so the total unit's price worked out to Rs 250, while Anubhav was charging Rs.6000 for it.

The promises made by Natesan regarding girth of the trees were challenged by experienced Revenue & Forest Department of Maharashtra (RFD-M). According to (RFD-M) "It will be a miracle if they can achieve it (their projections). The timber yield of trees with a girth of 60 cm and above will be merely 5.10 cubic feet per tree in 15 years, even if one uses quality soil." the total cost of raising and harvesting a teak tree was estimated to be around Rs 400

Even if one ignored NABARD's figures, the Natesan was still charging the investors at least four to five times more than what experts thought was reasonable. Natesan said, "These estimates are incorrect. Our charge of about Rs 1500 per tree has been arrived at after reckoning maintenance, pruning, weeding, even security."

A MRFD official commented, "Even if one reckons sites with the best quality soil, the timber yield of trees with a girth of 60 cm and above in 15 years

would be about 5.1 cubic feet per tree."

Natesan rejected these claims as being 'absurd and wrong.' He quoted the figures of Anubhav's 50-acre plantation in Bhavnagar in Gujarat, which had 65,000 teak trees. He said, "Over a period of six years, we have already obtained a yield of 8-9 cubic meters. Natesan said that "I am very sure that my observations are correct and that Anubhav's clais are in fact conservative. We have set benchmark in growing teak trees to 32 feet in height in 22 months, which would have taken six years to attain under forest conditions". Experts differed in opinion claimed that the yield norm would be 10 to 15 cubic feet of timber per tree over a 20-year time frame.

Plantation companies' procedures were not flawless. The company did not directly own the land, it only supervised the sale deed between the owner of the land and the investors. Company issued certificates to investors indicating extent of ownership but they did not received original copy of sale deed instead they received photocopies of it. The certificates were issued under the common seal of the company, but were unstamped, raising suspicions about the commitment of the company. Thus, in spite of paying for the land, investors did not get absolute title to the land and were in no position to transfer their rights to the land along with the timber.

The company did not allow investors to gain control. The certificates issued under teak tree schemes were not delivered to investors until three months after the payment of the final installment. The concerned company took these certificates back three months prior to the closure of the schemes. In the interim, if the investors defaulted, the company had the right to hold back the certificate. But if the company defaulted, the investors could do very little legally since the the certificates were with the company.

On 2nd December 1998, investors from Sangli, Shimla, Trichy and other cities from India converged at the New Woodlands Chennai. Majority of Investors became bankrupt, they had a very bad "Anubhav". The investors got hint of fraud at "Anubhav" when the cheques issued to some of them bounced in mid-1998. Many depositors, who went to the group's offices to collect their deposit amount after maturity, found the doors locked and lodged complaints with the police. Thousands of investors demonstrated in front of the company's headquarters in Chennai. But the main accused, C. Natesan, Chairman, Anubhav Group (Natesan), had already gone underground. 400 Crores of rupees of investors found to have duped them. India once again has experienced new Scam and new way of performing it at the cost of hard earned money of investors.

What went Wrong?

- RBI didn't have control over the financing companies raised by sole traders or partnership firms.
- There was no ceiling on the amount of deposits they could collect from investors. Companies offered unbelievably high interest rates as well as enormous cash incentives, gifts and prizes to entice depositors.
- Nobody could scrutinize the deployment of funds by these firms as they neither released any balance sheets, nor submitted regular reports to the RBI. As agricultural companies did not come under the RBI's purview, it was easy for these schemes to flourish.

Lesson for Investors

Investors need to study not only validity of business but its management style.

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Algorithmic Trading

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The BSE Sensex plunged 723 points, while the broader Nifty declined over 200 points on Wednesday on May 6, 2015. Dealers said the selloff in Sensex and Nifty was triggered by algorithmic trading platforms. Let us understand this Algorithmic Trading in depth and see how it impacts the markets.

An algorithm is a specific set of clearly defined instructions aimed to carry out a task or process.

Algorithmic trading (automated trading, black-box trading, or simply algo-trading) is the process of using computers programmed to follow a defined set of instructions for placing a trade in order to generate profits at a speed and frequency that is impossible for a human trader. The defined sets of rules are based on timing, price, quantity or any mathematical model. Apart from profit opportunities for the trader, algo-trading makes markets more liquid and makes trading more systematic by ruling out emotional human impacts on trading activities.

Suppose a trader follows these simple trade criteria:

- Buy 100 shares of a stock when its 100-day moving average goes above the 200-day moving average
- Sell shares of the stock when its 100-day moving average goes below the 200-day moving average

Using this set of two simple instructions, it is easy to write a computer program which will automatically monitor the stock price (and the moving average indicators) and place the buy and sell orders when the defined conditions are met. The trader no longer needs to keep a watch for live prices and graphs, or put in the orders manually. The algorithmic trading system automatically does it for him, by correctly identifying the trading opportunity.

Algo-trading provides the following benefits:

- Trades executed at the best possible prices
- Instant and accurate trade order placement (thereby high chances of execution at desired levels)
- Trades timed correctly and instantly, to avoid significant price changes
- Reduced transaction costs
- Simultaneous automated checks on multiple market conditions
- Reduced risk of manual errors in placing the trades
- Backtest the algorithm, based on available historical and real time data
- Reduced possibility of mistakes by human traders based on emotional and psychological factors

The greatest portion of present day algo-trading is high frequency trading (HFT), which attempts to capitalize on placing a large number of orders at very fast speeds across multiple markets and multiple

decision parameters, based on pre-programmed instructions.

Algo-trading is used in many forms of trading and investment activities, including

- Mid to long term investors or buy side firms (pension funds, mutual funds, insurance companies) who purchase in stocks in large quantities but do not want to influence stocks prices with discrete, large-volume investments.

- Short term traders and sell side participants (market makers, speculators, and arbitrageurs) benefit from automated trade execution; in addition, algo-trading aids in creating sufficient liquidity for sellers in the market.

- Systematic traders (trend followers, pairs traders, hedge funds, etc.) find it much more efficient to program their trading rules and let the program trade automatically.

Algorithmic trading provides a more systematic approach to active trading than methods based on a human trader's intuition or instinct.

Algorithmic Trading Strategies

Any strategy for algorithmic trading requires an identified opportunity which is profitable in terms of improved earnings or cost reduction. The following are common trading strategies used in algo-trading:

- **Trend Following Strategies**

The most common algorithmic trading strategies follow trends in moving averages, channel breakouts, price level movements and related technical indicators. These are the easiest and simplest strategies to implement through algorithmic trading because these strategies do not involve making any predictions or price forecasts. Trades are initiated based on the occurrence of desirable trends, which are easy and straightforward to implement through algorithms without getting into the complexity of predictive analysis. The above mentioned example of 50 and 200 day moving average is a popular trend following strategy.

- **Arbitrage Opportunities**

Buying a dual listed stock at a lower price in one market and simultaneously selling it at a higher price in another market offers the price differential as risk-free profit or arbitrage. The same operation can be replicated for stocks versus futures instruments, as price differentials do exists from time to time. Implementing an algorithm to identify such price differentials and placing the orders allows profitable opportunities in efficient manner.

- **Index Fund Rebalancing**

Index funds have defined periods of rebalancing to bring their holdings to par with their respective benchmark indices. This creates profitable opportunities for algorithmic traders, who capitalize on expected trades that offer 20-80 basis points profits depending upon the number of stocks in the index fund, just prior to index fund rebalancing. Such trades are initiated via algorithmic trading systems for timely execution and best prices.

- **Mathematical Model Based Strategies**

A lot of proven mathematical models, like the delta-neutral trading strategy, which allow trading on combination of options and its underlying security, where trades are placed to offset positive and negative deltas so that the portfolio delta is maintained at zero.

- **Trading Range (Mean Reversion)**

Mean reversion strategy is based on the idea that the high and low prices of an asset are a temporary phenomenon that revert to their mean value periodically. Identifying and defining a price range and implementing algorithm based on that allows trades to be placed automatically when price of asset breaks in and out of its defined range.

- **Volume Weighted Average Price (VWAP)**

Volume weighted average price strategy breaks up a large order and releases dynamically determined smaller chunks of the order to the market using

stock specific historical volume profiles. The aim is to execute the order close to the Volume Weighted Average Price (VWAP), thereby benefiting on average price.

- **Time Weighted Average Price (TWAP)**

Time weighted average price strategy breaks up a large order and releases dynamically determined smaller chunks of the order to the market using evenly divided time slots between a start and end time. The aim is to execute the order close to the average price between the start and end times, thereby minimizing market impact.

- **Percentage of Volume (POV)**

Until the trade order is fully filled, this algorithm continues sending partial orders, according to the defined participation ratio and according to the volume traded in the markets. The related "steps strategy" sends orders at a user-defined percentage of market volumes and increases or decreases this participation rate when the stock price reaches user-defined levels.

- **Implementation Shortfall**

The implementation shortfall strategy aims at minimizing the execution cost of an order by trading off the real-time market, thereby saving on the cost of the order and benefiting from the opportunity cost of delayed execution. The strategy will increase the targeted participation rate when the stock price moves favorably and decrease it when the stock price moves adversely.

- **Beyond the Usual Trading Algorithms**

There are a few special classes of algorithms that attempt to identify "happenings" on the other side. These "sniffing algorithms," used, for example, by a sell side market maker have the in-built intelligence to identify the existence of any algorithms on the buy side of a large order. Such detection through algorithms will help the market maker identify large order opportunities and enable him to benefit by filling the orders at a higher price. This is sometimes identified as high-tech front-running.

Technical Requirements for Algorithmic Trading

Implementing the algorithm using a computer program is the last part, clubbed with backtesting. The challenge is to transform the identified strategy into an integrated computerized process that has access to a trading account for placing orders. The following are needed:

- Computer programming knowledge to program the required trading strategy, hired programmers or pre-made trading software
- Network connectivity and access to trading platforms for placing the orders
- Access to market data feeds that will be monitored by the algorithm for opportunities to place orders
- The ability and infrastructure to backtest the system once built, before it goes live on real markets
- Available historical data for backtesting, depending upon the complexity of rules implemented in algorithm

Here is a comprehensive example: Royal Dutch Shell (RDS) is listed on Amsterdam Stock Exchange (AEX) and London Stock Exchange (LSE). Let's build an algorithm to identify arbitrage opportunities. Here are few interesting observations:

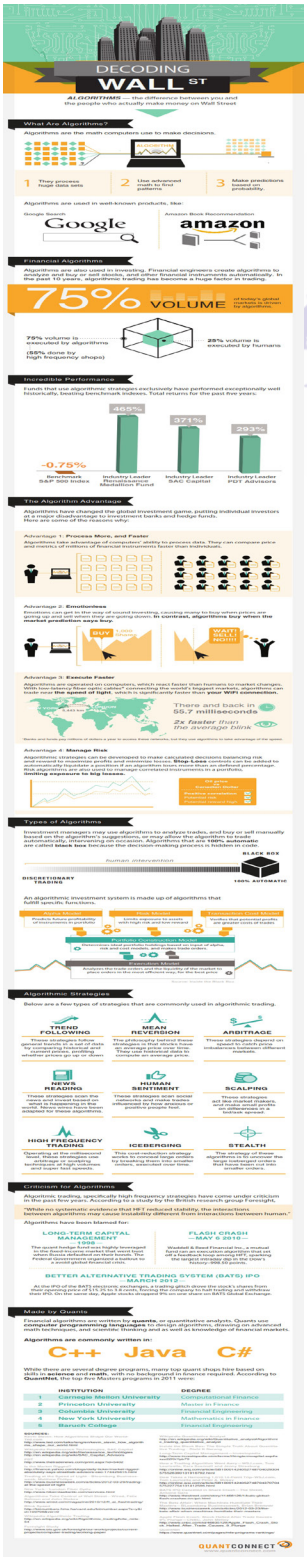
- AEX trades in Euros, while LSE trades in Sterling Pounds
- Due to the one hour time difference, AEX opens an hour earlier than LSE, followed by both exchanges trading simultaneously for next few hours and then trading only in LSE during the last hour as AEX closes

Can we explore the possibility of arbitrage trading on the Royal Dutch Shell stock listed on these two markets in two different currencies?

Requirements

- A computer program that can read current market prices
- Price feeds from both LSE and AEX
- A forex rate feed for GBP-EUR exchange rate
- Order placing capability which can route the order to the correct exchange
- Back-testing capability on historical price feeds

The computer program should perform the following:



- Read the incoming price feed of RDS stock from both exchanges
- Using the available foreign exchange rates, convert the price of one currency to other
- If there exists a large enough price discrepancy (discounting the brokerage costs) leading to a profitable opportunity, then place the buy order on lower priced exchange and sell order on higher priced exchange
- If the orders are executed as desired, the arbitrage profit will follow

Simple and Easy! However, the practice of algorithmic trading is not that simple to maintain and execute. Remember, if you can place an algo-generated trade, so can the other market participants. Consequently, prices fluctuate in milli- and even microseconds. In the above example, what happens if your buy trade gets executed, but sell trade doesn't as the sell prices change by the time your order hits the market? You will end up sitting with an open position, making your arbitrage strategy worthless.

There are additional risks and challenges: for example, system failure risks, network connectivity errors, time-lags between trade orders and execution, and, most important of all, imperfect algorithms. The more complex an algorithm, the more stringent backtesting is needed before it is put into action.

Quantitative analysis of an algorithm's performance plays an important role and should be examined critically. It's exciting to go for automation aided by computers with a notion to make money effortlessly. But one must make sure the system is thoroughly tested and required limits are set. Analytical traders should consider learning programming and building systems on their own, to be confident about implementing the right strategies in foolproof manner. Cautious use and thorough testing of algo-trading can create profitable opportunities.

Read more

http://www.investopedia.com/articles/active-trading/101014/basics-algorithmic-trading-concepts-and-examples.asp#ixzz3b2AfspIN

New Government's First Year – Stock Market Sentiments

- Avinash Gorakshakar

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As in life, sentiment plays a major role in stock markets. That is why despite India's economic and corporate fundamentals being under stress, the stock markets were on a tear for most of 2014, thanks to a decisive leader taking charge of the nation.

Global portfolio investors appreciated new government of India and believed the "policy paralysis" that had stalled India Inc would be a thing of the past. Billions of dollars flowed in and the Bombay Stock Exchange's (BSE) index, Sensex, hit record highs earlier this year, going past 30,000 points.

Not surprising after the stellar performance of the stock markets in 2014, driven almost entirely by the surge of hope after the spectacular victory of BJP in May 2014.

But then again, as in life, a lot can change in a month. The decision by the government to slap tax notices on foreign institutional investors (FIIs) to cough up a 20% Minimum Alternative Tax (MAT) for transactions done years ago has turned the sentiment tide for foreign portfolio investors.

The Sensex is now at levels closer to 27,500 points, down almost 10% since those highs. Of course, the fall cannot be attributed solely to the tax demands, but it is clearly one of the reasons for the turn in sentiment. FIIs have turned net sellers for a better part of the past fortnight.

Also with one year now completed of the new Government, most of the Industrialists and businessmen are now starting to express a bit of unease at the pace of reforms. There are serious question marks about growth, whether it is freight traffic or electricity production, compared with the higher growth rates of 2006-07.

Sales growth and industrial production data has been poor; auto production has been down compared with 2006-07. Overall economic growth is not near the 7.5% which the government has been projecting. The Indian market gave returns of 12% in the last one year, which is hardly anything great. This is again not great returns even when we scan the world stock markets as most of the stock indices are in the green zone.

Some of the matured markets gave much better returns during the same period – the Japan stock index is up by 43%, US Dow by 10%, nasdaq by 22% and the UK ftse 250 is up by 16%. Even China is up by more than 100%

So why has the honeymoon between the market and new government gone sour? Why the market not as excited about new government – the market loves the new government very much? And last but not least what is the market expecting from new government in the next one year?

There are various reasons for the market to have given muted returns. In anticipation of formation of New Government, the market surged from 21000 levels (January 2014) to 24500 levels (May 2014).

Secondly, the pace of reforms have been quite slow, more so than the market expected, as every key reform bills have met with obstruction from the

opposition party suggesting that the new government was not able to convince it effectively.

Thirdly, the government did not live up to its image of reforms – be it on the disinvestment target or privatization of sick PSUs or the merger of public sector banks as announced by Jaitley in his maiden budget speech.

Also India Inc earnings did not support the higher level of stock indices as companies continued to struggle to report growth in their financial numbers. But this is in the rear view mirror. What the stock market expects from new government in the next 12 months would be of interest, as no one would be happy if it gives another 12% return when one can earn risk-free returns in the region of 8-9%

The market wants new government to have quick reforms that help India Inc set up more projects and in turn improve their profitability. The way India Inc is struggling to report growth is a clear cut signal that the market is in no mood to give higher p/es to companies if earnings growth is not smart and quick. Last year's returns in the stock market were due to the re-rating of the market, but next year it would be a function of earnings growth. The market wants two big ticket reforms quickly: gst and the land acquisition bill. gst will improve business efficiencies in the system and add 100 basis points to India's gdp. If for any reason these two reforms get delayed, the market will become nervous and may fall with a significant downside. And with the monsoons unlikely to be great, there's all the more reason for the market to tank.

If we see these two laws (GST & the Land Reform Bill) implemented, we can be more certain about a positive future for India. India has the largest and youngest labour force in the world and a cheap one, especially compared to China, and which also speaks 'OK English'. Which company in the world would then not want to have some of its operations there?

But if India cannot achieve these two goals, we believe it will have to wait longer for the future that has been promised to them so many times by their politicians. But the future belongs to those with a young and energetic population:

Also last year the new government missed the PSU Divestment target as it wanted to raise Rs36,925 crs but could only manage Rs24,277 crs. This year the government has set itself a huge target of Rs41,000 crs, the highest ever in the history of India. More divestment means better sentiment in the market. Another reform which could be big is to reduce non-performing bank loans that are stuck with various state electricity boards (sebs).

While the majority of the market may not doubt the intention of government, the concerns are the pace in which the change is happening. Markets wants the government to put the economy on steroids but the feeling among the people is the treatment given by the government is Homeopathy.

Things done by the government may be good from a long term perspective but at ground zero people aren't happy. The pain is still there and it will take some time before the pain goes.

Creation of jobs is the key for the government to keep away dissatisfaction among people and most important is the focus on the farmer lobby.

In short when change happens it brings pain and it stay for some time. Expectations have to be guarded and investors will have to keep faith and patience as work is happening. For instance improving in coal and iron ore sectors where mining is expected to begin soon. In the power sector, state-run companies have started giving orders for electrical equipment.

In March 2015, the government managed to pass three bills - the Insurance Amendment Bill, and the controversial coal and mining bills - by garnering support from a combination of opposition parties in the Rajya Sabha, where it lacks a majority. To enjoy the impact of the reforms will take some time to shows its benefit.

However the biggest positive for government would

be low oil prices. If the monsoon remains favourable it would help bring down food inflation and give some ammunition in the hands of the government and the Reserve Bank of India to lower rates. In the immediate near term the month of June 2015 will be important to watch from the RBI policy, Greece repayment to IMF and Fed meeting.

On a serious note, we personally believe that Modi has repositioned India's standing on the global stage. And this among other things is his most important achievement, that too, in a situation when the world had just begun to think that India was turning into a 'banana republic'.

Today, India's growth story is making world headlines and global investors are making a bee line to get their footprints and investments established here.

So is this a good time for Retail Investors to buy India equities?

Our advice to all retail investors is that if you want to make huge wealth over a period of time which is very much possible then one must focus on on the big opportunity in equities because that is the only way that can lead to big wealth creation.

Most people start buying shares thinking they will make Rs 2,000 or Rs 5,000 kind of profits. But that cannot change your life.

What can change your life is making Rs 2 crs or Rs 5 crs over many years. Some examples of fundamental research which have helped investors make huge profits over the last ten years is seen in companies like Asian Paints, Eicher Motors, Page Industries, Sun Pharma, Lupin, Indusind Bank where capital has multiplied by over 25 to 50x.

India is now at the start of a new business cycle. Overall economic outlook has improved a lot: GDP growth is improving, inflation is falling, interest rates are being cut and Indian currency rupee is stable vs many other countries.

The new government is expected to provide good governance and do a lot of reforms. Major economic initiatives by the government in areas like coal, power, renewable energy, roads, defence, railways, and tax reforms are already being done.

Also importantly - other avenues of investments like real estate and gold are becoming less attractive to invest in. For eg., Gold has given negative returns in last two years and real estate prices have corrected in many parts of the country. Also with equity penentration at just 2% with India population, the scope for increase is huge provided investors are handheld and guided properly.

So we advise all investors to believe in the India Story but take a more matured long term view on investing in Indian Equities taking a 3 to 4 year view as making easy money in equities looks unrealistic now.

Some of the sectors which we think could benefit significantly over the next 3 years include Private & PSU Banks, (Among this sector Axis Bank, Kotak Mahindra Bank, HDFC Bank & SBI can be preferred) Auto and Auto Components, (Here Bharat Forge & Motherson Sumi can be good wealth creators) IT Services,(TCS & Infosys) Pharma, (Sun Pharma, Lupin and Glemnark look good here) Housing Finance (LIC Housing Finance, HDFC & Repco Home Finance look strong), Education and Oil & Gas related companies especially the oil marketing companies. (BPCL, ONGC and Oil India look attractive)

More pertinently we would still advocate investors to stay away from highly leveraged sectors like Real Estate, Infrastructure, Capital Goods and Metals which are likely to see more pain for the next 12 months.

However one thing is very clear that investors looking at entering the markets now must have a clear 3 to 4 year time plan as short term upsides are ruled out and investors need to be patient and look at the big picture which looks strong.

BRICS - New Chapter of Global Development Finance

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Brazil, Russia, India, and China, before being grouped as the BRIC countries by Goldman Sachs Economist Jim O'Neill, were for a long time on the periphery of the global economy. These countries along with South Africa are now almost looked as a unit in the international financial markets. In principle, the five main stock exchanges of the BRICS nations can be categorized according to certain criteria, but in general, like the countries themselves, their financial markets have little in common.

First of all, it should be noted that when commentators mention BRICS, they usually just mean China and India, since the Asian giants usually outweigh the others in terms of importance, population and the size of their economies. Russia and Brazil are considered secondary members and their function is that of suppliers of raw materials to countries like India and China, which bodes well for the long-term growth prospects of the Asian powers.

Parallels have traditionally been drawn between Russia and Brazil. Indeed, in many respects (territory, population, GDP, their over-dependence on commodities), the countries are similar. However, as a result of its liberal economic reforms over the past 20 years, Brazil has made a huge socio-economic leap forward and this has brought success even to the stock market. In the post-crisis period, these economic reforms opened a window of opportunity for Brazilian stocks and created a safety cushion for the domestic market in 2011 in the midst of the global collapse of stock markets.

They also provided opportunities for Brazilian companies to go public and make IPOs. The secondary global offering of securities in state-owned oil company Petrobras on the Sao Paulo Stock Exchange (Bovepsa) in September 2010 was the largest in the world (more than $70 billion). On Russian stock exchanges, anything above $500 million is unrealistic, although Russian companies have made IPOs worth tens of billions of dollars in Hong Kong, London and New York. Brazil borrowed its stock-exchange infrastructure from Paris; in 1997 Bovespa launched an electronic system purchased from the Paris Bourse.

In contrast to the Brazilian market, the modern securities market of China is not considered to be internationalised (all figures used in this article about China and India rely on statics provided by the Higher School of Economics in Helsinki.) It is widely believed that China has no particular need to develop its stock market. The salient feature of its economic model is to maintain the state's leading role in all areas of economic life, which incidentally is also the case in Russia. In China, bank lending has fully guaranteed the investment needs of the economy and the regulatory authorities have substantially restricted trade in securities.

The Chinese retail market, too, has seen an influx of capital. According to brokers, on some days up to 300,000 individual accounts are opened and banks provide credit collateralized by real estate. Since China imposes strict limits on outward movement of capital, individuals and companies have generated vast savings that cannot be invested abroad.

There have been fundamental changes in world economy in the last decade. Emerging economies

have been on driver seat in post crisis growth. Developing countries at the same time accumulated large foreign exchange reserve with them. Though with high growth rate these emerging market economies lacked in meeting their needs in field of infrastructure & development. There has been persistent deficit in financing development projects in emerging market economies. Primary source for such projects was IMF (International Monetary fund) and World Bank, ADB (Asian development bank). These financial institutions provided finance for development and infrastructure but with harsh conditions. BRICS nations (Brazil, Russia, India, China, and South Africa) provided an alternative to finance infrastructure by creation of NDB (New Development Bank) & CRA (Contingency Reserve Arrangement). The bank will be headquartered in shanghai and Indian will be the first president for six years. The NDB's subscribed equity capital would be $50 billion of which $10 billion could be paid in equal amounts of $2billion by each member. That means the members would not need large amount to create NDB.

Main objective of bank was to fund low- middle income and member countries for their infrastructure development projects. ADB has been flourished in this sector but conditions and cost for providing fund for projects many times discouraged nations to apply for fund. the NDB's opportunity cost of borrowing would be rate of return that BRICS countries receive on their united states treasury Bills investments. NDB provided equal voting rights to member nations. This was also main aim in creation of bank. Developing nations are contributing more and more in global output and growth. The most important thing which powers this nation with creation of this bank is that will not be domination of U.S and other E.U countries. IMF and World Bank are pre-dominantly controlled by U.s and E.U nations which set apart rules differently for emerging market and other developed countries. Last main arrangement made by BRICS nations is about maintaining contingency reserve arrangement (CRA) of $100 billion to tackle balance of payment issues of member nations. Major share in CRA is of china at$ 40 billion, $5 billion by South Africa and $18 billion by other member nations. China currently has more than $3 trillion of reserves which are kept in U.S treasury bills. China has also got an opportunity in this way to invest and earn more.

Functions of these international institutions affect global capital market at macro level. Banks like NDB give policy advice to its member countries for improving their macro-economic situations, which affects industries and various other sectors of economy . Another important aspect of NDB would be its rating to countries. These ratings largely affect the flow of capital in the market. Higher ratings given by the bank increase the flow of money in the economy through FII's, FDI's & vice-e-versa. NDB's decisions and predictions about growth of a country are important as the bank is formed by emerging markets. These predictions about growth rate also affect the capital market and flow of funds in the country.

Bretton woods system which led to birth of IMF and World Bank is largely controlled by U.S and European nations. The voting powers in IMF are based on share of global trade output, major voting right are with U.S currently. BRICS nation together count for 28% of world GDP and their voting rights are just 11%. World Bank is also dominated by European members; each president of World Bank is from European country. There are many hurdles to get fund for infrastructure projects such as conditions and other approvals which delay the release of fund and increase the cost of project. the IMF does not ask for collateral for loans, instead it asks to change in economic policies, this somewhere creates distrust between developed and developing nations .Other benefits with creation of NDB is that each BRICS nation has Some GEO- political issues with Western World and this is an opportunity to tame down U.S With each member nations getting equal voting rights chances of conflicts are less , it will also induce U.S and European dominated IMF to change reforms and increase the voting rights of BRICS nations and loss in rights of European nations.

In context of India, K.V Kamath will be the First President of bank . India's presidency role will be crucial in first six years. It would be hard for him to layout structure & criteria for funding investment.

NDB is proving fruitful in terms of strengthening relations with other member countries. India & china have tense relations because of border issues and partnership with other china's rival countries. This will be an opportunity to solve the above complex issues & other issues related trade and investment between these two nations. Since BRICS economies can trade in their own currencies inspite of dollar it will definitely help India in augmenting forex reserve. Indian Government has also allowed companies to borrow yuan dominated loans form Chinese government to pay imports from China.

The fact that there is large gap in these nation in terms of infrastructure. NDB will definitely will not be sufficient enough to fill up the gap but will add up investment and help poor countries to develop renewable energy projects, which is the main area of bank's funding initiative. Bank has to make balanced portfolio of loan that includes middle- income countries and low-income countries as it would make bank creditworthy. The main issue which every international financial institution faces is repayment of loans. NDB has to make loan structure easy as well as accountable and profitable so that retained profits will again be used for investing.

To conclude, the BRICS bank will complement the current financial architecture and not substitute it. It will also increase weight of emerging market economies in west centered financial system which will induce them to change policies regarding financing infrastructure and development in third world countries.

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