

# OPTIONS

- a financial derivative whereby the buyer of the option gets the right to buy or sell the underlying asset in a specified quantity at or before a specified date in future
- underlying asset – individual share, a stock index like Sensex or Nifty
- no obligation to settle the transactions
- buyer can exercise the option only if it is profitable or else he can allow it to expire
- buyer pays a fixed amount per share – option premium
- Option Premium – income to the seller of the option (option writer)
- Call option – option gives right to the buyer to buy the underlying asset at a predetermined price
- Put option – the option is to sell
- double option – taking both call and put option in the same stock or index at the same time
- On the basis of nature of exercise of the option –
  1. European Option
  2. American Option

# Option Trading

## Advantages

1. No big investment
2. No margin as in Futures
3. No obligation
4. No Mark-to-Market
5. More gain than risk

## Disadvantages

1. Premium payment
2. Less liquidity

# Member of a Stock Exchange

- ▶ citizen of the country with the age of 21 years or more
- ▶ should have a clean past
- ▶ should not have any other business
- ▶ should be a graduate
- ▶ should not be a defaulter in any other SE
- ▶ entities registered as limited companies can also become a member
- ▶ a SE can also become a member of another SE
- ▶ every member can enter into an agreement with another member

# System of Depositories

- ▶ Depository is a financial intermediary holding financial securities of the investors electronically
- ▶ Procedure for demat transactions
  1. Opening a demat account
  2. Dematerialising the shares
  3. Sale of shares
  4. Purchases of shares
  5. Rematerialization
- ▶ Two Depositories
  1. National Securities Depository Ltd
  2. Central Depository Services Ltd

# Benefits of Dematerialisation

1. Elimination of risks
2. Avoidance of bad delivery
3. Date of transfer deed
4. Quick transfers
5. Shorter settlement cycle
6. Corporate action
7. No stamp duty
8. Easy recording of changes
9. Easy transmission
10. Avoidance of share transfer expenses
11. Bulk transfers
12. Easy portfolio monitoring
13. Enabling E-Trading
14. Effective SEBI monitoring
15. Easy pledging
16. Attracting foreign funds

# Stock Market Indices

- ▶ An index is a measure that reflects the changes in the prices of a predetermined number of shares between the base period and the current period.
- ▶ NSE indices –
  1. S&P CNX Nifty
  2. CNX Nifty Junior
  3. S&P CNX 500
  4. CNX Midcap 200
  5. Other Indices
- ▶ BSE indices –
  1. BSE – SENSEX
  2. BSE – 100 National Index
  3. BSE – 500
  4. BSE – 200 Midcap
  5. Sectoral Indices

# Uses of Indices

1. Indicator of daily market behaviour
2. Basis for stock market research
3. Underlying asset for derivative market
4. Determining trends and tendencies
5. Benchmark for portfolio performance
6. Guiding investment decisions
7. Timing the primary issues
8. Identifying stock liquidity
9. Designing public finance
10. Barometer for economy

# Book building

## ▶ Meaning

A process by which quantity of shares to be issued and the price at which they are to be issued is determined.

## ▶ Definition

SEBI (Disclosure & Investor Protection) Guidelines 2000 defines book-building as, “a process undertaken by which a demand for the securities proposed to be issued by a body corporate is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document”.

## ▶ Features

1. Quantity assessment
2. Price discovery
3. Documents
4. Category
5. Book running lead manager

## ➤ Rationale (reason or logic)

1. Institutional investors
2. Legal compulsion
3. Irrelevant quantum of finance
4. Shorter process of issue



# Speculation – a trading transaction with a view to make a quick profit

▶ The most usual speculative transactions are as follows –

1. Badla transaction
2. Rigging the market
3. Cornering
4. Wash sales
5. Dividend stripping

▶ Speculators –

1. Bull
2. Bear
3. Lame duck
4. Arbitrageur

# SEBI guidelines to -

## Primary Market (New Issues)

1. Initial Public Offer (IPO)
2. Follow-on Public Offer (FPO)
3. Underwriting
4. Public Issue and Right Issue
5. Innovative Instruments
6. Bonus Shares
7. Issue of Debentures
8. Listing Agreement

## Secondary Market (Stock Market)

1. Compulsory registration of intermediaries
2. Demutualization
3. Transparency in trading
4. Compulsory audit
5. Investor protection
6. Capital adequacy norms

# Commodities market in India

## ▶ Meaning

An organized market with the name exchange providing facilities for speculation and risk management

## ▶ Definition

Mark Uncles defines commodities exchange as, “an exchange for buying and selling commodities for future delivery”.

It is a mechanism to protect the traders and the industrialists from the future increase in the prices of commodities.

## ▶ Commodities Exchanges in India

1. Multi-Commodity Exchange of India Limited (MCX)
2. National Commodity & Derivative Exchange Limited (NCDEX)
3. National Multi-commodity Exchange Limited (NMEX)

# Government Securities Market

- ▶ The securities issued by the government as a part of their borrowing program are called government securities.
- ▶ Features of Government Securities Market
  1. Issuers
  2. Risk-free return
  3. Benchmark interest rates
  4. Long tenure
  5. Huge investment by banks
  6. Oil bonds
  7. Market Stabilization Scheme (MSS) bonds
  8. Primary Dealers
  9. Investors
  10. Subsidiary General Account
- ▶ Types
  1. Dated securities
  2. Treasury bills