

# **INTRODUCTION TO SHARE MARKET**

## **What is Share Market?**

A stock market, also known as an equity market or share market, is a platform where buyers and sellers trade stocks, which signify ownership claims in businesses.

A stock market, equity market, or share market is where people buy and sell stocks. The share market serves as a platform for investors to participate in the growth of companies, diversify their portfolios, and potentially earn returns on their investments. In this article, we explore the share market, the reasons to invest in it, the types of share markets, and some essential terms that every aspiring investor should know.

## **Why invest in the share market?**

Investing in the share market offers a range of benefits that attract both seasoned investors and newcomers:

- 1) Potential for high returns: Historically, the share market has offered the potential for higher returns compared to many other investment options over the long term.
- 2) Ownership in companies: Buying shares grants you ownership in the company. As the company's value and profits grow, so does the value of your ownership.
- 3) Diversification: Investing in different companies across various sectors can help spread risk and reduce the impact of a poor-performing investment.
- 4) Liquidity: The share market is highly liquid, meaning you can easily convert your investments into cash by selling your shares.
- 5) Long-term wealth creation: Shares have the potential to generate wealth over time through capital appreciation and dividends.

## **Types of share market**

The primary market and secondary market are two distinct segments in the stock trading process.

### **1) Primary market**

The primary market refers to the market where shares are issued for the first time by companies seeking to raise capital. The shares are bought by investors directly from the company or through an underwriter, in an initial public offering (IPO). The proceeds from the issuance of shares go to the company. Therefore, the primary market is crucial for businesses that need to raise funds through equity financing to start or expand their operations.

### **2) Secondary market**

The secondary market, on the other hand, refers to the market where existing shares are traded among investors after the initial public offering. The shares are sold and bought among investors without participation from the issuing company. The prices of shares in the secondary market are primarily based on supply and demand, and they can fluctuate based on market conditions. The secondary market is important for investors who seek to buy or sell securities to realize capital gains or losses, depending on market conditions.

### **3) Equity market**

The equity market is where companies sell ownership (shares) to investors. Buyers submit bids, which is the price they are willing to pay. Sellers set ask prices, which is the minimum price they will accept. Brokers help negotiate a final price, and if a buyer and seller agree, the trade happens. The buyer pays the total cost (stock price multiplied by number of shares, plus fees), and the shares are deposited into their account.

### **4) Derivative market**

The derivative market is different. Here, trading revolves around contracts like futures and options. These contracts focus on buying or selling a stock at a specific price by a certain date. Unlike the equity market where you actually own the shares, derivatives allow speculation on stock prices without directly buying them. Both futures and options involve trading in large quantities, and using them requires understanding these specific instruments.

Both markets offer investors opportunities for capital appreciation and income depending on their asset allocation strategies and market outlook.

### **How to invest in share market?**

A person can choose to invest in either the primary or the secondary market. In the primary market, investors can directly purchase company stocks issued via an Initial Public Offering (IPOs). In the secondary stock market, investments are made through the sale and purchase of securities between the buyers and sellers on the stock exchanges.

#### **1) Investing in the primary market (IPOs)**

For investing in IPOs, one will need a Demat and trading account. A trader can also apply for an IPO directly through their bank account. IPO application through net banking has become easier with the introduction of a process known as Application Supported by Blocked Amount (ASBA).

#### **2) Investing in the secondary market**

Here is the procedure for investing in the share market:

Step 1: Open a Demat and trading account.

Step 2: Log in to the trading account and choose the stocks to purchase.

Step 3: Decide the price point to buy or sell shares.

Step 4: After completing the transaction, either money or shares get credited to the Demat account.

### **Notable terms in share market and their explanation**

The share market has a variety of terms that are essential for investors to understand before engaging in trading or investing. Here's a list of some notable terms along with their explanations:

**Shares:** Also known as stocks or equities, shares represent ownership in a company. Owning shares makes you a partial owner of the company.

**Bulls and bears:** Bulls and bears represent market trends. A bull market is characterized by rising prices and optimism, while a bear market is marked by falling prices and pessimism.

**Dividends:** Dividends are a portion of a company's profits distributed to its shareholders as a reward for holding shares.

**Market capitalization:** Market cap is the total value of a company's outstanding shares. It's calculated by multiplying the share price by the total number of shares.

**Blue-chip stocks:** These are shares of well-established and financially stable companies with a history of strong performance.

**Volatility:** Volatility refers to the degree of variation of a stock's price over time. Highly volatile stocks can experience significant price fluctuations.

**NIFTY:** The term "NIFTY" refers to the Nifty 50, which is a stock market index. The Nifty 50 is one of the major stock market indices in India and is used as a benchmark to track the performance of the overall Indian stock market. It is managed and operated by the National Stock Exchange of India (NSE).

**Sensex:** The S&P BSE Sensex is the benchmark stock market index of India. It is a free-float market-capitalization-weighted index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE).

## Conclusion

The share market is a dynamic ecosystem that provides opportunities for individuals to become a part of the growth story of companies and potentially realize financial gains. From its primary and secondary market divisions to the concepts of bulls, bears, dividends, and market capitalization, the share market is filled with terms that may seem complex at first but hold immense potential for investors.

For those willing to venture into the world of investing, the share market offers a chance to be a participant in the global economy's growth

and prosperity. Whether you are aiming for long-term wealth creation, diversification, or a deeper understanding of the economic landscape, the share market is undoubtedly a gateway that opens doors to a world of possibilities. As you navigate this realm, understanding the fundamentals and staying informed will be your best companions on the path to successful investing.

To invest in the share market, one would require a Demat and trading account, which facilitates holding shares and executing trades.



# Share Market Easy