

“Stock market investment - Q & A”

We have received many questions on our book on 'Guide for stock market investment'. For the benefit of all the viewers of the site, we give below the questions as received by us; with our answers thereon.

Q.1 :- What is the definitions of and how one can differentiate between a trader, speculator and investor? At what point one steps from one domain to other?

Ans. 1:- An investor is one who does the investment activity within his means; while an speculator is one who does beyond this. The means include physical means (money) as well as intangibles like knowledge , wisdom, experience , patience etc.

A trader is a person (may be investor or speculator) who does the investment activity in larger frequencies generally on day to day basis. According to the provisions of the Income Tax Act, an investor is one who generally invests in the stock market for one year or more effecting delivery based transactions. An speculator, on the other hand, is one who does the transactions without taking/giving deliveries. A trader is one who either does delivery based transactions on a day to day / short term basis or is engaged into derivative transactions.

Normally, on getting success in investment activities , an investor becomes a trader / speculator to earn more profits.

Q.2:- How to be "rationally" fearful and greedy? without that one can not earn in stocks.

Ans.2 :- ‘fear’ & ‘greed’ are said to be two infectious diseases of the market. This is true that one needs to be greedy to earn in the market but the greed needs to be managed based on one’s own experience, gut feeling & ability to take risk. The concept of value investing & a deep study of market behavior helps a lot. Recently , world over , a new subject known as “ Behavioral Finance” is developing which studies the effect of an investor’s psychology on his investment behavior.

Q.3 :- How to identify good stocks? How do you define goodness?

Ans. 3 :- I define the good stock which has the following qualities :-
(i) It is identified when the stock market scenario looks positive ;
(ii) The business scenario of the company is positive ;
(iii) The share price of such a company is reasonably lower than its fair value ascertained by us;

(iv) The management of the company is efficient as well as shareholder-friendly.

Q.4 :- How to make ourselves believe that our selected "good" stock is not performing well and probably would never perform well?

Ans. 4 :- Normally the share we buy cheap are those which are out of favor of the market due to some temporary problem faced by the company or the sector to which the company belongs. In such a case we need to have good business input of the company on a continue basis to ensure that the company is improving and would turnaround in due course. Till then, we need to have patience and continue accumulation of stock at lowest possible price. Generally stocks of the companies with qualities as mentioned in answer -3 are available at very low rates during the period of market depression or when such companies face short term problems.

Q5 :- How long is long enough?

Ans. 5 :- The successful value investors believe that we should invest in the market/ companies taking 5 to 10 years view to get extra ordinary profits. However, the investor should regularly watch that the company is performing as expected. Moreover , any great profit opportunity created by the market should be availed of .

Q.6 :- How to differentiate between a "rumor" and "news"?

Ans. 6 :- The market prices are greatly affected by ‘ rumors’ and ‘news’. A rumor is an unconfirmed news which may or may not turn out to be true. That is why someone has said “buy on rumor, sell on news”.

Q.7 :- How to maintain accounts and track the stocks in the accounts? I always have a feeling that few stocks which I purchase never get credited to my a/c.

Ans. 7 :- Sometimes, a stock broker keeps the stock purchased by the client in the broker’s pool account and so no credit for such shares appear in the d’mat account of the investor. The broker does so in those cases where he thinks that the investor may sell those stocks shortly. In such a case, if the stock is kept in broker’s pool account then the investor saves the d’mat charges & the delivery is very easily effected by the broker. To properly track the stocks in the account, it is desirable to limit the number of scrip between 5 to 10.

Q.8 :- How to track dividends?

Ans. 8 :- Dividend can be tracked as follows:-

(i) To know about the record date of the dividend from the announcement made by the company. We are eligible to the dividend on the shares held by us on the record date.

(ii) Most of the companies take an option from the investor whereby they directly credit dividend to the investor's bank a/c. We should give mandate for such direct electronic credit.

Q. 9 :- How to take decision about "Buyback" offer?

Ans. 9 :- The decision about buy- back would depend upon the following:-

(i) Comparison between the prevailing market price & the buy-back price;

(ii) Prospects about the size and profitability of the company by the acquirer ;

(iii) Sometimes the acquirer is a foreign entity & wishes to delist the shares of the company. In such a case we should not offer our share for buy-back as the share price may jump substantially high when the decision for delisting is declared.

Q.10 :- What to monitor when I am monitoring my portfolio?

Ans. 10 :- When you monitor your portfolio , review your judgement on the basis of which you had purchased the stock. Any further development supporting or going against the original judgement needs to be further reviewed.

Q.11 :- Why not take help of personal financial manager and how to pin point that he is working correctly?

Ans. 11 :- Investing is a game of perception supported by knowledge , wisdom, skill, experience , action & patience. Whether you do it yourself or through some financial manager, you need to exercise all these qualities.