



## *Pehla kadam in Capital market.*

### *Procedure for Buying Shares*

Buying shares and debentures involves the following steps.

#### *Locating a Broker*

Typically, shares are bought through a stock broker, who is a licensed member of a recognized stock exchange. So, when you want to buy shares, you should locate a broker. Ask your friends, who have experience, to recommend some names and meet the suggested brokers personally and make a first-hand assessment. Basically, satisfy yourself that the broker you select can render prompt and efficient service and protect your interest.

For doing business with the broker, you have to submit a client registration form as well as a member-constituent form (or a sub-broker client agreement form). The latter contains the terms and conditions relating to order / trade confirmation, brokerage charged by a trading member / registered sub-broker, and delivery of securities and funds.

#### *Placement of Order*

After locating a suitable broker, place your order to buy. Your order should clearly specify the name of the company and the type of securities (equity shares, preference shares, or debentures). Note that all transactions through a stock exchange are now settled through the depositories. So you must have a demat account with an authorized depository before you place an order.

You can place a limit order or a market order. A limit order specifies the quantity to be traded, the highest price (the limit price) that the buyer is willing to accept, and the length of time the order is valid. A day order remains valid. A day order remains valid only for the day when it is placed. If the order is not executed on that day, it automatically lapses. A week order is one which is valid for a week. A month order is an order which is valid for one month. An open order remains valid in effect until it is executed

or cancelled. For example, you may submit a limit order to buy 100 shares of Reliance Industries until the close of the trading on a particular day at any price less than or equal to the limit price of Rs 505.

When you submit a limit order, you run the risk of delayed execution as well as the risk that the order will not be executed. Those who place active limit orders essentially stand ready to trade at the discretion of the other market participants. Hence they supply liquidity to the market, just as a market maker (who is ready to buy when investors want to sell and to sell when investors want to buy) does.

When you submit a market order, you merely specify the quantity that you want to buy at that best available price. For example, you may submit a market order for 100 shares of Reliance Industries. A market order guarantees execution; however, the trade price is not known beforehand. Those who place market orders essentially require liquidity from the market. Put differently, they demand liquidity from the market.

#### *Execution of Order*

On receiving your order, the broker will feed the same on his terminal. Once the order is executed, the broker will inform you and send a 'contract note'. Representing the documentary evidence of the transaction, the 'contract note' contains relevant details of the transactions. Preserve it for tax and other purposes.

You are expected to pay for your purchase within a stipulated period specified by the broker. After you have affected the payment the broker will transfer the share electronically to your depository participant account.

#### *Procedure for selling*

Once you have located a broker, the steps involved in selling shares are as follows:

#### *Placement of Order*

You have to place a 'sale order' with your broker. You may place a 'limit order' wherein you specify the minimum price acceptable to you; or you may place a 'market order', which means that you instruct your broker to sell at the best available market price. Before placing the order, make sure that the shares you want to sell are to your credit in your depository account.

#### *Execution of Order*

On receiving your 'sale order', your broker will feed the same in his terminal. Once the order is executed the broker will inform you and send you a 'contract note' the documentary evidence of the transaction. You will then have to issue a depository participant cheque for the shares that you have sold in favour of the broker. This cheque transfers the shares from your depository account to the broker's depository account, just the way a bank cheque transfer's money from the payer's account to the payee's account. You will receive payment from the broker in few days.

## Internet Trading

February 2000 witnessed the introduction of stock trading on the internet in India, Currently, ICICI Webtrade , Sharekhan, Kotaksteet, Geojit Securities, Investmart, and others offer internet trading.

To do internet trading, you have to register yourself as a client with the internet broker, apart from having a computer, a modern, and telephone connections. You also have to keep a minimum deposit in the bank account with the internet broker which the broker can directly debit or credit. For example, for ICICI Webtrade , you should open a bank account as well as a demat account with ICICI bank . You can feel the NSE terminal and BSE terminal on your computer screen and you can key your buy and sell orders directly. Within the limits assigned by your internet broker, your orders will get logged directly on the trading platform

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