



Stock Markets Guides

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Stock Market for Beginners Trading Guide



When you buy shares of a particular company you are looking to make a profit through price rising, through dividend payments, or from both.

You cannot simply walk into an exchange and start buying shares. Only a limited number of people are allowed to trade in a stock exchange. These people are called brokers, and all

transactions in a stock exchange go through them. To trade any financial instrument, you need to register yourself with a broker. These days, it is more common to use online brokers.

In this guide, we discuss the information you need so you can take the first step in your stock market trading and investing journey.

What is the Stock Market?


A stock exchange is a location where buying, selling, and issuing shares of publicly traded companies is carried out regularly.

A country might have several stock exchanges, and all of these exchanges put together form what we call the stock market.

These exchanges provide a [trading platform](#) where anyone can buy or sell the shares of a given company, and this is done by linking buyers and sellers together so that transactions can occur.



For example, say you place an order with your broker for buying 200 shares of Apple at a given price. Your broker will then transmit this order to the stock exchange, where you will be linked



to someone who wants to sell 200 shares of Apple at your given price. The transaction will then be executed, and the broker will take a fee for their services.

The Basics of Stock Market Trading

The first thing you need to know about a share is that it is a form of ownership, i.e., when you buy a share of a company, you own a small piece of the company.

Suppose a company has 1000 shares, and you own 150 of them, then you're a 15% owner of the company. In reality, companies have hundreds of thousands of shares floating around, so your piece of ownership will likely be tiny.

Another crucial bit of information is that there are two kinds of markets: primary and secondary.

Whenever a company wants to go public, they do so usually through an Initial Public Offering (IPO). This means that shares are offered to the public, and they can apply for these shares.

The company then allots these shares to people who applied. A portion of the shares is usually retained by the company owners so that they can maintain ownership. This is done through the primary market.

However, once the company has issued the shares in the primary market, investors and traders can buy and sell these shares in the secondary market. The company that originally issued these shares is not involved in these transactions, and these are carried out between buyers and sellers in the market itself.

How Stock Prices are Determined

A stock's prices are determined the same way prices for any other good are decided upon in the market; the point at which the supply and demand curve for the stock intersect. If the supply of a particular stock is higher than the demand for it, implying that many people are willing to sell but not enough people want to buy the stock, the stock price will go down.

People will try to reduce their asking price to sell the stock somehow, causing prices to fall even further until the point where demand and supply curves intersect, and equilibrium is reached.

The screenshot displays a trading interface for NASDAQ:AAPL. At the top, there are two buttons: 'SELL' with a price of 136.15 and 'BUY' with a price of 136.57, with a bid-ask spread of 0.42. Below these are three order type tabs: 'MARKET', 'LIMIT' (which is selected), and 'STOP'. The 'Order Price' section has two input fields: 'Absolute' with the value 128.93 and 'Ticks' with the value 'Ask - 764'. The 'Quantity' section has a single input field with the value 1. Below this are two sections for 'Take Profit' and 'Stop Loss', each with a checkbox and a table of values. The 'Take Profit' table has values 75, 129.68, 0.75, and 0.00. The 'Stop Loss' table has values 25, 128.68, 0.25, and 0.00. At the bottom, there is a 'Time in Force' dropdown menu set to 'DAY' and a large blue button that reads 'BUY 1 NASDAQ:AAPL @ 128.93 LMT'.

Take Profit	Stop Loss
<input type="checkbox"/>	<input type="checkbox"/>
75	25
129.68	128.68
0.75	0.25
0.00	0.00

Time in Force DAY

BUY 1 NASDAQ:AAPL @ 128.93 LMT

If the demand for a particular stock is higher than its supply, implying that there are more buyers than sellers, the price will go up as people are willing to pay a higher amount of money to purchase the stock. This will cause an increase in the share price until the point where equilibrium is attained.

Factors Affecting Supply and Demand

The demand and supply for a particular stock can be affected by many factors, each of which can cause an upward or downward movement in the stock price. Some of these factors, along with how they affect share prices, have been discussed below:

1. **Macroeconomic factors:** The share market is affected by the condition of the general economy. If the economy is in a recession, companies will find themselves in a difficult position as raw materials get expensive and the demand for their products falls. In such scenarios, the company's share price also falls because people sell off shares before the share market crashes. In an economic boom, however, share prices generally increase because of the positive outlook for the company.
2. **Quarterly/Annual Earnings Reports:** The week leading up to and after a company's earnings are declared are particularly active weeks for the share prices. If people expect the company to profit, they will then buy shares since they want to be part-owners of a successful company. However, if the company is expected to have a bad quarter, people often sell off shares to invest their money in more profitable companies. Dividends also play a role here, and these will be discussed later in this article.
3. **Industry Events:** Major events that affect the entire industry are also reasons why the demand and supply curves for a share might shift. For example, an increase in oil prices might cause airline stocks to go down because oil is one of the biggest inputs for airlines. If oil prices go up, this will reduce airline companies' profitability, and therefore, people sell airline stocks, causing a fall in the prices.
4. **Technical patterns:** Most commonly, traders trade using technical patterns and analysis, discussed below. Under this methodology, they look for patterns or trends in share prices and forecast future prices based on this information. Thus, technical patterns are also why stocks are bought and sold on a particular day, affecting the demand and supply curves.
5. **Exchange rates and interest rates:** This is another major factor that affects the prices of shares across the market. If the government raises interest rates for savings in a particular country, then saving money in a bank becomes an attractive option to customers, as this is a zero-risk situation that gives them good returns. Hence, they might sell off their shares and decide to save their money in a bank instead. This sudden increase in sellers would shift the supply curve to the right, causing a fall in share prices. An increase in exchange rates for any particular currency would have similar effects to stock prices.

Basic Stock Trading Strategies

If you're interested in trading stocks, then there are two main strategies you need to be aware of; [technical analysis](#) and fundamental analysis.

Both of these forms of analysis enable you to identify the right shares to invest in/trade. But first, it is important to understand the difference between trading and investing.

When you invest in a company, you do so with the expectations that you will profit in two ways: dividends that the company pays out when it has profits and an appreciation in the company's share price over the long term. This appreciation is usually due to the company consistently having profits, increasing its market share, and operating efficiently.

However, trading is completely different. The time horizons involved with trading are usually a week or a day, and in some cases, traders only hold stocks for a few seconds. Trading aims at profiting through fluctuations in the share prices over a short period of time.

Whether you're planning to trade or invest in the stock market, you will have to choose the right strategy that matches your needs.

Trading the Stock Market with Technical Analysis

Technical analysis is most commonly used for trading only. It involves studying price patterns and trends and using these to forecast future price movements so that action can be taken accordingly. This is usually done in two main ways:

1. Observing previous stock price patterns
2. Trying to find and establish a known candlestick pattern

There are several known patterns that traders look for in a particular stock to trade accordingly and try to profit. Depending on whether the technical analysis says a stock will go up or down, traders can take positions appropriately.



Traders often use several technical indicators while studying chart patterns, such as Moving Averages, Bollinger Bands, and the Relative Strength Index. Each of these indicates a different kind of price action, and traders usually try out indicators in different combinations until they can figure out which one works best for them.

Trading the Stock Market with Fundamentals

Fundamental analysis is most commonly used by investors and was popularized by Warren Buffet as a good way to consistently profit in the stock market over long periods of time. It involves analyzing the company in great detail to understand the fundamental principles behind the business model that the company operates under. This is done by:

- Studying the company's financial statements to analyze its profitability and efficiency was done by calculating various financial ratios.
- Researching the company's management to analyze the leadership style and structure of the company, done by looking at any allegations of corruption or bribery against the senior management.

- It is done by studying the company's competitors to see how the company is performing compared to them, done by analyzing their financial statements and comparing their financial ratios to that of the target company.
- Going through the company's supply chain to identify inefficiencies and see how the company plans to deal with them, such as suppliers, service providers, or inputs that have particularly volatile prices.

Once this process has been concluded and viable companies have been identified, investors then buy shares of these companies and hold them. When the company prospers, the share price increases accordingly, and the investor profits from being the part-owner in a successful, profitable company.

Occasionally, even fundamental investors use technical analysis once they have identified companies they want to invest in. This is done so that optimal points can be identified where the stock is at its lowest, thus maximizing profits for the investors.

What is a Stock Dividend?

A stock dividend is, put very simply, a share in the profits of a company. As mentioned earlier, owning a share in the company means that you're the company's part-owner. Therefore, you are entitled to a share in the profits of the company.

Whenever a publicly traded company declares a profit, they retain part of it to finance their future operations and expansions. However, the rest of the profit is paid out to the shareholders in the form of dividends.

Some companies pay more dividends than others; hence their shares are more valuable since there is the possibility of a dual benefit: a dividend and an appreciation in the share price. Thus, owning shares in companies that pay high dividends is a good way to generate passive income as an investor.

What are Stock Market Indexes?

Stock exchanges usually have thousands of stocks that you can choose from to trade and invest in. These stocks can be classified in various ways, such as based on their sector, the country they are headquartered in, and the total value of their stocks.




AUS200.a
GER30.a
HK50.a
UK100.a
US30.a
US500.a
NAS100.a
FRA40.a
JPN225.a
SPA35.a
EUSTX50.a
US2000.a
CN50.a
VIX.a
SCI25.a
CA60.a
CHINAH.a
MidDE60.a
NOR25.a
SA40.a

However, say you want to know how the entirety of a particular sector is doing. It is not feasible or easy for you to look at every company in that sector to understand the overall position of the sector.

In such cases, stock market indexes can come in handy. An index is basically a collection of stocks that have something or the other in common. They can be classified on any basis, such as:

1. The S&P 500 includes the stocks of the largest 500 companies in the US and is an excellent indicator of how the US economy is doing in general.
2. The US Tech 100 includes 100 of the biggest technology stocks among US companies and indicates the position of the entire sector to investors.

Indexes are an excellent way of keeping an eye on an entire sector or economy together. In addition to this, they can also be used as a tool for diversification if you want to invest across



the board in an entire sector or economy without limiting yourself to one company. Index funds allow you to invest your money across the entire index in a fixed pre-determined ratio.

What are the Major Stock Markets Around the World?

Every major country has its own stock exchange(s) where shares are issued and traded regularly.

Its market capitalization is the number of shares it has issued multiplied by the share price for any given company. For example, suppose a company has 100 shares of \$5 each, then the market capitalization of the company is \$500.

The market capitalization of a stock exchange, on the other hand, is the sum of the market capitalizations of every company whose shares are traded in that particular exchange. Based on the exchange market capitalization, the top 10 biggest stock exchanges around the world are:

1. The New York Stock Exchange, based in New York, with a total market cap of \$25.6 trillion.
2. The NASDAQ Stock Exchange, based in New York, with a total market cap of \$19.51 trillion.
3. The Hong Kong Stock Exchange, based in Hong Kong, with a total market cap of \$6.76 trillion.
4. The Shanghai Stock Exchange, based in Shanghai, with a total market cap of \$6.56 trillion.
5. The Japan Stock Exchange, based in Tokyo, with a total market cap of \$6.54 trillion.
6. The Euronext Stock Exchange, based in various European cities, with a total market cap of \$5.08 trillion.
7. The Shenzhen Stock Exchange, based in China, with a total market cap of \$4.83 trillion.
8. The London Stock Exchange, based in London, with a total market cap of \$3.83 trillion.
9. The Bombay Stock Exchange, based in India, with a total market cap of \$3.16 trillion.
10. The National Stock Exchange, based in India, with a total market cap of \$3 trillion.

Each of these exchanges also has its own index, which comprises the largest companies traded in the particular exchange. Most online brokers can trade in multiple exchanges, allowing their users to trade on several markets simultaneously.

How to Start Investing with Little Money?

If you're looking to start trading/investing in the stock market, the first step for you would be to identify an online broker and create an account with them. This involves submitting your basic information, including ID and Address Proof.

Once this has been done, you can add money to your trading account and begin buying and selling shares. There are two main ways to do this: owning shares and trading CFDs.

Owning Shares

When you own shares of a particular company, you're the owner of a part of the company, and you will make money when the share prices go up. You invest your own capital to buy the shares, receive dividends in case of a profit declared by the company, and are entitled to voting rights and everything else that being a shareholder would give you.

Trading CFD's

Another alternative to trading actual shares is to trade in CFDs. These are underlying assets that derive their value from the original asset; hence, they are called derivatives.

A CFD is a Contract For Difference and is used to speculate on the movements of the company prices. When you trade CFDs, you don't actually own shares of the company; you simply try to predict whether the price will go up and down, buy or sell instruments accordingly, and profit when your predictions are true.

Most often, brokerages will allow you to trade CFDs on leverage, which means you can trade with more money than you have. For example, a 10:1 leverage means that you can buy CFD's worth \$100 using only a \$10 investment. This is a high-risk, high-reward scenario that doesn't require much capital and is thus preferred by most traders.

Lastly

Your choice of a broker will depend on the type of investing/trading you wish to carry out through your account.

There are different brokers that you could choose from for both owning shares and trading in CFDs. One important thing for you to remember is that trading is not risk-free, and you should be very careful while trading/investing your money anywhere, especially on leverage. Make sure you understand the risk-reward ratio and potential in every trade, and trade safely.



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