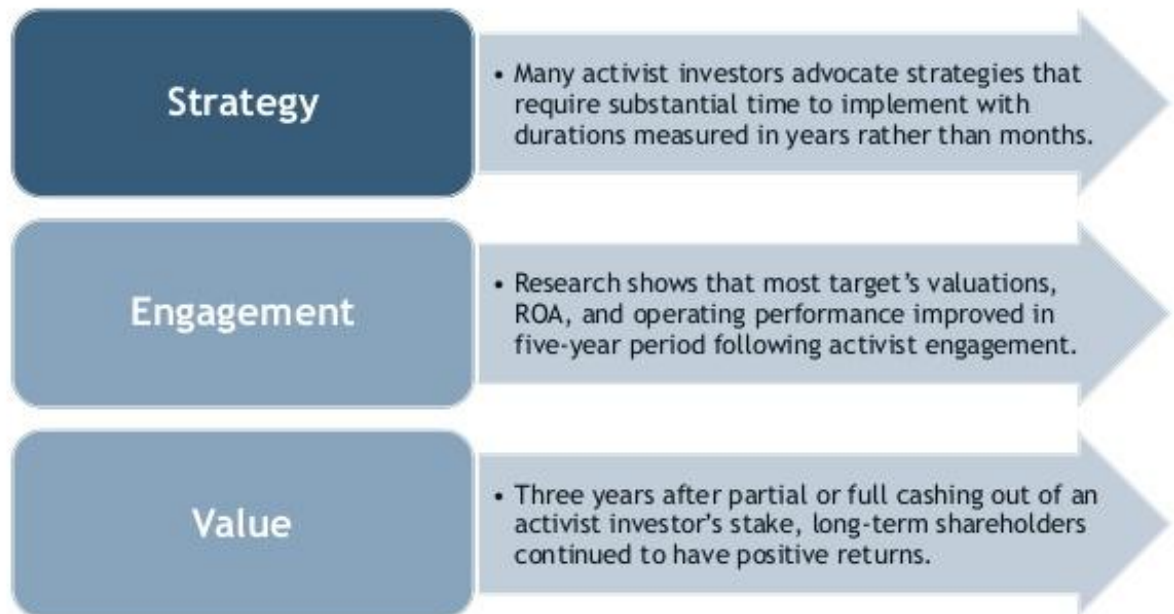


Shareholder Activism



Source: Engstaler (2014); Brav, Jiang, Thomas, Partnoy (2008)



20

Basic Stock Market Terms you should know

Whether you are a budding or seasoned investor, knowledge of the basic terms used in the stock market is necessary. You will end up becoming not only a better investor but also a successful trader as your vocabulary on stock market grows. Here is a glossary of basic terms that you need to know as an investor:

- **Agent:**

An agent is a brokerage firm which does buying/selling of shares on behalf of the investor in the stock market.

- **Ask/Offer:**

It refers to the lowest price at which the owner of the equity shares is ready to sell the shares in the stock market.

- **At the money:**

Under this scenario, the strike price of an option is equal to the price of the underlying asset which it represents.

- **Broker**

A person who purchases or sells an investment on behalf of the investor/trader in return for a commission.

- **Bear Market:**

It refers to a period in which the prices of equity shares fall consistently. You may look at it like beginning of a downward trend in the stock market.

- **Bull Market:**

An opposite of bear market, a bull market situation in which the prices of the stocks are increasing over a prolonged period of time. A single stock and a sector can be bullish at one time and bearish at another time.

- **Beta:**

It measures the association between price of one equity share and the overall movement of stock market. Beta of the market is assumed to be 1. A stock's beta of more than 1 shows a higher risk than the market. A beta of less than 1 shows that stock is less riskier than the market.

- **Bid:**

It is the highest price that the buyer of a stock is ready to pay for a particular stock.

- **Blue Chip Stock:**

These are equity shares of companies which are well-established and financially stable. These generally have a relatively huge market capitalization.

- **Board Lot:**

Each exchange board defines a standard trading unit which relies on the per share price. Some of the popular board lot sizes are 50, 100, 500, 1000 units.

- **Bonds:**

[A bond](#) is a fixed income investment which is issued by the government or a company to its buyers. It shows a specified amount which an investor lends to the issuer of the bond for a specified period of time at a variable or fixed interest rate.

- **Book:**

It relates to an electronic record which is used to organise all the buy and sell orders of particular stocks which have remained pending.

- **Call Option:**

In this, the buyer of the option gets a right not an obligation to purchase the underlying asset at a specified price and time.

- **Close Price:**

It is the final price on a specific trading day at which the equity shares of a company is sold or traded.

- **Convertible Securities:**

It is a security like preferred stocks, bonds, debentures which are issued by an issuer capable of being converted into other securities of that issuer.

- **Debentures:**

It is a form of fixed-income instrument which is not backed by security of any physical assets or collateral of the issuer.

- **Defensive Stock:**

During the tenure of recession or an economic downturn, investors holding defensive stocks like these receive a constant rate of dividends.

- **Delta:**

A delta relates to the ratio of change in the price of a derivative in response to change in the price of the underlying asset. A higher delta suggests higher sensitivity of the delta to the price changes in the underlying asset.

- **Face value:**

It relates to the amount of money or the value in cash that the holder of a security will obtain from the issuer of the security when the security matures at the specific date.

- **Moving Average**

It refers to the average price per unit of an equity share with respect to a specific period of time. Some popular time frames used to study the moving average of a stock include 50- and 200-day moving averages.

- **One-sided Market:**

It refers to a situation wherein a market only contains potential sellers/ buyers instead of both being present simultaneously. Market makers show only the bid price or an offer price indicating that market is heading in one direction.

- **Spread**

It refers to the difference between the bid and the ask prices of an equity share. You may perceive it as the difference between the amount at which you would like to buy and the amount at which you would like to sell a stock.

- **Volatility**

It refers to the fluctuations in the price of an equity share. Highly volatile stocks witness severe ups and downs during trading sessions. These are highly risky bets which can bring large amount of profits for the skilled intra-day trader.

- **Volume**

It shows the average number of shares of stock which are traded during a particular time period usually the daily trading volume. It can also convey the number of shares which you are allowed to purchase of a given stock.

- **Yield****You may use the yield to calculate the return on an investment which you get after receiving dividend on a share. You can find the yield by dividing the annual amount of dividend by the price paid for the stock.**

1 The Securities and Exchange Board of India was not entrusted with the function of

- A.** Investor protection
- B.** Ensuring fair practices by companies
- C.** Promotion of efficient services by brokers
- D.** Improving the earning of equity holders

2 To regulate scam in Indian capital market, which of the following body has regulatory power:

- a) **SEBI**
- b) RBI
- c) SBI
- d) None of these Ans: A

3) Which trading individuals has SEBI decided to grant a unified license to operate in commodity derivative and equity markets?

- a. Clearing Members
- b. Brokers
- c. NBFCs
- d. **Only a and b**
- e. All the above

4) What is the latest amendment to the FPI regulations by capital and commodities market regulator SEBI?

- a. Barring Indians, NRIs and entities beneficially owned by NRIs from trading
- b. **Barring Indians, NRIs, and entities beneficially owned by NRIs from being owners of participatory notes**
- c. Barring Indians and NRIs from FDI in India
- d. None of the above

5 SEBI has allowed celebs to endorse which products?

- a. Stocks and shares
- b. **Mutual funds**

- c. Dividends
- d. Insurance

6 SEBI announced plans to tighten regulations for which type of trading?

- a. Spot trading
- b. Investor trading
- c. Algorithmic trading**
- d. None of the above

ANSWER: Algorithmic trading

Explanation:

The Securities and Exchange Board of India (SEBI) plans to further tighten the regulations for algorithmic trading. This aims to minimise instances of misuse of such systems that can be used to execute complex trading strategies at a very high speed.

7 Which financial body has asked intermediaries and companies to make regulatory payments in digital mode?

- a. SEBI**
- b. RBI
- c. NSE
- d. BSE

8 SEBI has relaxed investment rules for which funds?

- a. Angel Funds**
- b. Mutual Funds
- c. Debt Funds
- d. None of the above

ANSWER: Angel Funds

Explanation:

For boosting startup funding, SEBI has relaxed rules for investment by angel funds, permitting them to invest in up to 5-year-old entities.

The lock-in requirement has been reduced from three to one year for angel funds and their minimum investment threshold has been slashed to INR 25 lakh.

9) SEBI has proposed a set of changes to relax rules and rename the institutional trading platform as what?

- a. High Tech Start Up & Other New Business Platform**
- b. High Tech Incubation & Other New Business Platform
- c. High Tech Innovation % Other New Business Platform
- d. None of the above

ANSWER: High Tech Start Up & Other New Business Platform

Explanation:

The Securities and Exchange Board of India has proposed considerable changes for startup listing platform to enhance its appeal for new age firms going public in local markets.

- Regulator indicated that based on feedback received from market participants, the decision has been taken to relax rules and rename the institutional trading platform as High Tech Start Up & Other New Business Platform.
- The proposal has been to eliminate the rule which says no single shareholder shall own more than 25 percent after listing, which many promoters were not comfortable with and has increased the allocation of shares more for HNIs and corporates.
- Earlier only 25 percent was reserved for HNIs and corporates.
- The hike in the limit on share allotment to individual institutional investors has gone up from 10 to 25 percent.
- Regulator also proposed to permit market making compulsory for at least three years for IPO of less than INR 100 crore.
- There is no provision mandates market making currently. Under the current rules, startups can also list on the separate institutional trading platforms of stock exchanges.
- Platform has not attracted a single start up for listing so far.
- SEBI has now eased the rules.
- Regulator has also proposed lock in for pre-issue shares held by venture capitalists and employees under the ESOP scheme for six months following the IPO
- Proposal has also been made to lower minimum trading lot from 10 to 5 lakh.

10) Entities under probe for serious violation in which market can seek settlement of the case if they make good on losses suffered by investors to SEBI's satisfaction?

- a. Share Market
- b. Stock market
- c. Capital market**
- d. Money market

Explanation:

Entities under probe for “serious violations” in capital markets can seek settlement of case only if they make good on their losses suffered by investors as per the consent of SEBI.

- Regulations provide settlement of cases where proceedings have not been initiated
Regulations provide for settlement of cases where proceedings are yet to be initiated

An anchor investor is one of the following:

- a. Non-qualified institutional buyer making application for value of INR 10 crore or more through book-building process
- b. Qualified Institutional buyer making application for value of INR 10 crore or more through book-building process**
- c. Preferential Institutional Buyer making application for value of INR 10 crore or more through book-building process
- d. None of the above

ANSWER: Qualified Institutional buyer making application for value of INR 10 crore or more through book-building process

Explanation:

SEBI introduced the concept of anchor investors in public issues in 2009. This move was to impact pricing of IPOs. Anchor investors benefit IPOs as equity markets are volatile. Anchor investors attract investors to public offers before hitting capital markets to infuse confidence. Value and volume of anchor subscriptions are an indicator of the soundness of the firm’s offer. This also sets a benchmark and provides for guidelines for issue pricing and interest among QIBs

11) What recent changes have been made by SEBI to norms for public offers through removal of restriction on maximum number of anchor investors on 12th September 2015?

- a. Present regulation limit of number of anchor investors at 15 if public size issue is below INR 250 crore, can be increased to 25 if issue size is over 250 crore
- b. Present regulation limit of number of anchor investors at 16 if public size issue is below INR 250 crore, can be increased to 26 if issue size is over 250 crore
- c. Present regulation limit of number of anchor investors at 17 if public size issue is below INR 250 crore, can be increased to 27 if issue size is over 250 crore
- d. Present regulation limit of number of anchor investors at 18 if public size issue is below INR 250 crore, can be increased to 28 if issue size is over 250 crore

ANSWER: Present regulation limit of number of anchor investors at 15 if public size issue is below INR 250 crore, can be increased to 25 if issue size is over 250 crore

Explanation:

SEBI has notified relaxed norms for public offers through removal of restriction on maximum number of anchor investors with the aim of raising funds via primary markets. For every additional allocation of INR 250 crore above the base INR 250 crore, there will be 10 additional investors for every increase, subject to minimum allotment of INR 5 crore per anchor investor.

In case of allocation above Rs.250 crore, a minimum of 5 such investors and a maximum of 15 such investors for allocation up to Rs.250 crore and an additional 10 such investors for every additional Rs.250 crore or part thereof, shall be permitted, subject to the minimum allotment

12) Who cancelled Sahara Mutual Fund license on 28th July'15?

- a. Supreme Court
- b. SEBI**
- c. BSE
- d. CRISIL

13) When was SEBI constituted?

- (a) April, 1988
- (b) March, 1982
- (c) July, 1992
- (d) Dec. 1974

Ans. A

14. Which of the following statement is NOT correct about the SEBI?

- (a) At present it is a non statutory body
- (b) At present it is a statutory body
- (c) It got statutory powers by an ordinance in 1992
- (d) SEBI is managed by 6 members

Ans. a

15. Which of the following words does not belong to the stock exchange?

- (a) NAV
- (b) NSE
- (c) IPO
- (d) KPO

Answer d

16) How many companies are included in the SENSEX?

- (a) 30
- (b) 50
- (c) 111
- (d) 25

Answer a

17. Which of the following is responsible for the fluctuations in the SENSEX?

- (a) Rain
- (b) Monetary policy
- (c) Political instability
- (d) All of the above

Answer d

Explanation: SENSEX fluctuates due to very small reasons. That is why it is known as sensitive index as well. SENSEX fluctuates due to forecasting of good weather, any political decision by the central government and any change in the government policy.

18. Which of the following statements is correct?

- (a) FTSE-100 is a stock exchange of London, which monitors European market activities
- (b) Nikkei is related to Singapore Stock Exchange
- (c) MIDDEX belongs to Japan
- (d) BSE does not belong to SENSEX

Answer a

Explanation: FTSE-100 is a stock exchange of London, which monitors the activities of the European security market.

19. Which of the following is responsible for the fluctuations in the SENSEX?

- (a) Rain
- (b) Monetary policy
- (c) Political instability
- (d) All of the above

Answer d

Explanation: SENSEX fluctuates due to very small reasons. That is why it is known as sensitive index as well. SENSEX fluctuates due to forecasting of good weather, any political decision by the central government and any change in the government policy.

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Answer a

Explanation: FTSE-100 is a stock exchange of London, which monitors the activities of the European security market.

Which of the following is not function of SEBI?

(A) Protecting the interests of investors

(B) Registration of share brokers

(C) Change in the cash Reserve Ratio

(D) Allow Foreign Institutional Investors (FII) to invest in the securities market.

Answer D

Explanation: Making a change in Cash Reserve Ratio is the function of the Reserve Bank of India.