

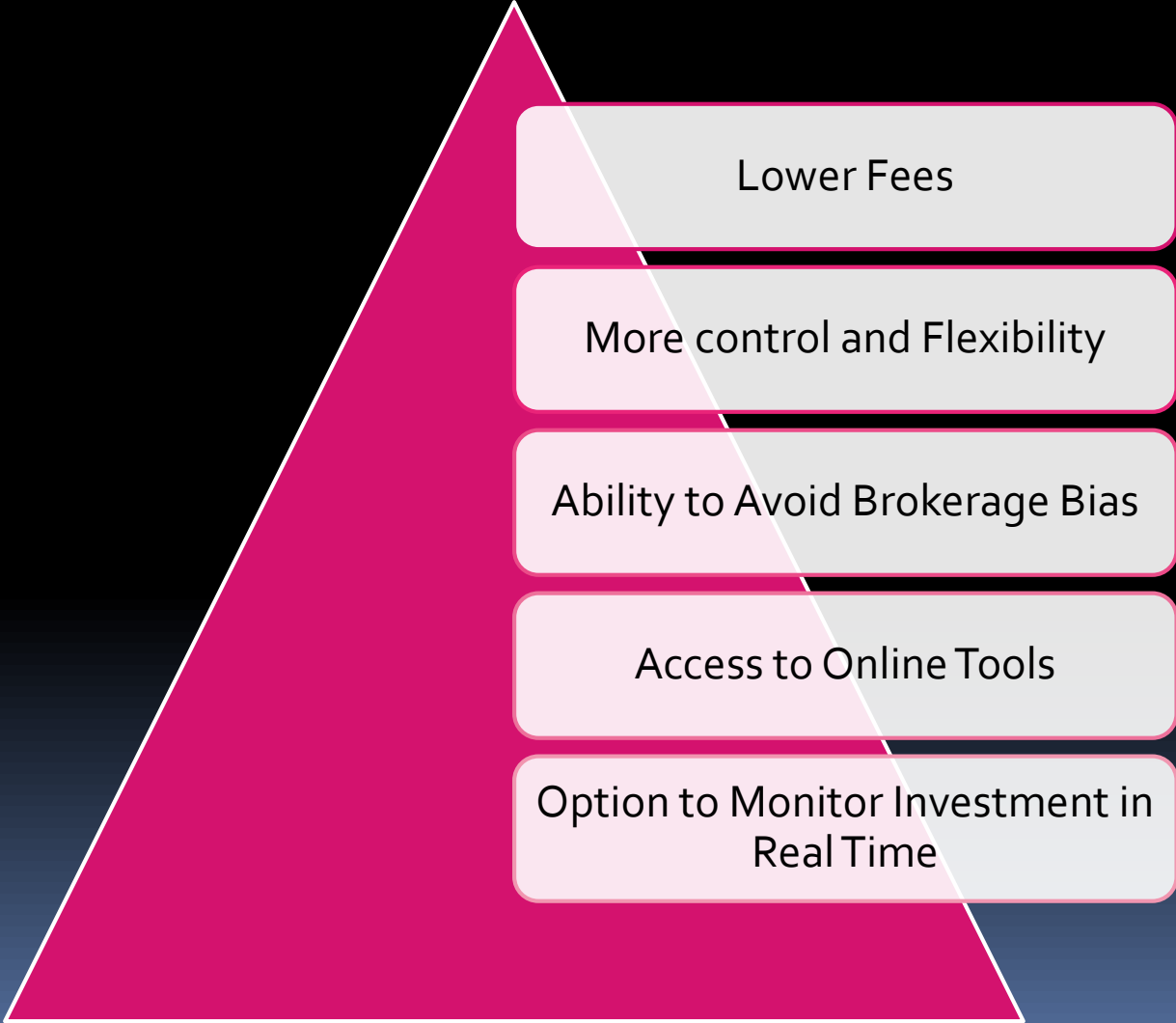


ONLINE TRADING

INTRODUCTION

- Online trading in securities refers to the facility of investor being able to place his own orders using the internet trading platforms offered by the trading members viz., the broker.
- The orders so placed by the investor using internet would be routed through the trading member.
- It is continuously growing and has a huge market potential.
- Online trading started in india in February 2000 when a couple of brokers started offering an online trading platform for their customers.

Advantages of Online-Trading




Lower Fees


More control and Flexibility

Ability to Avoid Brokerage Bias

Access to Online Tools


Option to Monitor Investment in
Real Time

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- **Lower Fees:** One of the clearest advantages of online trading is the reduction in transaction costs and high fees associated with traditional brick-and-mortar brokerage firms. Typically, you'll pay between \$5 and \$10 to buy and sell stocks and exchange-traded funds at online discount brokerages.
 - **More Control and Flexibility:** Time is often of the essence when you trade stocks, so the speed of using online trading portals is a benefit to many investors. With online trading, you can execute a trade almost immediately.
 - **Ability to avoid Brokerage:** By taking trading into your own hands, you can eliminate brokerage bias. Bias sometimes occurs when a broker gives financial advice that benefits the broker — such as in the form of a commission for selling specific mutual funds and other products. This kind of biased advice can be troublesome for any investor and might even lead to investment decisions that are good for the broker but bad for you.

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- **Access to Online Tools:** In the world of online trading, a lower cost does not necessarily mean a shoddy product. Many of today's online trading companies offer customers an impressive suite of tools to help optimize trades.

For example, sites such as Trade King, Interactive Brokers and Motif offer a robust selection of tools designed to give customers immediate access to valuable information, including interactive investment performance charts

- **Option to Monitor Investment in Real Time :** Many online trading sites offer stock quotes and trade information that make it easy for people to see how their investments are doing in real time.



Companies such as Scot trade and Trade King, for example, offer customers access to streaming data. You get real-time quotes, stock market news and more. For some traders, this one-stop, at-a-glance convenience trumps picking up the phone and calling a live broker, turning on the television, or even going to a different website to get market information.

Disadvantages of Online-Trading



Easier to Invest Too Much
Too Fast

No Personal Relationship
With Brokers


Addictive Nature

Internet- Dependent


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- **Easier to Invest Too Much Too Fast** : Because online trading is so easy — you basically push a button — there is the risk of making poor investment choices or overinvesting.

The Securities and Exchange Commission warns investors that although it takes just a nanosecond to make a trade, real investment decisions require time. Investors who are not used to fast-moving markets can get caught up in the excitement. Before they know what hit them, they can end up losing a lot of money.

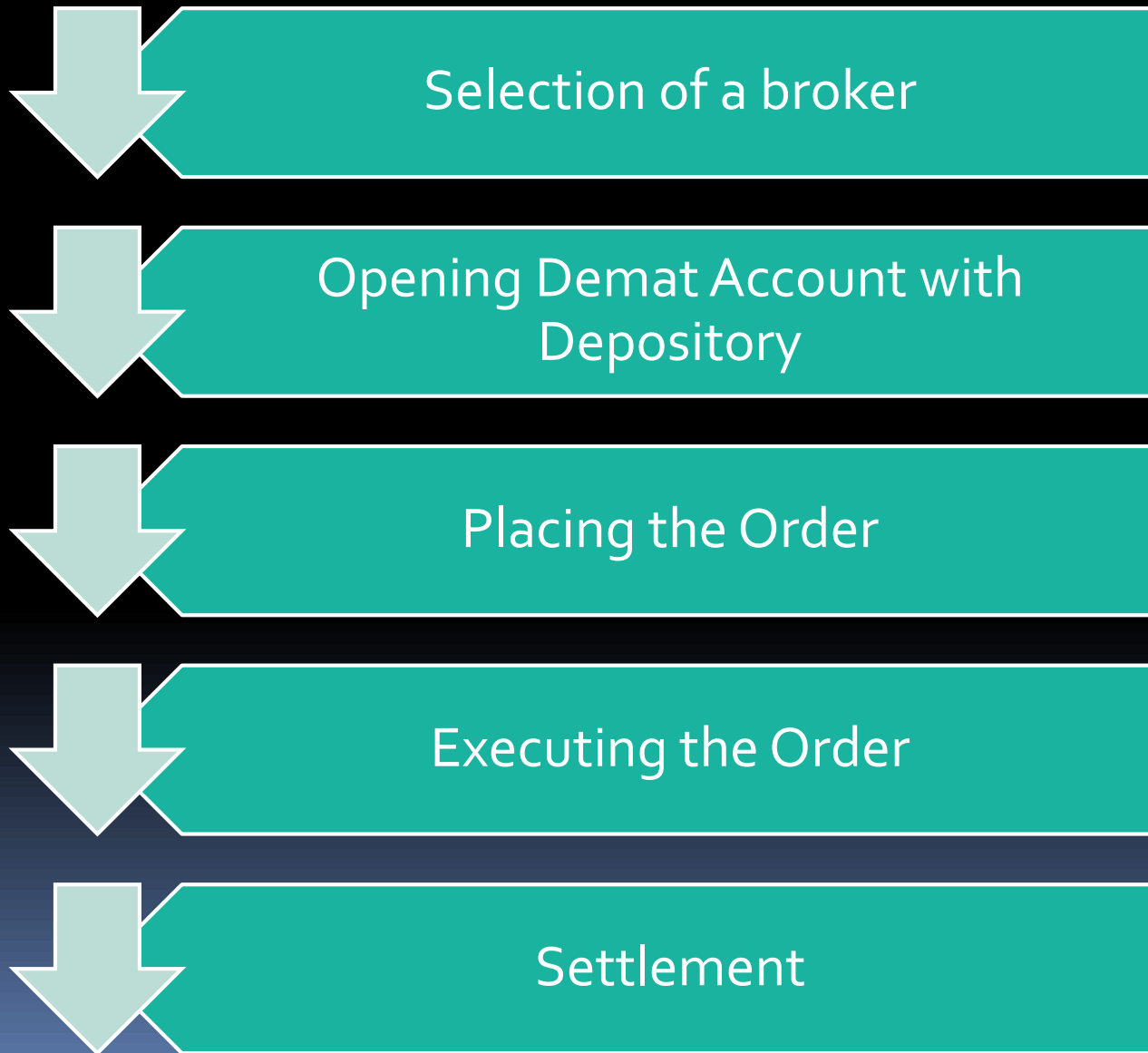
- **No Personal Relationship With Brokers** : By and large, online traders are on their own. They don't have a broker to help them navigate the uncertain waters of the stock market.



From getting help on how to create an investment strategy to understanding how the results of feedback mechanisms affect the market, online traders are left to their own devices. For some, this kind of autonomy can be unsettling.

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- **Addictive Nature:** Trading stocks can be like gambling for some people. The trader speculates on the result of something — such as a company's performance — and then bets money that the speculation will be correct. Online traders can experience a certain high when trading that is similar to what people experience when gambling, according to a recent study on excessive trading published in the journal *Addictive Behaviors*.
 - **Internet- Dependent :** The nature of online trading means that, ultimately, you're at the mercy of your internet connection. If the internet connection is too slow or is interrupted, you can lose out on a potentially important or lucrative trade.

Process of Online-Trading



- **Selection of a Broker** : The buying and selling of securities can only be done through SEBI registered brokers who are members of the Stock Exchange. The broker can be an individual, partnership firms or corporate bodies. So the first step is to select a broker who will buy/sell securities on behalf of the investor or speculator.
- **Opening Demat Account with Depository** : Demat account refer to an account which an Indian citizen must open with the depository participant (banks or stock brokers) to trade in listed securities in electronic form. Second step in trading procedure is to open a Demat account. The securities are held in the electronic form by a depository. Depository is an institution or an organization which holds securities . At present in India there are two depositories: NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.)

- **Placing the Order** : After opening the Demat Account, the investor can place the order. The order can be placed to the broker either (DP) personally or through phone, email, etc. Investor must place the order very clearly specifying the range of price at which securities can be bought or sold. e.g. "Buy 100 equity shares of Reliance for not more than Rs 500 per share."
- **Executing the order** : As per the Instructions of the investor, the broker executes the order i.e. he buys or sells the securities. Broker prepares a contract note for the order executed. The contract note contains the name and the price of securities, name of parties and brokerage (commission) charged by him. Contract note is signed by the broker.
- **Settlement** : This means actual transfer of securities. This is the last stage in the trading of securities done by the broker on behalf of their clients. There can be two types of settlement.
 - a) On the Spot Settlement
 - b) Forward Settlement

Types of Orders

Buy and sell orders placed with members of the stock exchange by the investor.

The orders are of different types:

Limit orders : Orders are limited by a fixed price. E.g. 'buy Reliance Petroleum at Rs.50. Here, the order has clearly indicated the price at which it has to be bought and the investor is not willing to give more than Rs.50.

Best rate order : Here, the buyer or seller gives the freedom to the broker to execute the order at the best possible rate quoted on the particular date for buying. It may be lowest rate for buying and highest rate for selling.

Discretionary order : The investor gives the range of price for purchase and sale. The broker can use his discretion to buy within the specified limit. Generally the approximation price is fixed. The order stands as this 'buy BRC 100 shares around Rs.40

Stop loss order : the orders are given to limit the loss due to unfavorable price movement in the market. A particular limit is given for waiting. If the price falls below the limit, the broker is authorized to sell the shares to prevent further loss. E.g. Sell BRC limited at Rs.24, stop loss at Rs.22

Traditional Trading Vs Online Trading

Traditional Trading

- In offline the investor has no control on his demat and trading A/C.
- It is a time consuming process.
- Offline trader needs to open separate account
- Offline brokers charge a considerable high amount as fees.
- Chances of fraud increases if you have offline account.

Online Trading

- In online trading mechanism the customer has full control on his demat and trading A/C.
- Online trading is time effective
- Online investors can directly invest into IPO's and mutual Fund
- Online trading is much more profitable as online brokerage charges less fees.
- There are no chances of fraud as it is you who has complete control over your transaction

Why Online Trading Entered Late in India?

- The Indian exchanges and brokering houses have been very slow in moving their online transactions.
- The major reason has been the lot government regulations.
- Connectivity related issue was perhaps the most important technological factor.
- Many other issues like security, backup and recovery procedural costs also acted as deterrents in the process.



ONLINE TRADING

DO'S

Get rid of the junk

Diversify

Believe in your investment

Stick to your strategy

DONT'S

Don't panic

Don't make huge investment

Don't chase performance

Don't ignore expenses

Players in Online-Trading

Sharekhan.com

Icicidirect.com

DSP Merrill Lynch

5paisa.com

Indiabulls

Kotak Securities

Motilal Oswal

Geojit Securities

Reliance Money

Angel Broking

REFERENCE

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THANK YOU