

21 Jan 2013

HEADLINES

Rs 3004 Capital Infusion for SBI !! Government holding to raise further above last year's

As a part of Government's Capital Infusion plan for the current fiscal, SBI will get Rs 3004 crore. This capital infusion will be done via preferential allotment of equity shares to the government.

Preferential allotment is when a listed company doesn't want to go for further public issue and objective is to raise capital by issuing bulk shares to selected entities. Rs 7900 crore were infused last fiscal which led to Government holding of 61.58%.

Push energy prices up, denationalize Coal sector, for a healthier energy sector- Montek Singh Ahluwalia

Deputy Chairman of Planning Commission, Montek Singh Ahluwalia, expressed his views on energy prices. He said that if the prices don't reflect cost, there will be a dearth of investments in producing energy. At the same time, there will be little investments in energy saving equipments.

Diesel, cooking gas, kerosene and coal are underpriced in India. Recently Union cabinet decided to allow oil marketing companies (OMCs) to increase diesel prices gradually. It is, however, a meaningful market signal regarding the government's intention to move towards market-based fuel pricing.

He also said that he favors denationalizing of the coal sector, as there is no logic in keeping Private sector out of coal if it is allowed in Petroleum and natural gas. Coal is being imported at high prices from Indonesia and Australia. Its better to let private sector to mine Indian coal.

The demand for energy in Indian market in 2020 will be very similar to China's current market. This explains why China has been busy in a one-country race to grab the world's resources. Its India India takes correct steps which should include correct pricing policy.

Citibank lawsuit hitch !!

Citigroup Inc posted \$2.32 billion of charges for layoffs and lawsuits in the first financial report under its new chief executive, Michael Corbat. Citigroup chief financial officer John Gerspach said \$500 million of the new legal costs came from what he called a variety of issues in the ongoing US consumer banking business.

The quarter "falls way short of expectations" on two issues - higher-than-expected legal costs and no significant release of reserves for bad loans, Nomura analyst said.

HDFC's high lending to consumers and companies, net profits rose 30%

HDFC Bank's net profits in fiscal third quarter rose 30% due to higher lending to consumers and companies. HDFC bank attracted demand for loans inspite of slowing economic growth and high interest rates, that have made Asian consumers third biggest economy wary of borrowing money from market.

The retail sector led the growth, included auto loans, loans to small businesses, credit cards and personal loans. HDFC Bank shares ended at Rs.659 apiece on BSE

Sigh of relief for Foreign investors, a temporary one though

The implementation of the GAAR has been deferred to April 2016 by the finance ministry, thereby bringing a temporary relief to foreign investors. This was according to the recommendations of the Shome Committee that was formed by the PM in July 2012.

Chidambaram said while investments using treaty havens will still be on the GAAR radar, those not taking that route will be free from it. Deferral reduces uncertainty and gives the investors and the tax department some time to be better prepared.

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Did You Know?

- 1) Credit card numbers conform to the Luhn algorithm, which is just a simple check sum test on the number. What you do is start from the right and double each second digit (1111 becomes 2121), then add them all together, and you should end with a number evenly divisible by ten. If it doesn't, it's not a valid credit card number.
- 2) The average salary of a CEO in 2011 in US was \$11.4 million.
- 3) A company, Warner Communications paid \$28 million for the copyright to the song ' Happy Birthday '.If you sing Happy Birthday in a restaurant or a public , you technically owe Warner a royalty.
- 4) \$2,853.88 per second: that's the rate that student loan debt is increasing in America. Soon the American student loan debt will outweigh the national debt.
- 5) Google invested \$3.8 billion in research and development in 2010 and represents their largest indirect expense.
- 6) Gross revenues from 2006 to 2010 were:

Year	Revenues (Millions of \$)	Year over Year Increase
2004	3,189	
2005	6,139	92.5%
2006	10,605	72.7%
2007	16,594	56.5%
2008	21,796	31.3%
2009	23,651	8.5%
2010	29,321	24.0%

The Little Things

Forex Reserves: \$296.25 billion in the week ended Jan 18

Brent Crude: 111.79 USD/bbl as on Jan 20

Sensex: 20,101.82 as on Jan 21

Gold (10gm – 22carat): Rs.31,280.00 as on Jan 21

Exchange Rate: Rs. 53.86 /USD as on Jan 21

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SEBI issues draft norms on safety net for IPO investors

There have been 117 IPOs during the period 2008-09 to 2011-12. Around 70% of these issues are trading below their issue price. SEBI believes that the pricing of the IPOs has been an issue and is causing many investors to leave the market. In order to restore investor confidence, SEBI has issued a draft proposal to introduce a safety net mechanism. Accordingly, the issuers will have to buy back the securities if the stock price falls below a certain level. At present, there are no rules to compel the issuers to offer a safety net mechanism. In September, SEBI had proposed that the safety net provision will be triggered if the prices of the shares fall by more than 20% from the issue price within three months of listing on the exchange.

After the abolition of the Controller of Capital Issues in 1992 free pricing came into play. "Free pricing has been taken into totally illogical level... the attitude is you take it or leave it. The situation has come to a level that even existing investors are also driven out," said VS Sundaresan, chief general manager, SEBI. Therefore, companies and investment banks will have to be careful when pricing the issues.

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F&O Trading- Raising Speculation

Authored by: Alok Bhise, MMS- B

Financial planners abhor them. Investment advisers avoid recommending them and experts call them weapons of mass financial destruction. Yet, the equity derivatives market is attracting investors in hordes. In the past three years, the average daily turnover in the cash market of the NSE has fallen by 40%, but the futures and options turnover on the exchange has shot up by 67%.

On 29th November, 2012 the F&O turnover on NSE touched a record high of 3,03,822 crore which was more than 15 times the turnover in the cash segment that day. Another fact that individual investors account for almost 40% of the total F&O turnover is a number which is only expected to grow in future.

Derivatives are meant for hedging by institutional investors and high net worth individuals, but most of the retail buyers use F&O for speculation. F&O trading is certainly not suitable for everyone. It's a risky field and you can lose your shirt in the game. Investment in equity itself is risky and F&O is mathematically 5-6 times riskier. One false step and your net worth can get wiped out.

Before entering into the F&O market it is very important to know how these financial instruments work, what is the amount of risk involved and the probability of turning the trade into a successful one. Let's understand how futures and options work.

A FUTURES contract is akin to placing an order to buy or sell shares at a specific price in future. The future price is usually higher than the prevailing market price of the security.

OPTIONS are also derivatives that give the buyer the right to buy or sell shares at a future date. But unlike futures, the investor is under no obligation to do so.

FUTURES and OPTIONS expire on the last Thursday of every month. It's possible to roll over a futures by buying a next month's contract, but it is not possible to roll over an option.

HOW LEVERAGING WORKS:

E.g. If you buy a futures lot of 1000 shares when the price is 100, you will have to shell out about 20,000 or 20% of the total contract value, as margin. Now if the price goes up by 5, you will gain 5000, which translates into a 25% return on your investment. The leveraging multiplies your returns by 5 times. However, this is a double-edged sword. The loss is deducted from the margin and you have to pay the additional margin. If you can't pay, the contract is sold off.

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Leveraged positions are risky and hence options can help you reduce the risk. The two important terms associated with options are Calls and Puts.

CALLS: When you buy a call option, you are buying shares at a specified price. If the share price goes up, the value of the call also rises. Buy a call if you are bullish about a stock.

PUTS: When you buy a put option means you are selling the shares at a specified price. If the price of the underlying security falls, the value of the put rises. Buy a put if you are bearish about a stock.

21 Jan 2013**F&O trading- Rising Speculation**

OPTIONS are available at price intervals, called the strike price. E.g. The call and put options for nifty index are available at intervals of 100 as NIFTY 6000 CALL 31st JAN 2013, NIFTY 5900 PUT 31st JAN 2013, etc.

An option becomes profitable when the market price crosses the strike price. At the beginning of the contract month, the probability of a share moving in either direction is higher, so the premium is high. As the expiry date nears, the premium goes down progressively.

Though derivatives are linked to equities, the F&O market is a different beast altogether. What works in stock investing may not at all be relevant in F&O trading. This is because stock-investing takes medium to long-term perspective, while F&O is explicitly a short-term gambit. Never make the mistake of turning an F&O trade into an investment.

Quick Stats:

- 80% of the total F&O trades by retail investors are speculative in nature.
- 72% of the total contracts traded on NSE are index options.
- Trading in F&O are proprietary traders(45%), Retail investors including HNIs and small investors(40%) and FIIS and domestic financial institutions(15%).
- Average daily turnover in the cash market on NSE in 2011-2012 was 11,288 cr. Whereas the average daily turn-over in F&O market on the NSE for the same year was 1,25,908 cr.

All these numbers point towards the rising participation of the Retail investors in the F&O segment over the equity or the cash market. Derivatives whose sole purpose was to be used for hedging against market risks are now being widely used for speculative bets. The recent move by SEBI to ban mini derivatives contract to curb excessive speculation by small investors is an evidence of the same.

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