

How to Start Trading in Shares & Select the Best Demat and Trading Account

Today we will understand the steps that you need to take before starting to trade in the share market. Basically you require a Trading account, a Demat account and a Bank account. You will also learn about the various institutions and entities like depositories, depository participants, stock brokers, sub brokers, NSE, BSE, NSDL, CDSL extra who play an important role in the share market.

At the end of this document you will find the **most important part** of today's course. You will get a table which compares the products of most of the major Demat and Trading account providers. This table will help you to choose the best Demat and Trading account. Now let's start today's course.

1. **Trading Account:** A trading account allows a person to place an order in the stock exchange to buy/sell shares.
2. **Demat Account:** A demat account allows a person to hold the shares in dematerialized form i.e. electronic form. The demat account should be linked to your trading account. The demat account is required to receive/transfer shares when you buy/sell shares through your trading account.
3. **Bank Account:** The bank account should be linked to your trading account. The bank account is required to transfer/receive money when you buy/sell shares through your trading account.

Demat Accounts and Depositories

Shares can be held in 2 forms – In the form of physical paper certificates or in the electronic i.e. dematerialized form. Today only shares in the demat form (demat stands for dematerialized) can be traded in the NSE and BSE stock exchanges. So today practically all shares are kept in demat form.

(Stock exchanges allow limited trading of shares in the physical form. Only orders of size less than 500 shares are allowed. This limited trading of physical shares is allowed to give small investors having physical shares an exit route.)

All of us would be having bank accounts where we keep our money. In the same way we need another kind of account where we can keep our shares in demat form. This type of account is called as demat account. A demat account is Not required to own shares in physical paper certificate form.

Banks provide the public with the facility to open and maintain bank accounts. In the same way the **Depositories** provide the facility to open and maintain demat accounts. India has 2 depositories, **NSDL** and **CDSL**. The following table has a comparison of NSDL and CDSL

Parameter	NSDL	CDSL
Number of Demat Account	1,04,05,425	64,25,470
Number of DPs	286	497

Number of DP service centers	10,846	6469
Issuer Companies registered	7994	6510
Number of securities in custody	33,801.3 crores or 3,38,013 millions	7,715 crores or 77,150 millions
Value of securities in custody	4,861,531.6 crore rupees or 48,615,316 million rupees	845,080 crore rupees or 8,450,800 million rupees

Opening a Demat Account

NSDL and CDSL are huge organizations and they have issued over 1.6 crore (16 million) demat accounts. So a common investor like us does not directly contact the depositories to create a demat account. The depositories have agents called as **Depository Participants**, commonly referred as DPs. We interact with the DPs to get our demat accounts.

To open a demat account we will have to fill up the required Account opening forms given by the DP. Usually the following documents will also be needed by the DP to open a Demat account.

- Proof of Identification
- Proof of Address
- PAN card copy
- A cancelled check
- Recent photographs

Facilities that you get in a Demat Accounts

Demat accounts have many useful facilities which make it very easy for you to invest or trade in securities. These facilities are:

- 1. Holding securities in secure electronic form (i.e. Demat form):** Earlier shares/securities were held in the form of Physical paper certificates. In this case there was always a danger of losing or damaging the paper certificates. In case of Demat accounts the shares are held securely in electronic form by the Depositories. Thus there is no fear of losing or damaging the share certificates.
- 2. Single Consolidated Account for all Debt and Equity holdings:** Earlier the investors had to manage each of their investments separately. This meant that they had to communicate with many companies and organizations to track and manage their investments. The Demat account allows them to hold all their investments in shares, bonds, debentures, mutual funds etc under a single account. They need to interact with only a single organization i.e. the Depository to track and manage their investments.
- 3. Easy, fast and low cost Transfer of securities:** After a share is traded, it needs to be transferred from the seller's account to the buyer's account. It took many weeks to transfer shares in the paper certificate form from the seller to the buyer. Demat accounts reduce the paper work, time, effort and cost required in transferring securities. It transfers the shares in just 2 days.

- 4. Easy and fast Implementation of Corporate Actions:** Corporate actions are benefits given by companies to their share holders. Examples of Corporate actions are dividends, issuing bonus shares, share splits extra. Demat Accounts make the implementation (distribution) of corporate actions faster and more convenient for both the shareholders and the issuing company.
- 5. Dematerialization:** Demat Accounts allow share holders to convert their shares in the physical paper certificate form into electronic form. This process is called as Dematerialization.
- 6. Rematerialization:** Demat Accounts allow share holders to convert their shares in electronic form back into physical paper certificate form. This process is called as Rematerialization.
- 7. Pledging:** Shares or Debt securities held in a Demat account can be mortgaged to take loans. This facility is called as pledging.
- 8. Nomination:** Demat accounts provide the facility to make a nomination. If the sole holder or all the joint holders of a demat account are deceased (dead), then the shares held under that demat account will be given to the nominated person.
- 9. Transmission:** When a person dies, the ownership of his shares needs to be transferred to his legal heir/s. Transmission is the lawful process by which the ownership of securities (shares, bonds etc) is transferred to the legal heir/s of the deceased person. Demat accounts make transmission an easier and faster process. In this case the heir(s) do not have to separately contact many companies and organizations. The just need to contact 1 entity i.e. the DP which managed the demat account of the deceased person.

Stock Exchange

The Depositories provide us with the facility to hold shares in a secure and efficient manner. However one more important facility is required for the share market to work efficiently. We need a system which allows the millions of investors/traders to come together simultaneously and trade in secure and efficient manner. This facility is provided by the stock exchange.

A stock exchange provides the facility to buy and sell securities like shares, derivatives (e.g. futures, options), debt instruments (e.g. corporate bonds, government bonds) etc. In India there are 2 major stock exchanges - NSE and BSE. The following table has a comparison of BSE and NSE

Parameter	NSE	BSE
Key fact	India's largest stock exchange	Asia's oldest stock exchange
Location	Mumbai	Mumbai
Established in	1994	1875
Number of members	1227	962
Number of listed companies	1432	4955

Geographical spread	Presence in 1,486 cities	330
Main Index	S & P CNX Nifty	BSE Sensex

Stock brokers and Sub-brokers

Only the members of a stock exchange are allowed to buy or sell securities in that stock exchange. These **members** are also called as **Stock brokers, brokers or trading members**. To become a stock broker in a stock exchange the applicant needs to meet certain eligibility criteria and pay large deposits and fees.

Most stock brokers directly deal only with big investors. Stock brokers have agents known as sub-brokers who interact directly with the common investors. A person can become sub-broker of only one stock broker.

Sub-brokers try to get investors to open trading accounts under them. The brokerage fee earned from the transactions made by these trading accounts is shared between the sub-broker and the stock broker.

Trading Account

A common investor cannot afford to pay the large fees and deposits required to become a stock broker. So, they open a trading account under a stock broker to get the facility to trade in the stock exchange. Investors usually interact with sub brokers to open a trading account. Sub brokers are agents of the stock brokers.

Before applying for a trading account you need to have a Bank account and a Demat account. The bank account and the demat account are linked to the trading account. The bank account is required for holding and transferring money when you buy / sell shares and other securities. The demat account is required for holding and transferring shares and other securities when you buy / sell them.

Most stock brokers who give out trading accounts also enrol as a DP under one of the depositories; NSDL or CDSL. This allows them to provide demat accounts also. In this way they are able to provide the full set of services to their clients. So usually, you will not have to apply separately for a trading account. When you apply for a demat account, a trading account will also be provided with it. Stock brokers usually provide the trading account for free. The stock brokers get their profits by applying a **brokerage fee** on all buy or sell transactions that you do with that trading account.

Understand the fees and taxes (i.e. total cost) of buying and selling Shares

Let's consider the following case. Ram Lal buys a share costing 1000 rupees. The price of the share increases to 1005 rupees and Ram Lal sells it. Will he make a profit of 5 rupees (i.e. 1005 – 1000) in this trade?

No, he would not. We need to consider the cost of making the transactions also. The costs involved in making a transaction are given in the following table.

Type of Charge	Rate
Brokerage charge for delivery transactions (Varies from broker to broker)	0.35%
Security Transaction Charge (STT)	0.125%
Service Tax = 10% of the Brokerage Charge = 10% of 0.35%	0.035%
Stamp Charge	0.01%
Transaction Charge	0.0036%
SEBI Fee	0.001%
Total	0.5246%

To trade we need to perform 2 transactions – 1 buy and 1 sell.
 So the cost of making a trade will be $0.52\% * 2 = \mathbf{1.04\%}$

In case of Ram Lal the cost of making the trade is = 1.04% of 1000 = 10 rupees

Returns for Ram Lal from this trade = Selling Price – Buying Price – Cost of transaction
 $= 1005 - 1000 - 10$
 $= -5$

So Ram Lal will make a Loss of 5 rupees in this case.

New Investors should remember this point. The Selling Price needs to be more than 1% above the buying price for the investor to make a profit.

Factors to be considered while comparing Demat and Trading account schemes

Today the facilities provided by most DPs and brokerage houses are similar. The major factor that we should consider while choosing a DP/Broker is the Fees and Charges. Here are the various charges involved in opening and using a Demat cum Trading account.

- 1. Account Opening Charge:** This is the fee charged while opening the Demat cum Trading account.
- 2. Annual Maintenance Charge:** This is the annual fee required to maintain the Demat cum Trading account.
- 3. Brokerage for Intraday Transaction:** If you buy a share and sell it on the same day then it is called as an Intraday Transaction. In case of an Intraday transaction the broker/stock exchange does not need to get your name registered as the owner of the share. So the brokerage charges for Intraday transactions are small.
- 4. Brokerage for Transactions requiring Delivery:** The process of registering the buyer of a share, as the owner of that share with the Depositories is called as Delivery. Delivery is not required for Intraday transactions, but it is required for all the other transactions. The brokerage charges are higher in the case of Delivery transactions as additional processing is required.
- 5. Brokerage of Futures and Options Transactions:** This is the brokerage fee that is applied on the transactions in the Futures and Options segment.

Comparison of the Major Providers of Demat and Trading accounts

The following table lists the fees charged by the major providers of Demat and Trading accounts. These rates are applicable for an investor who plans to make (buy/sell) transactions worth less than 10 lakh rupees (1 million rupees) in a year. Investors, who plan to trade more than this, will get lower brokerage rates.

Name	Account Opening Charge	Annual Maintenance Charge	Brokerage for Delivery	Brokerage for Intraday	Brokerage for Futures and Options
Geojit BNP Paribas	Rs 775	Rs 300	0.30%	0.03%	0.0375%
HSBC	Free (Rs 2500 is collected which is adjusted in future brokerage fee)	1 st year: Free Rs 300: (2 nd year onwards)	0.35%	0.04%	0.04%
Canmoney	Free (Rs 500 is collected which is adjusted in future brokerage fee)	Rs 221	0.35%	0.05%	0.10%
Reliance Money	Rs 750	Rs 200	0.45%	0.05%	0.05%
Kotak Securities	Rs 750	Rs 400	0.45%	0.06%	0.09%
Angel Broking	Rs 500	Rs 337	0.50%	0.05%	0.05%
Motilal Oswal	Rs 500	1 st year: Free Rs 400: (2 nd year onwards)	0.5%	0.10 %	0.05%
HDFC Securities	Rs 799	Rs 500	0.5%	0.05% to 0.10%	0.05%
Sharekhan	Rs 750	1 st year: Free Rs 400: (2 nd year onwards)	0.5%	0.10%	0.1%
ICICI Direct	Rs 975	1 st year: Free Rs 500: (2 nd year onwards)	0.75%	0.375%	0.05%

A Last Minute Chat

It often takes a person a lot of time and effort to become a successful investor. Investors develop and improve their investment strategy slowly over the years. During this time period, they often suffer losses or miss out on profitable investment options.

Investors face all these difficulties because they do not get the Right Knowledge. With the Right Knowledge it becomes easy to understand the behavior of the share market and predict how the share market will behave in the future. Personally, I was able to become a successful investor quite quickly. A unique and powerful 2 day course taught me some simple Principles and Methods. These principles and methods have helped me to regularly earn good profits from the share market in all market conditions. You can learn more about this course or enroll for it using the following link.

<http://www.invest-in-shares-in-9minute.com/shares-for-beginners.html>

In the next installment, this 7 part Ecourse will become even more exciting. You will learn the most Powerful method to analyze the share market – Technical Analysis. Technical analysis is Easy to Use and has a very High Accuracy. I shall send the next part of this course in 4 days.