

“A WELL INFORMED INVESTOR IS

A

WELL PROTECTED INVESTOR.”

Before making investment decisions you must empower yourself through information. Many investors could have avoided trouble and losses, had they followed this advice. Remember, it is your hard earned money.

Asking questions is the first step to information gathering. We have compiled a set of few questions which you should ask your brokers, mutual fund agent or to yourself before investment. Let your broker or mutual fund agent know that you are a serious and a smart investor who wants to know more about the risks and rewards before investing. A good broker or agent will welcome your questions, no matter what they are. They know that an educated investor is an asset to them. They would rather answer your questions before you invest, than afford to lose their business.

Further, while being in the securities market, observing a few safeguards would help you avoid grievances later. To enable you to do the same we have compiled a few Do's and Don'ts for you.

Ask yourself before you invest

- Why am I investing ?
- How much do I want to invest ?
- Where do I invest ?
- If I don't invest here, what are my opportunity losses ?
- For how long do I want to invest ?
- Is this the best investment for me ?
- Does this investment match my investment objective ?
- How much risk can I take ?
- Am I ready to absorb losses, if it so happens ?
- Will I be in a position to sell it whenever I want ?

Ask yourself while investing in any Security

- Why should I buy this security ?
- Will these securities provide me with dividends, interest income or capital gains ?
- Will it meet my expectations in terms of returns and time horizon ?
- What is the total cost of purchasing, maintaining and selling this investment ?
- When do I break even after considering all these costs ?
- Is it easy to sell this investment if I need the money immediately ?

- What factors would increase/decrease the value of my investment ? (e.g. changes in interest rates / Govt. policies, increasing competition, economic recession, volatility in stock market, war, natural calamities etc.)
- What are the specific risks associated with this investment ?
- How long has the company, whose shares I am buying been in business ?
- Is its management experienced ?
- Is the company investor-friendly ?
- How is the company doing compared to its competitors ?
- Has the company or its management faced any legal/ regulatory actions ?
- What is the credit rating history of this product ?
- What is the likelihood of past performance continuing in the future ?
- Where can I get more information about this security and this company ?
- Where can I get the offer documents, or the latest annual report ?
- Was the offer document of these securities filed with SEBI ?
- Is it a Z category share ?

Ask your broker / sub-broker

- Are you a broker or a sub-broker ?
- Are you registered with SEBI ?
- Would you show me your certificate or registration with SEBI ?
- Would you show me documents of your registration with exchange ?
- Which stock exchange(s) are you a member of ?
- How long have you / your firm been in business ?
- If you are a member of more than one exchange, can you ensure that I get the best rate for my transactions ?
- What training and experience do your firm/you have ?
- Has any regulatory body/self-regulatory organisation ever taken any disciplinary action against your firm/ you or other related firms ? If yes, would you tell me more about it ?
- If I want to become your client, what is the commission/other charges payable by me ?
- What all documents do I need for signing the broker-client agreement ?

- How soon would you be able to confirm execution of my trade ?
- How soon would I receive the contract note from you after I enter into transaction through you ?
- What are the documents that I have to provide you to complete a sale or purchase transaction and within what period ?
- When do I pay/deliver for my transactions ? Are there any “margin” requirements for particular trades that I need to know and pay ?
- Can you explain to me what mechanism is available for solving my grievances in case I ever have any ?

Ask yourself before investing in Mutual Funds

- What is the track record of this fund ?
- What type of securities does the fund invest in ? How often is it disclosed ?
- How often does it reshuffle its portfolio ?
- Does this mutual fund invest in any type of securities that could erode my investment ?
- How is the fund performing compared to other funds of the same type or to an index of the same type of investment ?
- How much will the fund charge me when I buy units ?
- What NAV would be applicable to me if I transact today ?
- How much will the fund charge me when I sell units ?
- How soon will I get paid for the units I sold ?
- How often do I get my account statements from the fund ?

Ask your mutual fund agent / distributor

- Are you the Association of Mutual Funds in India (AMFI) registered agent ?
- What mutual fund products do you distribute ?
- Are there any products that you do not distribute ? Why is that ? Is it because the products are not suitable to your clients or are there other reasons such as low commission rates to you ? If those products are suitable to me, can you still assist me in buying those products ?
- How long have you/ your firm been in business ?
- What training and experience do you have ?
- Do you make more money if I buy this mutual fund rather than another ? If you weren't making extra money, would your recommendation still be the same ?
- Is this purchase really in my best interest ?

- What does it cost me to buy this mutual fund ?
- How much will I receive if I sell it today ?
- If I have a grievance regarding this investment whom should I approach ? In what manner will you help me ?
- Have you ever been disciplined by AMFI or other regulatory body/authority ?

Remember !

Dos

- Always deal with the intermediaries registered with SEBI.
- Always keep copies of all investment documentation (e.g. application forms, acknowledgment slips, contract notes).
- Always keep copies of documents you are sending to companies, etc.
- Send important documents by a reliable mode/ registered post to ensure delivery.
- Ensure that you receive contract note at the end of the day / account statements for every transaction.
- Ensure that you have money before you buy.
- Ensure that you are holding securities before you sell.
- Follow up diligently and promptly e.g. if you do not receive the required documentation within a reasonable time contact the concerned person i.e. the broker, company, etc. immediately.
- Give clear and unambiguous instructions to your broker/agent/depository participant.
- Mention clearly whether you want to transact in physical mode or demat.
- If facing a problem act promptly! Follow these steps to solve your problem:
 1. Talk to your broker and explain the problem. Find out where does the fault lie ?
 2. If your broker can't help you to resolve your problem, then talk to the stock exchange where transacted.
 3. If the problem is still not resolved, write to the appropriate authorities. Explain your problem clearly and in brief.

Remember !

Don'ts

- Don't deal with unregistered brokers/sub-brokers, intermediaries.

- Don't forgo taking due documents of transactions, in good faith even from people whom you know.
- Don't fall prey to promises of unrealistic returns.
- Don't get misled by companies showing approvals/registrations from Government agencies as the approvals could be for certain other purposes and not for the securities you are buying.
- Don't transact based on rumors generally called 'tips'.
- Don't forget to take note of risks involved in the investment.
- Don't get misled by guarantees of repayment of your investments through post-dated cheques.
- Don't panic when facing a problem.
- Don't hesitate to approach concerned persons and then the appropriate authorities.

SECURITIES AND EXCHANGE BOARD OF INDIA

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Disclaimer: The information has been compiled to present the reader with a broad understanding of the subject and is general in nature. The contents do not purport to explain or interpret Acts, Circulars, Rules, Regulations and Guidelines.

SECURITIES AND EXCHANGE BOARD OF INDIA

A Reference Guide for Investors

It is your hard earned money!
 Be Inquisitive and Choosy
 Before You Invest It !

