Top 35 Equity Trading & Dealer Interview Questions with Answers

1) Explain what is "Over the Counter Market"?

Over the counter market is a decentralized market, which does not have a physical location, where market traders or participants trade with one another through various communication modes such as telephone, e-mail and proprietary electronic trading systems.

2) Mention what are levels of traders?

- Senior Trader
- Intermediate Trader
- Junior Trader

3) Explain what do you mean by private equity transactions?

When private equity firms make investments in particular target companies, it is referred as private equity transaction. A target company is an enterprise that has potential to perform in the short period of time.

4) Explain what are two types of orders issuers may issues in equity trading?

The two basic types of orders issuer's issues in equity trading are

- Buy Orders
- Sell Orders

5) Explain what is equity funding?

Insurance policy paid for by a mutual fund is referred as equity funding. The value of the mutual fund shares pay the premiums of the insurance policy, enabling individual investors to have a benefit of a traditional mutual fund investment.

6) Explain what is weighted average rating factor?

The technique of calculating, analysing and communicating the overall risk of a portfolio of investments is known as weighted average rating factor.

7) Explain can you judge whether the stock is expensive by looking at its price?

Looking just at its price you cannot judge the stock price, a $200 stock can be cheap if the company's earnings prospects are high enough, while a $10 stock can be expensive if earning potential is low. The P/E ratio is the correct judge of the valuation of the stock.

8) Explain what is call option?

Call option is a right of the shareholder and not an obligation to purchase share at a specified price and a specified date in future.

9) When purchasing a stock what charges are payable?

The charges that are payable while purchasing a stock are

- Stock Brokers
- Commission

- Stamp duty
- Cost of the stock

10) Mention what are certain measures for which you have to be ready for equity trading?

- It is important to spend time after researching and learning about trading, even when a broker is handling your equity account. It requires knowledge, discipline and time
- Ready to lose money, if you are not ready for taking risks, then equity trading is not right for trading
- If you are running into heavy losses or the market is not performing as expected than cut losses and stop for the day
- Don’t be foolish enough to turn profits into losses. Consider selling some of your stocks and not all of them.

11) Explain what is Option trading?

Option trading is a contract between the seller and buyer to buy or sell a one or more lot of underlying assets at a fixed price on or before the date of expiry of the contract.

12) Explain how options are different than equities?

- Options are derivatives which means their values is derived from the value of an underlying investment
- Options are traded among institutional investors, professional traders, individual investors and securities market places
- By Put or Call, option trade is defined
- Option trading can limit an investor’s risk; it offers a known risk to buyers
- More than the price of the option, option buyer cannot lose money
- Regular equities can be held for indefinite time while options have expiry date
- Like regular equities, option does not have physical certificates
- Owning an option does not mean right to ownership of any share or dividends of a company unless the option is exercised

13) Explain what is the role of equity analyst?

Equity analyst do research and analysing financial data and trends for a company. Equity analyst writes reports on company finances, assigning financial ratings, apart from this it also helps the company to overcome financial crisis by giving them plan to get out of debt.

14) How software program for private equity is helpful?

Software program for private equity can hold useful information like

- Support fund administration, accounting and operational tasks
- It includes document template which can be useful for marketing process

- Also may include an in built templates which can be used for reporting information to a regulatory body
- It enables to track various important deals and helps in managing contracts

15) Explain what is cash equity?

Cash equity is the total amount of cash or net worth of all the cash which could be gained from the investments and securities mentioned in the portfolio. To know whether your current mix of investment is working, cash equity monitoring is a better way to know this and it also helps to determine what to hold and what to sell.

16) Explain what is short sell in equity trading?

In equity trading the technique of profiting from a falling stock price by borrowing shares of the stock, and selling them at the market price, and then repurchasing them at lower price to return them to the original lender is referred as short sell. If you put in simple word "buy low, sell high".

17) Explain what is capital loss?

The negative difference between the buying price of the stock and selling price is referred as Capital loss.

18) Explain the term double bottom?

Term double bottom is used in a reference to a stock which shows down trend, hits a support level twice and reverse to continue in an uptrend.

19) Explain what is MF or Minimum Fill Order?

Minimum Fill Order or MF is an attribute attach to an order so that a minimum number of shares has to be available in order to trigger an order.

20) Explain what is debt or equity ratio?

To measure the debt against the proportion of equity, equity ratio is used, which is used to finance various portions of a company's operations. For judging any company's financial stability, it is used as a standard.

21) Explain what is bridge equity?

Bridge equity is a financing technique which enables potential acquirers of companies or assets to commit to an acquisition before the equity necessary for such acquisition is raised.

22) What is debenture?

Debenture is a type of debt that is not secured by physical assets or collateral. It is given on the basis of general credit worthiness and reputation of the issuer.

23) What are derivatives?

Derivative is a specialized contract for buying or selling the underlying assets of a particular period of time in the future at a pre-decided price.

24) What are the different types of Equity market?

- Public Issue
- Right Issue
- Private Placements
- Preferential Allotment

25) What is the dividend?

The profit share of the company after tax, which is distributed to its shareholders according to their class and the total number of shares held by them is referred as dividend.

26) Mention some of the mutual fund scheme?

- Maturity Period: Open and Closed ended schemes
- Investment Objective: Growth Scheme, balanced Scheme and Income Scheme
- Other Schemes: Liquid fund, sector fund and Tax saving fund

27) Explain the difference between the convertible and non-convertible debenture?

- Convertible debenture: Convertible debenture can be converted into equity shares of the company which is issuing after a predetermined period of time. They have lower interest rates.

- Non-convertible debenture: They carry higher interest rate, and they are not convertible into the equity shares

28) Explain what is ROE?

ROE stands for Return Of Equity, it is a measure of profitability that calculates how much profit a company generates with each shareholders equity.

To calculate ROE,

ROE = Net Income/ Shareholder Equity

29) Explain what is the difference between equity financing and debt financing?

Issuing additional share of common stock to an investor is referred as Equity Financing. While debt financing is borrowing money and not giving up ownership.

30) Explain what is Net Asset Value (NAV)?

The value of one unit of a fund is referred as NAV or Net Asset Value. It is calculated by totalling the current market values of all securities held by the fund, adding in cash and accumulated income and then subtracting liabilities, expenses and dividing the result by the number of units outstanding.

31) What is equity share?

Equity share represents the net-asset value backing up each share of the company's stock. Whether a company is increasing shareholder wealth over time is determined on the growth of equity share.

32) Why convertible securities are more attractive to investors?
Convertible gives the facility of prior claim if the common equity does not perform. If the stock appreciates, the convertible may participate in the good fortune of the company.

33) What leads assets to turn into a private equity?

Following reasons leads to turn assets to private equity

• Raising Capital
• Increasing Regulation of Public Markets
• Effect of Public Markets
• Financing the Private Equity firms

34) Explain what are the types of derivatives?

Derivatives are classified into three types

• Future or forward contract
• Options and
• Swaps

35) What are the characteristics of derivatives?

• Underlying
• Notional Amount
• Minimal Initial Investment
• No required delivery

36) Explain what are ETF's? What is the advantage of it?

ETF's (Exchange traded funds) are funds that track the indexes like NASDAQ, DOW JONES, S&P five hundred and so on. In other words, it's a mutual fund that trades like stock.

The advantage of using ETF is that

• You get the diversification of an index
• Ability to sell, short, buy on margin and purchase as little as one share
• You have to pay the same commission to your broker as you pay for regular order
• The expense ratios for most ETF's are lower than the average mutual fund

37) Explain what is secondary markets? What is the difference between the secondary and primary market?

Secondary market is where the trading of securities is done. It consists of both equities as well as debt markets.

The main difference is that in the primary market an investor can buy securities directly from the company through company's IPO while in the secondary one buy's securities from other investors willing to sell the same. Equity shares, bonds, preference shares, etc. are available in the secondary market.

38) What are Preference Shares?

Preference share is a share that enables an investor to claim a stake at the issuing company with the condition that whenever the company liquefies or decides to pay a dividend the preference shares holder will be the first to be get paid after clearing their debt.