Listed & Unlisted Securities: Points To Consider Before Investing
written by Joysurjo Roy | June 22, 2022



Listed vs Unlisted Shares

Nowadays, savings are usually not enough for absolute financial security. Money benefits from healthy circulation; assets are better off being invested so they can grow than left to stagnate. That said, investment does come with its own set of risks and one has to be savvy with their investment choices to make sure they see high and secure returns. Investing is also important to develop as a skill because it builds a sense of financial discipline as people consciously start setting aside a particular amount at regular intervals towards bigger investment goals. In this article, we will explore some risks and concerns of investing in listed and unlisted securities of shares or stocks.

What Are Unlisted Shares?

Shares of an unlisted company that are not traded on the official stock exchanges are called unlisted shares. Unlisted companies are generally owned by private investors and their peers and they have not yet become public companies due to non-fulfilment of listing requirements. Eg. Paytm, Ola, LIC, Jio etc.

The unlisted share market is not organized because the buyer and seller directly trade the shares over the counter while being connected via intermediaries.

Unlisted Securities: Issues of Concern

Investors need to be aware of some of the main concerns regarding unlisted shares.

- Issue of liquidity

  Unlisted shares need more time than listed shares to be liquidated; they cannot be easily converted into cash. If investors need money in an emergency, it would be difficult to find buyers. It is thus advisable to invest in unlisted options only if you’re sure you have other funds that can tide you over during an emergency.

- Higher tax implications

  Since stocks are not traded on the listed stock exchange, no Securities Transactions Tax (STT) is levied on them. The application of capital gain tax depends on whether the unlisted stocks are long-term or short-term gains. Unlisted stocks gain the advantage of long-term gains if they are held for more than 24 months before selling. However, listed stocks get this advantage

if held for half the time i.e., 12 months. Listed securities held for more than 12 months enjoy tax exemption up to INR 1 lakh; any long-term gains exceeding INR 1 lakh are taxable at 10%.
Another distinctive point is that the short-term gain of listed securities is taxable at a definite rate of 15%, but the same is taxable as per the investor's income tax slab for unlisted shares.

- Limited data about the company
  Unlisted companies often provide very less information about their financial status. Investors would find it hard to keep a track of the growth of the company wherein they have invested; this is a potential loss as a company could be in dire financial straits and cause possible financial loss to unsuspecting individuals.
- Availability of loans or advances
  It is easier to get loans and advances against listed shares but obtaining the loan or advance against unlisted ones becomes more difficult because their fair value is difficult to ascertain. [1]

What Are Listed Shares?

Listed shares are the shares of a company that are traded on an official stock exchange. Companies such as HDFC Bank, Indian Oil Corporation, and Bajaj Auto, are all listed on the Bombay Stock Exchange and the National Stock Exchange. Stockbrokers or online trading platforms and online brokerage websites help us to buy and sell the shares on these exchanges.

Listed Securities: Issues of Concern

While listed shares are generally the safer option for individuals to invest in, they also do come with their own set of concerns for investors to keep an eye out for.

- Volatility of market
  The share market is extremely volatile. Prices fluctuate in any direction over a short span of time and are easily influenced by various external and internal factors such as government policies, budgetary changes, company disclosure, change in management of the company etc.
- Lack of expertise and hidden risks
  The lack of expert knowledge has cost ordinary investors. Often, new investors do not understand why stock prices are rising or falling. They depend instead on the information provided by brokers or blindly follow the market trend; this results in poor investment decisions.
  The Securities and Exchange Board of India mandates issuer companies to publish the required information but the investors often fail to critically analyze the same, at the expense of the investor.
- Over-diversification
  The term above signifies when investors invest a bit in a lot of shares to save themselves from the risk that comes with committing to a single company. This phenomenon can damage their investment portfolio in the future.
- High brokerage rate
  While online trading platforms have become popular in recent years and offer individuals plenty of autonomy when it comes to participating in the stock market, brokers are still required for the effortless functioning of the market. Brokerage charges are higher compared to lower profit margins, which is demotivating for investors in long-term investment plans.

Do High Risks Results in Higher Returns?

It is presumed that stocks with higher volatility will deliver higher returns

to investors (volatility is the rate at which the value of a stock changes over a period of time).
While a few asset classes like debt and equity follow this theory, stocks do not react in the same way.
Why Investors Should Follow Low-Volatility Strategy
With the help of this strategy, the investors buy and keep stocks showing low long-term volatility or price stability. Indian and US markets have proved that investing in low-volatile stocks reduces risk and increases returns. When a market faces a crash, low-volatile stocks generally fall less. The strategy of buying low-volatility stocks is expected to outweigh the broad market during its weak conditions. [2]
[3]
Wrapping Up
The most crucial aspect of an investment is to be financially literate. It is important to build a solid foundation with some relevant information about the market to make calculative risks in the investments. By determining the end goal and future requirements, the investments should be kept simple. Digital trading platforms come with chances of high-risk and high-return investments. But since all the funds are locked in for the entire investment term, it lacks liquidity and, in the default, or emergencies, the collection and recovery process of these assets from these platforms becomes questionable. This sector is not strictly regulated, so as of now only seasoned investors should dabble in such platforms and conservative ones should not replace their secure assets such as fixed deposits or government bonds with these options.
Contributed by Joysurjo Roy, Associate
[1]Kumar, D., 2022. *The pitfalls of investing in unlisted stocks*.
[2]Oswal, P., 2022. *Does taking high risk to lead to higher investment returns?*
[3]Available at: https://www.holisticinvestment.in/uti-sp-bse-low-volatility-index-fund-nfo-review/