* **Understand the Difference Between Trading Account and Demat Account**
* **What is Demat Account and Trading Account**
* **Demat Account:**

A Demat account is also known as Dematerialized account. In other words, converting or dematerializing your physical shares in the electronic format is known as holding a Demat Account.

**Why can’t I just hold my shares in the physical format? Why should I convert it in the electronic format?**

* Holding physical shares involves risk. Your shares might get torn, damaged or lost. Besides, transferring physical shares would involve cumbersome paperwork.
* Your shares in the Demat Account can be maintained and stored easily and transferred effortlessly when the need arises. So, it is best to have a Demat Account.
* **How it works:**
* Once you open a Demat Account, you will be provided with your unique Demat Account number. This will help you deal electronically with your shares. A Demat Account is quite similar to your bank account, where you have the option to deposit and withdraw money.
* In your Demat Account, your securities can be debited or credited. Just like in many bank accounts where you can have zero balance, you can also have zero securities in your Demat Account.
* **Importance of Demat Account:**
* You can use your Demat Account to hold a wide variety of financial instruments like equity shares, mutual funds, government securities and exchange traded funds.
* It allows you to conduct multiple activities, including trading and investing at the click of a mouse.
* **Trading account**
* A trading account is used to purchase and sell shares in stock markets. Once you have a Demat Account, and want to sell your shares, or purchase new securities, you need a Trading Account.
* Your Trading Account will have a unique trading number, which will be used to trade in shares.
* **History of Trading Account:**

Before the age of digitalization, share markets operated on an open outcry system, where traders used verbal communication along with gesticulations to buy/sell shares. But, after stock markets adopted the electronic system, the open outcry system was replaced by digital accounts.

* **Importance:**
* Once you want to start trading in share markets, you require having three accounts: A bank account, a Demat Account and a Trading Account. Let us understand this with an example. Ashok wants to purchase shares of a particular company. He will place an order through his Trading Account, following which the transaction will be processed in the given stock exchange. The shares will then be deposited in his Demat Account, while the requisite money will be deducted from his bank account.
* So, to put it simply, a Trading Account acts as a link between your bank account and Demat Account, allowing you to trade in stock markets.
* Having an online Trading Account helps you to secure access to multiple stock markets like National Stock Exchange (NSE), Bombay Stock Exchange (BSE), National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX).
* **Demat Account Vs Trading Account**

## ****1. What is a Demat Account?****

Demat is simply an account that allows you to hold your shares in an electronic format. A demat account converts the physical shares into an electronic form, therefore dematerializing it. On opening a demat account, you will be given a demat account number to be able to electronically settle your trades. The workings of a demat account is very similar to that of a bank account where you keep your money with the option to deposit and withdraw. In your demat account too, the securities are held and accordingly debited and credited. You do not need to have any shares to open a demat account; In fact, you can even have zero balance in your account.

**2. What is a Trading Account?**

To conduct your stock trading activities you require a trading account. This is because when a company lists its shares in the stock market you can trade the same on an electronic system through a special account known as a trading account. You can get such an account by registering with a firm or a stock broker. With this account you are assigned a unique trading ID which grants you access to conduct trading transactions.

## ****3. What is the difference between a Demat Account and a Trading Account?****

The following are the main areas where a Demat and a Trading Account differ:

### ****a. The functionality of a Demat Vs a Trading Account****

One major difference between the two accounts pertains to the functions each performs. A trading account is used for the buying and selling of the securities by means of it getting debited from your demat account and sold in the market. A demat account, on the other hand, allows investors to keep their financial instruments in an electronic format. This also works in a way where you can change your electronic format securities into physical form as well.

### ****b. The nature of the two accounts****

A trading account functions in the same way as your current bank account would; it in fact, links up your demat and your bank account. It works to sell your shares in the market by withdrawing it from your demat account. Demat account is the place where the shares and securities that you buy from the market are stored. Unlike a trading account that functions like a current bank account, a demat account works like a saving account.

### ****c. The role of the two accounts****

Both these accounts, as different as they may be, are crucial for any trading in the share markets. When, as an investor, you buy the shares of any company, you use the trading account to do so. The money is debited from your bank account and the shares are reflected in your demat account where they are also credited. Similarly, when you sell your shares through your trading account, the same gets debited from your demat account and are then sold in the market. The proceeds of this sale is credited back to your bank account. Thus, in order to trade in the stock markets, it is mandatory to have both a demat as well as a trading account.

## ****4. How to open a Demat Account****

You can open a Demat Account following these simple steps:

**Step 1:** Get in touch with an agent of depository or a depository participant to fill the form required for opening a demat account. You may access the list of depository participants (DP) on websites of depositories like the [Central Depository Services (India) Ltd](https://www.cdslindia.com/publication/dplist.jsp) and National Securities Depository Ltd

**Step 2:** Fill the account opening form with copies and documents of ID and address proof

**Step 3:** Sign an agreement with the DP that outlines the details of your rights and duties as an investor and DP. Remember that you have the right to receive a copy of the agreement and the schedule of related charges for your reference

**Step 4:** The DP will open your account and give you a demat account number, also known as Beneficial Owner Identification Number

## ****5. How to open a Trading Account?****

Opening a Trading Account is made simple in the form of the following process:

**Step 1:** Begin with selecting a Broker or a firm

**Step 2:** Make sure to make a comparative study of the brokerage rates and the services included

**Step 3:** Contact the shortlisted broker for opening your account

**Step 4:** Fill an account opening form that also requires you to provide KYC details. Along with your ID and address proof submit these

**Step 5:** Undergo an application verification process

**Step 6:** Get the details of your trading account

**Step 7:** Start Trading While opening a demat and a trading account have been made simple, as an investor you still require to approach the stock markets with a good understanding of the markets and the instruments traded therein. Investing in stocks is subject to market risk and must be accompanied with expert counsel. To know more about how to invest and how to identify the best stock, visit Clear Tax where we have a sampled offering of hand-picked stocks that meet every risk profile and financial goals.