

Stock market

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Myths & Hard Facts

- Brain Myths

- I lost because I didn't know trading secrets.
- Only intelligent people make money in stock market.

- Fortune Myth

- Only lucky or fortunate people make money in stock market

- Undercapitalization Myth

- One needs bigger account to be successful
- If only I had a bigger account, I could have stayed in the market a little longer and won

- Autopilot Myth

- If I had a good trading system, I would be successful.
- Myth of Fundamentals
 - Stock price is determined by companies fundamentals and past performance
- Myth of Brand
 - Buy XYZ company's share, it always makes you money.
- Market is not your mother....
 - It is made of tough men and women who look for ways to take money from you instead of pouring milk into your mouth
- Futures Trading is not a "ZERO-SUM" game, it's a "MINUS-SUM" game!
 - Winners receive less than what losers lose.
 - Just being "better than average" is not enough to win in this game
- This industry attracts new losers to feed the winners, brokers and exchanges.
- For a price to go up, there has to be greater fool who is ready to pay higher.

Common Questions

- Is it good time to buy?
- What stock should I buy and when? [™]
- Market is falling... should I sell or hold?
- Is this a Bull Market or a Bear Market?
- How high (or low) this stock could go?

Answer lies in Technical Analysis (TA) coupled
with Money Management Rules

Have you got it right?

- Markets rise when
 - i. There are more buyers than sellers
 - ii. Buyers are more aggressive than sellers

TM

- iii. Sellers are afraid and demand a premium

iv. More shares or contracts are bought than sold

a. i and ii

b. ii and iii

c. ii and iv

d. iii and iv

- Find out - when Markets Fall!?

Retail Mentality

- Retail portfolio consists of more Gadhas

(Underperformers) than Ghodas™

(Outperformers) - Why & How?

- They Feed the Weeds in the Farm

- They Catch the Wrong Train

- They are too Loyal to their stocks

- They like to be Brave

- They like to Buy Cheap

- They like to Average by putting good money after bad

TREND

The trend has been your friend for over 250 years,

so stop fighting it!

- Up Trend

Higher Highs, Higher Lows

Moving Averages $5 > 13 > 26 > 50$

- Down Trend

Lower Highs, Lower Lows

Moving Averages $5 < 13 < 26 < 50$

- Sideways Trend

Moving Averages are mostly flat or intermingled

TM

AV

Bulls vs. Bears

Hammer

Hanging Man

1. Long white candlesticks indicate that the Bulls dominated the action (trading) for most of the time.
2. Long black candlesticks indicate that the Bears dominated the action (trading) for most of the time.
3. Small candlesticks indicate that neither team could move the action and price finished about where they started.

RADING ACADEMY

4. A long lower shadow indicates that the Bears dominated the action for part of the time, but lost control by the end and the Bulls made an impressive comeback.
5. A long upper shadow indicates that the Bulls dominated the action for part of the time, but lost control by the end and the Bears made an impressive comeback.
6. A long upper and lower shadow indicates that the both the Bears and the Bulls had their moments during the time, but neither could put the other away, resulting in a standoff.

Oscillators

- Oscillators help find turning points i.e. they identify emotional extremes of market crowds i.e. "Overbought" OR "Oversold" conditions.
- However, in a strong bull markets they may remain overbought for long period of time, giving pre-mature sell signals.
- In Strong bear markets they may give pre-mature buy signals.
- They work extremely well in **Trading Ranges** (Sideways Trend):
 - Buy on Positive Crossover (ready to turn from oversold)
 - Sell on Negative Crossover (ready to turn from overbought)

Divergence

- To "Diverge" means to drift apart OR go on a different route. Generally, price and oscillators go hand-in-hand however, there are times when they diverge from each other.

- Oscillators give best trading signals when they diverge from price.

- Divergences often help to identify market tops or bottoms.

- There are 2 different divergences:

i. Bullish Divergence - Bullish Divergence is where price chart will show price making equal low or lower low while Stochastic/RSI will show price making a higher low. In other words, bullish divergence occurs when price fall to a new low but an oscillator refuses to decline to a new low.

ii. Bearish Divergence - Bearish Divergence is where price chart will show price making equal OR higher high while Stochastic/RSI will show price making a lower high. In other words, bearish divergence occurs when price rise to a new high but oscillator refuses to rise to a new peak.

TIME FRAMES

• Monthly Chart

> Good for ultra long term investors.

• Weekly Chart

> Good for long term investors with over 1-2 years investment horizon.

• Daily Chart

> Good for medium term investors with over few months investment horizon.

• Intra-day (1 minute, 5 minutes, 15 minutes etc.)

> Used by day-traders

Interpretation: Each bar / candle represents price for the specific time

frame. E.g. In daily chart "each" candle represents price for the day i.e. open, high, low & close of the day

TIME FRAMES

• According to DOW Theory, Stock Markets have 3

trends

- Long-term Trend lasting for several years (like a Tide)
- Medium-term Trend lasting for several months (like a Wave)
- Short-term or minor Trend (like a Ripple)

- Trade in the direction of TIDE (e.g. weekly chart)
- Take advantage of the WAVE (e.g. daily chart) that

goes against the Tide

- Use breakouts / reversals in RIPPLE (e.g. intra-day)

- M1: METHOD: Triple Screen System

- 1st screen: Long-term (Market Tide)

- This is one order of magnitude longer
- Invest / Trade in the direction of this trend
- Use slope of MACD on this chart as your key 'direction indicator'

- 2nd Screen: Medium-term (Market Wave)

- This is the timeframe you want to Trade
- Identify the Wave that goes against the Tide i.e. a pullback on daily chart when weekly trend is up

- Use Oscillators to determine buy / sell signal

- 3rd Screen: Short-term (Ripple in the direction of Tide)

- This is one order of magnitude shorter
- Use intra-day breakouts for entry

- Choosing Time Frames:

- Use factor of 5
- For medium term investors: Weekly / Daily / 1 hour
- For day-traders: 1 hour / 10 minute / 2 minutes or 30/5/1 minute

M3: MIND MANAGEMENT

- Can you control Mr. Market?
- You can only control
 - Entries & Exits
 - Capital preservation and money management
- Self-inflicted pressures
 - I must succeed
 - Making quick bucks
 - Want to leave job and start full time trading
 - I want to double my account
 - Trading on borrowed money
- Not enough education
- Money does not make the trader... It's the trader that makes the money! 😊😊😊

Important M3 Rules

- Never "count" your profits, until you are in the trade.
- Overconfidence Can Kill - Don't let winning spoil you.
Don't increase your risk after winning trades.
- Stop Loss has to be based on Charts, not the MM rule.
- Ride your Winners: Don't jump off a Running Horse!
- Withdraw Profits Regularly.
- Don't expect every trade to be a big winner.

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- Don't expect every trade to be a big winner.

- Follow what market is doing and not what you want market to do
- Ignore the news, follow the chart. If News is in the news papers for general public - act exactly opposite to what general people would do. Usually news are published to burn inventory!
- Trade the Trend (catch the train that's going in the direction where you intend to go!)
- Never let a Profit turn into Loss (this is easy said than done.. But you may try!)
- Follow stop losses religiously without being emotional.
- Study more, Trade less.
- If you don't know what's going on, don't do anything
- Tips are to trap suckers and pigs, use them only for your advantage.
- Never put more money into a losing trade / investment.
- Be a sniper trader
- Don't follow the crowd, they are usually wrong!
- Markets are never wrong, opinions often are.

--- OCR End ---

RULES OF THE GAME.....contd.

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- Don't buy a stock because you think it's cheap. Let market decide if it's cheap....follow your chart.
- Never let speculative play (rumor ones) to turn into long term investments. Sell if your chart tells you to do so.

TM

- Don't catch a falling knife in anticipation of the bottom. Let the chart confirm reversal.
- Always use "Triple / Double Screen System" while analyzing a chart.
- NEVER fall in love with a stock... not even Reliance 😊
- Habit of managing money is more important than the amount.

NEVER compromise your

MONEY MANAGEMENT RULES

RULES OF THE GAME.....contd.

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MONEY MANAGEMENT RULES

DEVELOPING TRADING STRATEGY

- Focus on the 3 Mantras
- Method
 - Identify the Methodology that works for youTM
 - Identify high probability setups
 - Filter the setups based on MM Rules
- Money Management
 - Identify your Risk Appetite
 - Develop a MM plan
- Mind Management
 - Identify your Personality: Key to Success!
 - Follow the Rules of the Game

LESSONS LEARNT BY ME

- I have ALWAYS lost money whenever I have compromised my own System & Rules....

Hence,

- Follow the Rules
- Follow the Discipline
- Follow the Rules
- Follow the Discipline
- Follow the Rules DING ACADEMY -
- Follow the Discipline

PAY ATTENTION TO PRICE ACTION

Sr. No.

Trade Setup

PAPA Observation

Trigger Point

Supportive Indicators

Stop Loss

Target

1

Double Top

Neutral or Bearish candle patterns at previous resistance levels

Weapon of the bulls is taken out

Divergences with BKT, High Volume

High of Weapon

Same as Double Top Rules

2

Double Bottom

Neutral or Bullish candle patterns at previous Support levels

Weapon of the bears is taken out

Divergences with BKP, High Volume

Low of Weapon

Same as Double Bottom Rules

3

Three White Soldiers

Three White Soldiers and then price dips in the range of 2nd soldier's High and Low levels

Buying signals / bullish candles

Low of the 1st candle

As per Major Resistance or chart pattern

4

Three Black Crows

Three Black crows and then price rallies in the range of 2nd crow's High and Low levels

Selling signals / bearish candles

High of the 1st candle

As per Major Support or chart pattern

5

Bulls Counter Attack

Price opens below the major support levels

Once price enters again above the breakdown level

Lower BBC Failed, High Volume

Low of the counter attack candle

As per Major Resistance or chart pattern

6

Bears Counter Attack

Price opens above the major resistance levels

Once price enters again below the breakout level

Upper BBC Failed, High Volume

High of the counter attack candle

As per Major Support or chart pattern

7

Sandwich Pattern

Multiple alternate Green and Red candles within ranging price levels

Once sandwich pattern breakout candle closes above the previous candle or breakdown candle closes below the previous candle

Low of the sandwich breakout candle or High of the sandwich breakdown candle

Major resistance for breakout candle or major support for breakdown candle or as per chart pattern

8

Rounding Bottom

Multiple big red candles with no strong follow-up, mostly forming neutral candle patterns

Strong breakout candle closing above the sideways range

Low of the candles in the range at Bottom

As per Major resistance or chart pattern

9

Rounding Top

Multiple big green candles with no strong follow-up, mostly forming neutral candle patterns

Strong breakdown candle closing below the sideways range

High of the candles in the range at Top

As per Major Support or chart pattern

Sr. No.

Trade Setup

PAPA Observation

10

Genuine BO

Shakeout at Major resistance level

before actual breakout candle

11

Genuine BD

Shakeout at Major support level

before actual breakdown candle

12

Fake BO

Generally there is no shakeout

before breakout, price again enters

below the breakout level with

Bearish candles

13

Fake BD

Generally there is no shakeout

before breakdown, price again enters

above the breakdown level with

Bullish candles

Trigger Point

Once follow-up candle
closes above the breakout
level

Once follow-up candle
closes below the
breakdown level

Once the follow-up candle
closes below the
breakout candle

Once the follow-up
candle closes above the
breakdown candle

Supportive Indicators

Ungali Setup

Ungali Setup

Divergences with BKT,

High Volume

Divergences with BKP,

High Volume

Stop Loss

Low of the breakout
candle

High of the breakdown
candle

High of the breakout
candle

Low of the breakdown
candle

Target

As per Major Resistance
or chart pattern

As per Major Support

or chart pattern

As per Major Support

or chart pattern

As per Major Resistance

or chart pattern

14

Gap Up

Price opens directly above the major
resistance levels and sustains the gap

15

Gap Down

Price opens directly below the major
support levels and sustains the gap

16

Mother Candle

(Bullish Reversal)

Mother Candle found at
major support

17

Mother Candle

(Bearish Reversal)

Mother Candle found at
major resistance

One can enter after

follow-up

One can enter after

follow-up

Candle that breaks out the

Mother Candle

Candle that breaks down

the Mother Candle

Ungali Setup

Ungali Setup

BKP at Major Support

Low of the breakout

candle or below

Gap up level

High of the breakdown

candle or above

Gap down level

Low of Mother Candle

BKT at Major Resistance High of Mother Candle

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18

Mother Candle

(Continuation)

Mother Candle found in between

the trend

1. Bullish continuation -

Candle that breaks out the

Mother Candle

2. Bearish continuation -

Candle that breaks down

the Mother Candle

As per Major Resistance

or chart pattern

As per Major Support

or chart pattern

As per Major Resistance

or Chart Pattern

As per Major Support or

Chart Pattern

1. Bullish Trade - Low of

Mother Candle

2. Bearish Trade - High of

Mother Candle

As per Major Support

/ Resistance or Chart

Pattern

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TM

--- OCR End ---

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TM

Do you Qualify for this workshop !?

Markets rise when

i. There are more buyers than sellers

ii. Buyers are more aggressive than sellers

TM

iii. Sellers are afraid and demand a premium

iv. More shares or contracts are bought than sold

a. i and ii

b. ii and iii

c. ii and iv

d. iii and iv

VADHUT SATHE

Find out - when Markets Fall!? ACADEMY –

TA is Simple: Why Complicate things?

- Candlesticks do speak a lot....be a Good Listener!

TM

- Market is a battle field between the Bulls and Bears. They try to intrude into each others territory and while doing so they print a picture. That's what candles are all about. Candles shows who is dominating at that particular period.

- Its always about being with the dominating force in the market. So listen to the candlesticks very carefully.....they always tell you a STORY!

Candlesticks Make TA easy!

They help to minimize complications of decision making involving many parameters, as it focuses only on price action!

Even Fundamental Analysts could use it to time the entry and exits based on candlesticks and their view of the stock / market.

They help you identify the resistance and support areas.

They help to derive proper stop loss.

They help momentum traders to pause and enter at the right time.

They help swing traders to time entry and exits.

They help to "Time" the major tops and bottoms!

Candlestick Pattern

- Japanese rice traders began using candlestick charts in 16th century.
 - Body of each candle represents distance between opening and closing prices.
 - The upper and lower tail (if exists) mark high and low for the day respectively
- TM
- White / Green Candle: If closing price is higher than opening price
 - Black / Red Candle: If closing price is lower than opening price
 - A candlestick represents data for specific period i.e. in daily chart it represents price action for the day and on a 30 minute intra-day chart it represents price action for that 30 minute period.

Always ask yourself: "Why are you in the trade?"

Bulls vs bear

1. Long white candlesticks indicate that the Bulls controlled the ball (trading) for most of the game.
2. Long black candlesticks indicate that the Bears controlled the ball (trading) for most of the game.
3. Small candlesticks indicate that neither team could move the ball and prices finished about where they started.
4. A long lower shadow indicates that the Bears controlled the ball for part of the game, but lost control by the end
and the Bulls made an impressive comeback.
5. A long upper shadow indicates that the Bulls controlled the ball for part of the game, but lost control by the end
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6. A long upper and lower shadow indicates that the both the Bears and the Bulls had their moments during the game,
but neither could put the other away, resulting in a standoff.

Support / Resistance in the context of

candles

Which scenario is more bullish - Case I or II? and

Why?

Case I

Case II

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Because long lower shadows are more stronger signals than smaller ones.

Doji: use to time the top / bottom

- Significant only at the end of the trend.
- Confirmation only after the following candle.
- One must ignore Dojis in the middle of the range.

Various scenarios

- **Uptrend – top – correction – rally - doji at double top – confirmation candle 😊**
- Dojis within flag: Ignore / do not pay attention
- Dojis within trend: Ignore / do not pay attention

Engulfing Patterns:

- Bullish Engulf - only when found near the bottom of the trend, ignore the rest.
- Bearish Engulf - only when found near the top of the trend, ignore the rest.
- Hence, preceding trend matters. Size of the body matters the most.
- When to ignore?
 - > When they are not confirming potential reversal
 - > Within a range or flag
- Bullish Engulf pattern at the top of a trend could turnout to be bearish,

how? - Combine the two, its like a hanging man.

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Shadows

- Upper Shadows : Indicate inability of Bulls to control the price action.
- Lower Shadows : Indicate inability of Bears to control the price action

Accumulation at the Bottom

- It means that the particular asset is being accumulated or bought.
- Accumulation can be generally identified by a sideways action with many neutral candles at the bottom/support and no major follow-up on the downside.

Distribution at the Top

- It means that the particular asset is being distributed/sold. In other words, players getting out of their existing investments.
- Distribution can be generally identified by a sideways action with many neutral candles at the top/resistance with no major follow-up on the upside.

Sandwich Pattern

- Sandwich pattern is a combination of Red-Green-Red-Green candles.
- The colour sequence is mostly alternate (Red v/s Green) and there is no limitation to number of candles too.

Gaps

- In a technical chart, gap is an area from where the price has opened up or down from the previous day's close with no trading occurring in

between. They are found mainly on daily charts.

- They indicate major resistance / support levels and can be used to find targets.

- Significant Gaps :

- > Breakaway gaps - Usually found in 3rd wave. Use Elliot wave principles to identify breakaway gaps

- > When a major support / resistance is broken with the Gap

- Three Candlestick Patterns

- 3 candle patterns are more significant than 2 candles or a single one viz.

- Morning / Evening stars

- Three Black Crows

- Three White Soldiers

- VOLUME Confirms the Price Action!!!

Mother Candle Reversal

Mother candle broken down by the bearish can trigger a reversal sign.

Mother Candle Reversal

Mother candle broken out by the bullish indicated a buy entry:

HA for Trailing SL

HA helps you to be stay in the trade without any noise.

Using Candlesticks With Other Parameters

- EMAs: They provide natural support / resistances.

- Use Hammers as buy signal on declines to EMA support levels.

- Use shooting stars as sell signal on rallies to EMA resistance levels.

- Bollinger Bands

- Shooting stars that fail to challenge the upper band confirm the resistance.
- Hammers that fail to challenge the lower band confirm the support.

Hammer with EMAs

- In continuation patterns one may use Hammers for entry on correction near supporting EMAs.
- You should combine such entry signals with other parameters such as Oscillators, and Bollinger Bands.

Shooting Star with Bollinger Bands

- A shooting star that fails to challenge the upper band confirms resistance. You may take fresh short position.

Shooting Star with Bollinger Bands

- A shooting star that fails to challenge the upper band confirms resistance. You may take fresh short position.

FUTURES & OPTIONS Made Easy

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What is a Derivative?

It's a financial product / contract which does not have its own value.

> It derives its value from the underlying™ asset.

> E.g. RELIANCE ticker traded in Futures market is a "derivative" of RIL stock from the cash (spot) market.

> There are 2 such products available for trading one

Why Derivates?

- Less Money required to invest

- Example:

✓ 250 RIL shares @2250 in cash market = Rs. 5.62L approx.

✓ 1 lot (250 shares) of RIL in futures (@20% margin) = Rs. 1,12,500 approx.

✓ 1 lot of RIL - 2260 Call Option @ Rs. 50 premium = Rs. 12,500.00

- Hedging against Investments

- Speculating market or stock moves!

- Positional Trading

- Day Trading

- Earning Rent on Stock Investments.

Lets get started with Futures

Futures Contract

- It's an agreement or a contract to Buy or Sell specified quantity of the underlying asset at a price agreed upon by the buyer and seller on or before a specified time.

- Both buyer and seller of the contract are "obligated" to Buy or Sell the underlying asset.

- Contract constitutes:

- ✓ Size/Lot

- ✓ Contract Month ACADEMY

- ✓ Contract Expiry

Futures Terminologies

- > Contract Size

- Quantity of the particular stock / Market Lot

- > Contract Month

- Current or Near month

- Mid Month (2nd month)

- Far Month (3rd month)

- > Contract Expiry - Last Thursday of every month

TM

- > Open Interest - Total outstanding positions in the Futures market at a given point of time

- > Volume- No. of contracts traded during a period

- > Spot - Price in the cash market

- > Margin- Deposit required to pay to the broker to take a position in F&O market

- > Cost of Carry- Premium over the spot price in Futures

Futures – Position Trading

Date

Trade

Purchase/ Bought

forward Rate

Futures Closing

Rate

Debit/Credit

(MTM)

Example 1: Harish goes long on Infosys @ 1130 on 16 Apr 2018

16/04/18 BUY/LONG

17/04/18 HOLD

18/04/18 HOLD

19/04/18 HOLD

20/04/18 Square-off

1130

1140

10

1140

1125

-15

1125

1125

0

1125

1132

7

1132

1178

46

Total Profit on the trade

48

Date

Trade

Purchase/ Bought

forward Rate

Futures Closing

Rate

Debit/Credit

(MTM)

Example 2: Harish goes Short on Infosys @ 1210 on 23 Apr 2018

23/04/18 Sell/ Short

24/04/18 HOLD

25/04/18 HOLD

26/04/18 Expired

1210

1187

1187

1154

1154

1160

1160

1176

Total Profit on the trade

23

33

-6

-16

34

26/04/18 Being last Thursday of the month the futures contract will be settled against the closing price in cash/Spot market, If harish doesn't square off the position.

--- OCR End ---

Futures – Risk & Reward

- Risk and Reward are unlimited for both Buyer and Seller.
- Limit your Risk by following Stop Loss.

™

- Hedging - Limited Risk & Reward

- If you are hedging against the underlying cash position then the risk and reward are both limited.

- Example: If you own RIL shares and Sell RIL in futures for equal quantity then your losses in spot position are off-set by gains in Futures position.

- You can get margin up to 80% (depending on the stock) against the pledged equity. This margin can be used for futures trading and option selling.

Futures – Trading Strategies

> Technical Analysis basis:

- Arrive at Price Target
- Use Money Management Rules to decide the contract size
- Remember 2% (single trade loss) & 10% (max monthly loss)

Rule!

> Open Interest basis:

- Long (Bullish) : OI is UP and Price is UP
- Short (Bearish) : OI is UP and Price is DOWN
- Short Covering (Bullish) : OI is DOWN and Price is UP
- Long Covering (Bearish) : OI is DOWN and Price is DOWN

> Arbitrage:

- Futures Price is LESS than the Spot Price
- ✓ Buy Futures & Sell Cash
- Futures Price is HIGER than the Spot Price
- ✓ Sell Futures & Buy Cash

Futures – Recap

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TRADING A

Limited investment in terms of margin payable to broker.

- Typically 15-25% of the total value
- Depends on Market wide exposure / Open Interest

Risk and Reward are unlimited.

Position needs to be monitored on daily basis as risk

involved is unlimited.

Broker could square-off your position if margin requirements shoots above the funds deposited with the broker.

Deposited margin starts falling short rapidly if your trade start going against you.

Understanding Options

- > Was developed for Hedging and Speculating!
- > Option Contract is a 'Right' given by the Option Seller to the Option Buyer to buy or sell a specific asset at a specific price on or before a specific date.
- > Option Buyer or Holder:
 - > * Has the 'Right'
 - > * May or may not Exercise the Right
 - > * Pays premium
- > Option Seller or Writer:
 - > * Has the 'Obligation'
 - > * If Buyer decides to Exercise the Option, the Seller must oblige (only applicable to American options, not applicable in Indian option market)
 - > * Receives or Earns the Premium

Options Terminologies

Call Option - Long position / bullish

Put Option - Short position / bearish

Market Lot:

- Minimum number of units to be bought or sold
- E.g. for Nifty the lot size is 75

Strike Price:

- The price at which underlying stock can be bought or sold by the contract buyer
- E.g. for Nifty: 15000, 15050, 15100, 15150, 15200 and so on

- Strikes which are closer to the underlying are more liquid

Expiration Date - Last Thursday of every month for monthly Option contracts, Every Thursday for Weekly Option contracts:

- The date when the term of an option contract terminates

Option Holder: Buyer of an option

Option Writer: Seller of an option

Exercise Day:

- The date when the buyer / holder of an option exercises the Option