

11.9 THINGS TO KEEP IN MIND BEFORE ENTERING F&O MARKET!

Derivatives are known as weapons of the market or the weapons of mass destruction. Warren Buffet gave that name to them for a reason. We need to be extremely cautious while we use them. It is advisable that we paper trade, understand the markets properly, learn thoroughly and then get into the real markets. This market is brutally competitive.

We must know the returns we get from F&O are much higher than what we get from a cash market. But higher returns come with higher risks.

IN THE F&O MARKET, OUR LOSSES ARE NOT LIMITED TO OUR CAPITAL. WE MAY END UP LOSING FAR MORE THAN WHAT WE OWN AND LITERALLY OVERNIGHT.

In the cash market, the worst-case scenario is that we lose all our money. However, in the F&O market, there's no limit to our losses. It is advisable that we avoid unlimited losses positions while we are just entering the markets. Otherwise also, it is advisable to avoid Infinite losses as much as possible.

With derivatives, our capital may erode in a really short period of time. One must be very sure of their risk profile before entering into the F&O markets. Ensure proper backtesting and understanding of the strategies before entering the market. Risk Management steps should be followed and sworn by as we plan to take our steps into the F&O market. We can't emphasize enough on this.

Make sure that you never put yourself in a position where you may lose more than what you own.



BIZZARE THINGS HAPPEN IN FINANCIAL MARKETS. MAKE SURE YOUR RISKS ARE WELL MANAGED.



Notes
