Dow Theory

3 phases

→ Accumulation – Smart money quiety buys stocks at ↓ prices

→ Markup – price ↑ as more traders come in market.

→ Distribution – Smart money sells & public buys at ↑ prices.

Dow patterns

1 → Double bottom & Double top formation – bullish.

2 → Triple bottom & Triple top

3 – Range formation.

4 – flag formation.

→ Reward to Risk ratio

Risk – Entry – Stoploss

Reward – Exit – Entry

for every risk of 1 reward – 1.3. or x.

• Primary – trends over a period of year to general.

Secondry – minor counter reactions to the larger movement in the market

intraday

FUTURES TRADING

Spot market → regular market.

4 risk on forward
→ liquidity
→ Regulation
→ Default
→ Rigidity.

→ lot size
→ contract value → lot size × price.
→ margin → small money given ~~at~~ time of deciding on future
→ expiry

Leveraged transaction :- the real estate example.

Leverage = contract value / margin.

↑ leverage = ↑ risk.

Futures is called a zero sum game, as here no money is generated rather it goes from one pocket to another.
→ linear payoff instrument.

→ Margins are a small % of money leveraged during the transaction.
→ Futures agreement is tradable.

Initial margin = % contract value.
contract value = Futures price × lot size.

M2M - Mark to Market.

→ Ensures that both parties are fair and square daily. → crediting & debiting the traders acc.

→ adjusting values of the future to reflect current market price.

Initial Margin = $\underbrace{\text{Span margin}}$ + $\underbrace{\text{Exposure margin}}$.

→ min margin blocked as per the exchange.

→ also called maintanence margin.

volatility ↑ → span m. ↑

→ This varies b/w 4-5% of the contract value.

Current month future price < mid month < far month.

rollover → eg: I buy the january contract & just before it expires I will buy the feburary contract.

Simultaneous long and short position is built only when opportunities arise.
This is called calender spread.

NRML → hold it overnight.

MIS → Intraday.

CO → cover order, NRML in stoploss

BO → Bracket orders → adjust stoploss based on the movement in stock to to lock profit.