

FOME CONCEPTS Part 1 FUTURES

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BECOME A PRO
MONEY WILL FLOW

**FOCUS =
SUCCESS!**

FOME Concepts Part 1 - FUTURES

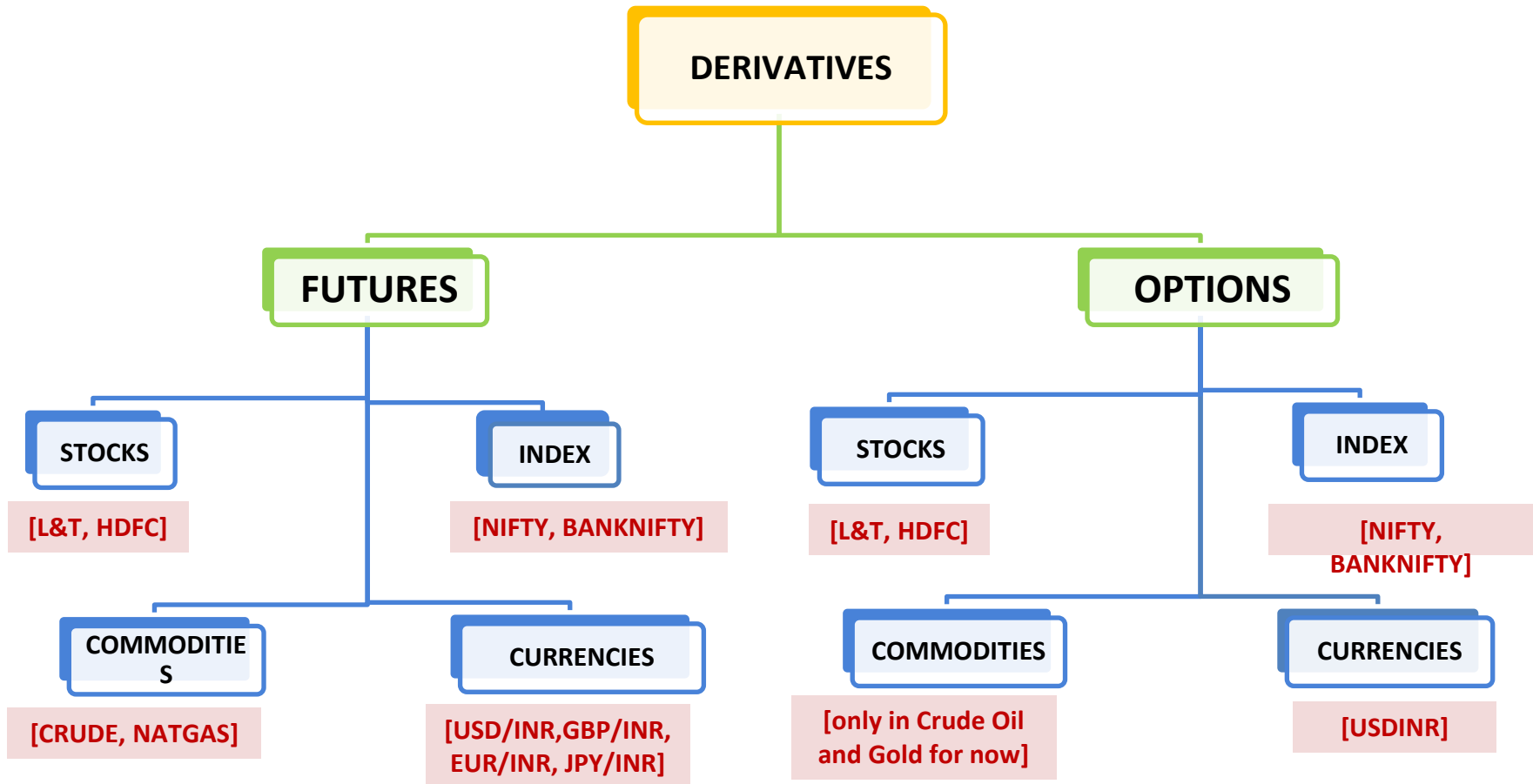
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What are Derivatives?

- It is a financial product/contract which does not have its own value.
- It derives its value from an underlying asset. These underlying asset could be stocks, indices, commodities, currencies, exchange rates, or the rate of interest.
- E.g. INFOSYS ticker traded in Futures market is a “DERIVATIVE” of INFY stock from the Equity (Spot) market.
- These financial instruments help you make profits by betting on the future value (Both Up and Down side) of the underlying asset.
- In the Indian markets, **FUTURES** and **OPTIONS** are standardized contracts, which can be freely traded on exchanges.

Types of Derivatives



Why Derivatives?

- Less Money required to invest.
- Example:
 - 500 RIL shares @1780 in cash market = Rs. 8.9 L
 - 1 Lot (500 shares) of RIL in futures (@20% margin) = Rs. 1.78 L
 - 1 Lot of RIL – 1800 Call Option @ Rs. 25 premium = Rs. 12,500
- Hedging against Investments
- Speculating Market or Stock Moves
- Earning Rent on Stock Investments
- Arbitrage Trading

Fact about Derivatives Market

BITTER FACT:

95 % LOSE MONEY

&

5 % MAKE MONEY

INTERESTING FACT:

5 % MAKE MONEY THAT 95% HAVE LOST

Equity v/s Derivatives Market

PARAMETERS	EQUITY MARKET	DERIVATIVES MARKET
OWNERSHIP	When you buy a share in Equity market, you actually own those many units of the company.	In Derivatives market, contracts are traded of underlying assets, hence you don't actually own the units of company.
INVESTMENT	Total Cost of Shares	Margin Cost for Futures (15-20%), Premium & Margin Cost for Options
SHARE QUANTITY	No restriction, can trade/invest even single share	As per standard Lot size. E.g. Reliance – 1 Lot (1000 shares)
DURATION OF HOLDING	No Specified Duration	One/Two/Three Months contracts expire at last Thursday of each Month
SHORT SELLING	Only Intra-day	Intra-day as well as Positional
ROI (Eg.: 10% MOVE IN STOCK PRICE)	10%	Futures: 50-60%, Options: 100-500% approx.
PRICE DENOMINATION	Spot Price www.avadhutsathe.com	Futures Price (Premium or Discount),


FUTURES

What are Futures?

- It is an agreement or a contract between two parties 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.
- Risk and Reward are “UNLIMITED” for both Buyer and Seller.
- Limit your Risk by following **STOP LOSS!**

Futures Contracts

/www.nseindia.com/live_market/dynaContent/live_watch/fomwatchsymbol.jsp?key=HINDALCO&Fut_Opt=Futures



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NIFTY 9,595.10
85.35 ▲ 0.90%

Stock of the nation

Normal Market has Closed. May 26, 2017
Next Trading Date : May 29, 2017

(All prices in ₹)

Equity ▼



Live Market

Products Corporates Membership Domestic Investors International Investors Technology Education Research

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HINDALCO Futures

As on May, 26 2017 15:30:29 IST

Option chain

Instrument	Underlying	Expiry Date	Option Type	Strike Price	Open Price	High Price	Low Price	Prev. Close	Last Price	Volume	Turnover (lacs)	Underlying Value
Stock Futures	HINDALCO	29JUN2017	-	-	191.80	203.95	190.50	191.35	199.60	14,042	97,969.63	198.25
Stock Futures	HINDALCO	27JUL2017	-	-	194.80	204.60	194.80	192.30	201.00	84	591.23	198.25
Stock Futures	HINDALCO	31AUG2017	-	-	201.00	201.00	201.00	193.95	201.00	5	35.18	198.25

Futures Terminologies

- **Long:** It is another name for buying but into Future market.
- **Short:** It is another name for selling in Future market. It is also known as Short selling. It helps traders to make profit from declining stock and index prices. Simply put, you first sell at a high and then buy at a low.
- **Spot Price:** Price of the underlying asset in the spot market. In Derivative market, all the open positions are squared off at spot price on F&O Expiry day.
- **Future Price:** Price of future contract of underlying asset in Derivative market.
 - **Premium:** When future price is more than spot value, it is said that future is at premium, indicating high demand and bullishness.
 - **Discount:** When future price is less than spot value, it is said that future is at discount, indicating high supply and bearishness.

Futures Terminologies

- **Contract/Lot Size:** In the Derivatives market, contracts cannot be traded for a single share. Instead, every stock futures contract consists of a fixed lot of the underlying share. E.g. Reliance F&O contract has a lot of 500 RIL shares.
- **Contract Month:**
 - Current or Near Month – Mostly Liquid
 - Next or Mid Month (2nd Month) – Mostly Illiquid
 - Far Month (3rd Month) – Almost zero liquidity in Indian Markets
- **Contract Expiry:**
 - Last Thursday of every month for Monthly Expiry. E.g. NIFTY
- **Roll Over:** It refers to carrying forward of futures positions from one series which is nearing expiry date, to the next one.
- **Cost of Carry:** Premium over the spot price in futures.

Futures Terminologies

- **Open Interest (OI):** Total outstanding positions in the futures market at a given point of time.
- **Volume:** Number of contracts traded during a period.
- **Initial Margin:** Deposit required to pay to the broker to take a position in F&O market.
- **Maintenance Margin:** To ensure that the balance in the margin account never becomes negative. If the balance in the margin account falls below the maintenance margin, the investor receives a margin call and is expected to top up the margin account to the initial margin level before trading commences on the next day.
- **MTM [Mark-To-Market]:** At the end of each trading day, the margin account is adjusted to reflect the investors gain or loss depending upon the futures closing price.

Mark To Market



	Opening Price	Closing Price	Lot Size	Daily MTM
Day 1 (Entry Price)	20150	20654	20	10,080
Day 2	20654	19912	20	-14,840
Day 3	19912	20296	20	7,680
Day 4	20296	20201	20	-1,900
Day 5	20201	20956	20	15,100
NET PROFIT at the end of 5th day				16,120

Ready for Question & Answers...!!??

Our Motto at



**ALL-FOR-ONE
ONE-FOR-ALL**

DEVELOPING CHARACTER THAT DESERVES SUCCESS!

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