FOCUS

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HI All,

Lately, we are seeing many young people trading derivative instruments like futures and options with no or very little respect to risk management parameters

Wherever we go and pitch our model of investing for long term wealth creation, we get an immediate question of whether we trade in F&O? We want to explain a slight more about these instruments. Futures and options or any derivative instrument for that matter are risk management instruments rather than investing instruments. They derive their value based on the output of a specific asset with in a specific time period.

For instance, we are expecting a global meltdown for severe inflation and interest rate crisis and so we want to protect the valuation of our equity portfolio against the depression to come in. For that, we buy some put options from an option seller. So here we have two parties i.e. one is we who bought options to cover the risk and the other is option seller who wants to cover my risk in case of fall in my equity portfolio.

So if the equities fall, option seller has to cover our fall or we have to forego our option premium paid in case the fall doesn't happen. So as we see, these kind of contracts will be running across different parties in the market who wanna cover the risk and who wanna make some money by being ready to absorb the risk.

But many of our young lads buy and sell naked options with no asset back up and they see these instruments to generate cash flows rather than to manage risk.

For example, a young guy who comes with 1 lakh in to F&O takes a single first trade with a risk of 40-50% on the capital. If he fails in the first trade, he looses 50% of the capital and now he gotta earn at least 100% with the capital left to come back to breakeven.

Taking all the above in to stock, what we can derive is , the P&L of the consolidated trading community is always in loss as one party looses to the other and both of them gotta incur transaction charges as well and the only beneficiaries here are intermediary agencies who are here to facilitate the transaction.

So for the same reason, most of the traders loose money and they keep trading only for recovering their losses and you will never come out of that trap as it triggers the adrenaline rush when you engage in it.

So We suggest all the young lads to focus on their core expertises and see the growth there. Focus on core agenda and make money. Route the money to equities and try creating a big corpus through the best asset class called equities.

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We wanna take this campaign ahead a bit more intensely to encourage our youth not to trade in F&O but to invest in equities with a long term thought process of creating wealth. And we endorse Buffet's quote. "Derivatives are the financial weapons of mass destruction" in this context. This is a big long topic which can be stretched to a bit less than infinity.

Every topic is dynamic and above thought process is just one dimension of how we see the derivative trading as an investment advisor with all conservatism.

MACRO TALK

GST COLLECTIONS

GST collections is a macro factor for us to understand the rhythm of demand. Feb GST Collections are around 1.5 lakh crores with a 12% increase against the collections in the same month of previous year.

GST collections are a reflection of demand and inflation as well. This trend clearly shows how intact the demand traction is. But we gotta wait and see when this positive sign will get realized and converted in to valuations.

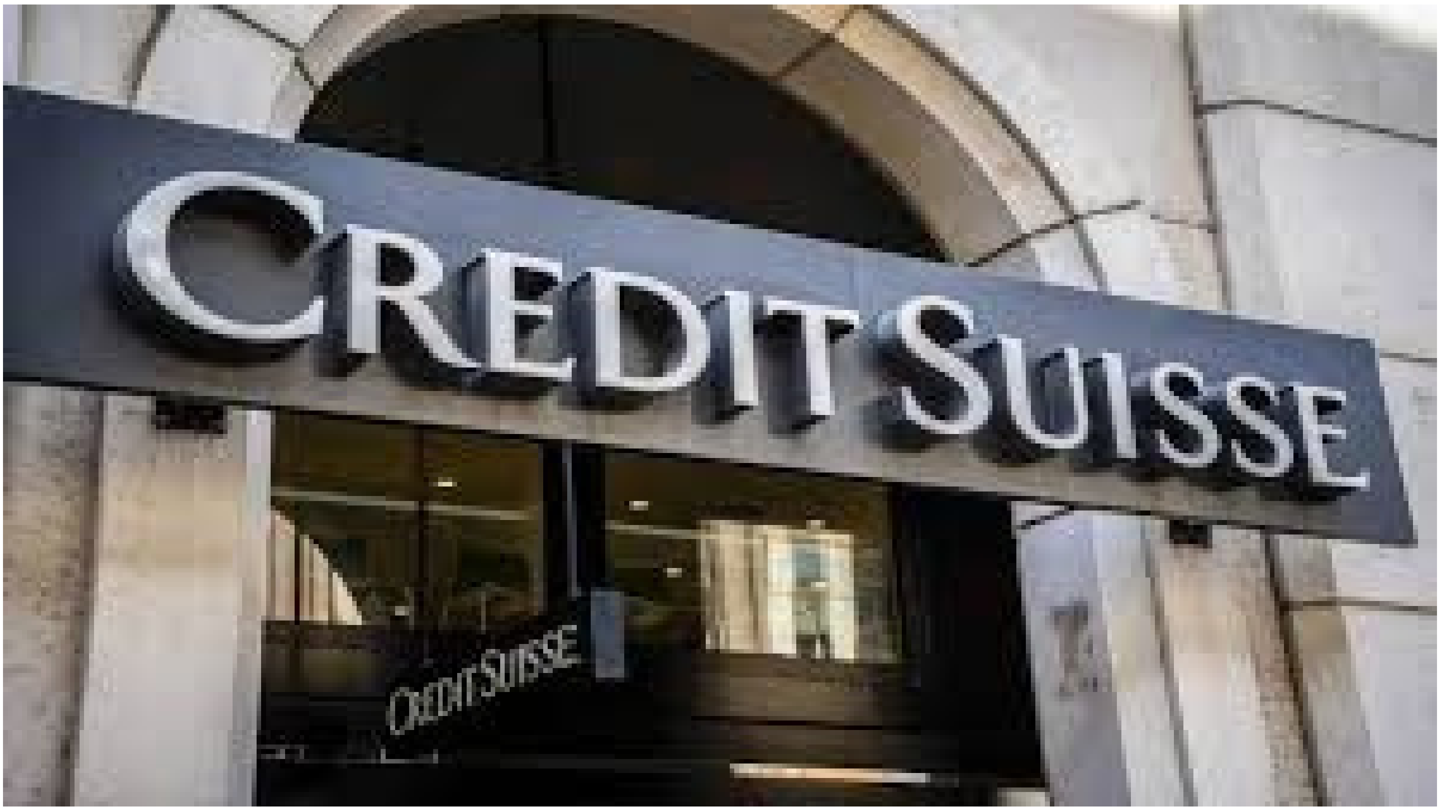
INFLATION

Inflation is haunting us and so the interest rates are. We see a marginal decrease in the retail inflation to 6.44% in February from 6.52% in the month of January.

Taking this in to stock, Monitory policy committee will hike the interest rates once more in April.

This is too daunting for the home loan takers as we see many of the repayment tenures are running beyond the retirement year on one end. But most alarming for us is the inflation in US and Europe which may shrink IT and support function budgets of different corporates which will impact the jobs and consumption spend in India specifically that comes from IT and ITes sectors.

FALL OF CREDIT SUISSE



Things will definitely look gloomy when a big name falls. The reasons for the fall of credit Suisse can be attributed to the fall of their major clients like Archegos capital fund and Greensill capital fund. Credit Suisse took hard hit from both of them along with the scandals involved with Mozambique Tuna bonds issue. What makes us surprised is the inability of such a big bank to manage risk in credit lending and how it is built in such a way that a failure of one or two clients can kill the bank of such size and 167 year old legacy. Though this bank has nothing big to do with the current ongoing recession but this will definitely paint the scene a bit more red. But the lessons we continuously learn from financial failures is.. "How your risk is spread?".

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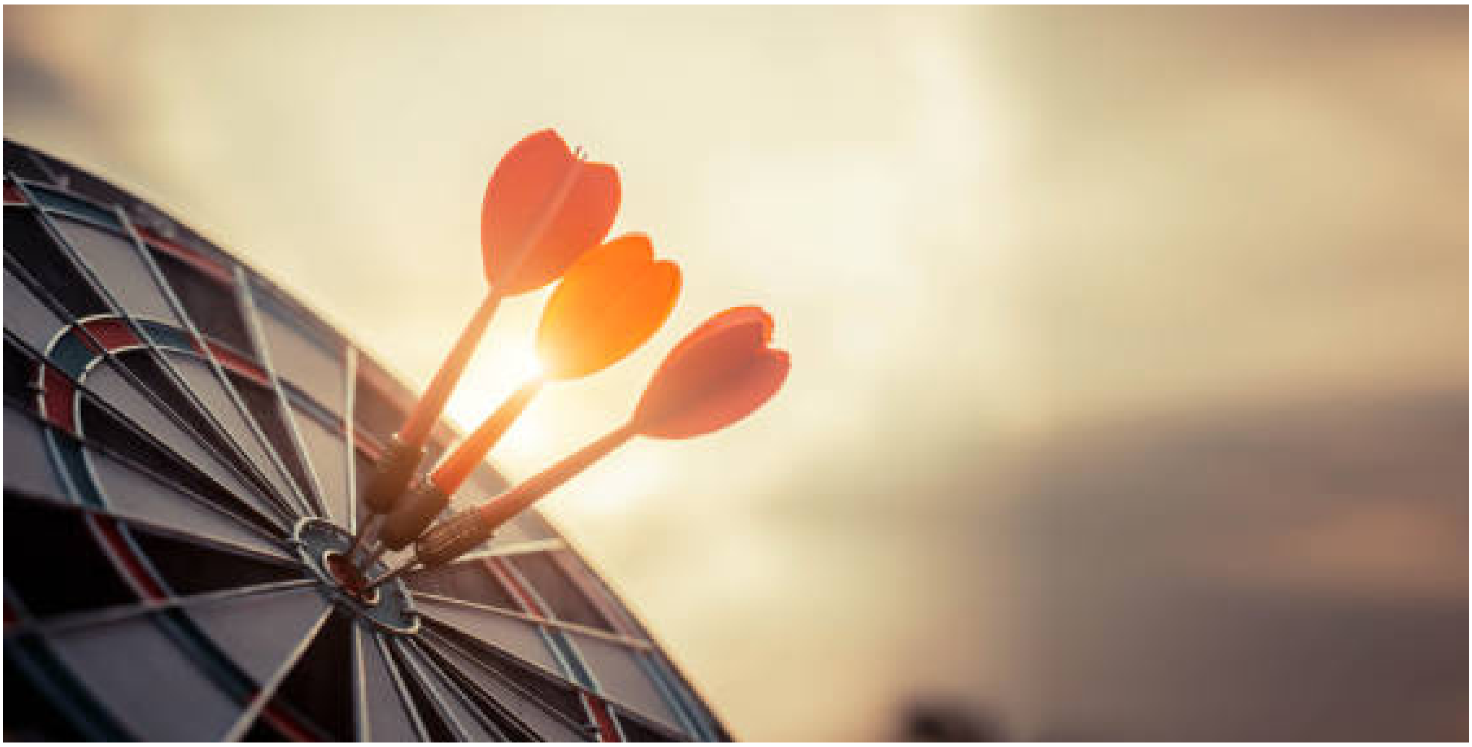

The crisis is on. But its not permanent. What we do now? We do the same thing. We are invested in to some good businesses with solid risk management framework. And we do the same again and again with the same conviction.

In this context, we would be seeing some historical data to strengthen our guts. We have seen the compounded annual growth rates of nearly 150 renowned companies. The research says that, if you hold on to them for 20 years, they have given an average return of 18% p.a ex dividend.

It implies, if you had invested 100/- before 20 years and stayed invested in those good renowned companies with risk spread across uniformly, our 100/- would become 2300/- after 20 years & dividends are extra cash that can generate on the sidelines.

Investing is a very patient thing and lets imbibe the quality of being patient with all the conviction. If we hold the same 100/- in any other asset class like 7% FDs , our 100/- would become 361/- at the end of 20th year.

We want to talk more on one more topic on the comparison of equity and real estate returns but lets save it for the next month. When it comes to individual stocks, we are reviewing few stocks for exit as they didn’t give any confirmed loss of strength yet.

If the case of non performance is attributable to the abilities of the specific company with no impact from the macro factors, we will have to exit them accordingly.

But we have to see for them to give us the necessary trigger to act. Otherwise, we are good with all of them which are not under review and we stay hold. So keep your funds flowing in to equities at regular intervals...

"Lets get the best from the best asset class"

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OUR CHARGES AND OPERATIONAL CONTACT

We charge 1% per annum on the Asset under management or 5000/- per annum whichever is higher

Clients with investment value of less than 2 lakh will be charged 2000/- fixed per annum

We serve our clients alike with the passion we have for the markets

Please contact our Business development and Operations lead Mr. Manindhar vsv

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Visit us at **www.nagmunagapati.com**

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