Topic to stock market buzztrade Analyzer
1) Understand equity market and performance
2) Securities; types, features and concept
3) Primary and secondary market
4) What is Mutual fund, ETF and PMS
5) Legal framework
6) Accounting and taxation
7) Clearing and settlement
8) Derivative market
9) What is future and option concepts and trading techniques
10) Strategies in future and option
11) Option chain analysis
12) Hedging
13) Fundamental analysis
14) Technical analysis: chart pattern, Candel reading and indicators
15) How to trade in intraday
16) Risk management

CHAPTER 1: Understanding Securities Markets and Performance

1.1 Securities Markets

The securities market is a place where people buy and sell financial assets, such as shares, bonds, and other investment instruments.
It's like a supermarket for investors — instead of vegetables or groceries, you're trading ownership in companies or lending money to earn returns.

There are two main types of securities markets:

- Primary Market: Where new securities (like IPOs) are issued for the first time.
- Secondary Market: Where existing securities are bought and sold between investors (like in NSE or BSE).

1.2 Securities

Securities are financial instruments that hold some type of monetary value and can be traded.
They are of two main types:

1. Equity Securities (like shares): Gives ownership in a company.
2. Debt Securities (like bonds or debentures): You lend money and get fixed returns.

Why people invest in securities:

- To grow wealth
- To earn passive income
- To save for goals like retirement, education, or marriage

1.3 Securities Markets: Structure and Participants

The market has many key players, each playing an important role:

a) Regulator:

- SEBI (Securities and Exchange Board of India): The watchdog of the securities market, ensures fair and safe trading.

b) Stock Exchanges:

- Platforms like NSE and BSE where buying and selling happens.

c) Investors:

- You and me – people or institutions who want to invest.

d) Brokers and Sub-brokers:

- Middlemen who help you buy/sell securities.

e) Mutual Funds, Banks, and FIIs:

- Big investors who manage and invest large amounts of money.

f) Depositories (like NSDL, CDSL):

- They hold your securities in demat form – no physical certificates needed.

1.4 Role of Securities Markets

The securities market is important because:

- It helps companies raise money to grow their business.
- It gives investors opportunities to earn from their savings.
- It builds the economy by channeling money into productive use.
- It provides liquidity – you can easily buy or sell your investments.

1.5 Technological Advancements in Securities Market

Technology has made investing faster and easier:

- Online trading platforms – buy/sell from your phone or laptop
- Algo trading – where computers place trades automatically
- Mobile apps – easy access to real-time data
- Digital KYC – open an account without visiting an office
- AI tools – help in analyzing market trends

CHAPTER 2: Securities – Types, Features & Concepts of Asset Allocation and Investing

2.1 Securities Available in the Securities Market

There are different types of securities you can invest in:

- Equity (Shares) – Ownership in a company
- Debt (Bonds, Debentures) – Lending money to earn fixed returns
- Commodities – Gold, silver, oil, etc.
- Derivatives – Contracts based on future price of assets
- Hybrid Instruments – Mix of equity and debt (like convertible bonds)

2.2 Choice Between Equity and Debt Financing for Issuers

When companies need money, they choose between:

- Equity Financing – Selling shares to raise money
- Debt Financing – Borrowing money and promising to repay with interest

Equity doesn't require repayment, but the owner loses part control.
Debt must be repaid with interest, but ownership remains intact.

2.3 Characteristics and Role of Equity Capital

- Equity means ownership in the company
- No fixed return; profit comes as dividends or capital gain
- High risk, but potential for high returns
- Shareholders can vote in company decisions

Role: Helps companies grow without taking on debt

2.4 Characteristics and Role of Debt Securities

- Debt means borrowing – like a loan taken by a company
- Investors earn fixed interest
- Lower risk compared to equity
- Has a maturity date

Role: Provides stable income for investors and cheaper financing for companies

2.5 Choosing Between Debt and Equity Investment Avenues

Investors should consider:

- Risk tolerance (equity is riskier)
- Return expectations

- Time horizon
- Need for regular income (debt is better for income)

2.6 Hybrid Instruments

These combine features of both equity and debt. Examples:

- Convertible Debentures – start as debt, can convert to equity
- Preference Shares – fixed dividend, but also part ownership

Best for balanced risk and return.

2.7 Characteristics and Role of Commodities as an Asset Class

- Commodities are raw materials like gold, silver, oil, wheat, etc.
- Traded on commodity exchanges
- Prices fluctuate based on global demand/supply
- Often used as a hedge against inflation

Gold is a favorite in India for long-term wealth preservation.

2.8 Derivatives

These are contracts based on the value of other assets (like shares or commodities).
Types:

- Futures
- Options

Used for hedging risk or speculative trading.
Not suitable for beginners due to high risk.

2.9 Asset Allocation and Diversification

- Asset Allocation = Dividing your money across different assets (equity, debt, gold, etc.)
- Diversification = Spreading risk by investing in different types of assets or companies

This reduces overall risk and improves long-term returns.

2.10 Understanding the Factors Underlying the Investment Process

Important factors before investing:

- Your financial goals
- Risk appetite
- Time horizon
- Market conditions
- Economic indicators (interest rates, inflation)

2.11 Various Aspects of Investing in Equity: Price and Value

- Price = Market price of the stock
- Value = What the stock is actually worth (based on company performance)

Good investors focus on value investing – buying at a lower price than actual worth.

2.12 Equity Investing Process

Steps:

1. Define your goals
2. Choose the right company
3. Analyze its performance and financials
4. Invest through a broker or app
5. Monitor regularly

Patience is key in equity investing.

2.13 Various Aspects of Investing in Debt Securities

- Check credit rating of bonds (safety)
- Compare interest rates
- Understand the maturity period
- Look at tax benefits (like in some government bonds)

Best for conservative investors.

2.14 Debt Investing Process

Steps:

1. Choose the type of debt (govt bond, corporate bond, FD, etc.)
2. Check interest rate and risk
3. Invest through bank, broker, or online
4. Track interest and maturity

Suitable for regular and safe income.

CHAPTER 3: Primary Markets and Secondary Market

3.1 Primary Market: Definition and Functions

The Primary Market is where companies raise money for the first time by selling shares or bonds directly to investors.

Functions:

- Helps companies raise funds
- Allows investors to invest in fresh opportunities (like IPOs)

3.2 Primary vs Secondary Markets

Feature	Primary Market	Secondary Market
What happens?	New securities are sold	Existing securities are traded
Who gets the money?	Company	Another investor
Example	IPO	Buying shares on NSE/BSE

3.3 Intermediaries in Primary Market

Important intermediaries:

- Merchant Bankers – manage the issue
- Registrars – manage investor applications
- Underwriters – guarantee sale of shares
- Brokers/Bankers – help with buying the IPO

3.4 Types of Issues

1. Public Issue – Open to everyone
2. Rights Issue – Only for existing shareholders
3. Bonus Issue – Free shares given
4. Private Placement – Sold to selected investors

3.5 Types of Issuers

- Companies (Private & Public)
- Government bodies
- Banks & Financial Institutions

3.6 Types of Investors

- Retail investors (like individuals)

- Institutional investors (banks, mutual funds)
- Foreign investors (FIIs)

3.7 Regulatory Framework for Primary Markets

- SEBI regulates and ensures fair practice
- Companies must follow Companies Act, 2013
- Must file documents like DRHP (Draft Red Herring Prospectus)

3.8 Types of Public Issue of Equity Shares

- IPO (Initial Public Offering)
- FPO (Follow-on Public Offering)

3.9 Pricing a Public Issue of Shares

- Fixed Price – Price decided before launch
- Book Building – Investors bid in a price range

3.10 Public Issue Process of Equities

1. Company hires merchant bankers
2. Files draft with SEBI
3. Opens IPO to public
4. Investors apply via ASBA
5. Shares get allotted
6. Shares get listed on exchange

3.11 Prospectus

A document that has:

- Company details
- Risk factors
- Purpose of raising funds
- Financial data

Investors should read carefully before investing.

3.12 Applying to a Public Issue

Use ASBA (Application Supported by Blocked Amount) through:

- Bank apps
- Online brokers
- UPI-based systems

3.13 Listing of Shares

Once shares are listed on stock exchanges like NSE/BSE:

- You can buy/sell them freely
- Price is decided by market demand

3.14 Rights Issue of Shares

Company offers shares at discount to existing shareholders.
Example: "1 share for every 5 shares held."

3.15 Regulatory Requirements for Public Issue of Debt Securities

- SEBI lays down rules for disclosure, rating, and compliance
- Investors must be informed of interest, risk, and repayment

3.16 Public Issue Process for Debt Securities

Similar to equity IPO but includes:

- Credit rating
- Interest details
- Redemption timeline

3.17 Private Placements in Equity and Debt

- Company sells securities to a select group (banks, HNIs, institutions)
- Faster and less regulated than public issues
- Usually used by big companies for quick fund-raising

Secondary Markets

3.18 Role and Function of the Secondary Market

This is where existing securities are traded among investors.

Functions:

- Provides liquidity (you can sell anytime)
- Helps in price discovery
- Reflects investor sentiment and company performance

3.19 Types of Secondary Markets

- Equity Market – for shares
- Debt Market – for bonds
- Derivatives Market – for futures/options
- Commodities Market

3.20 Market Structure and Participants

Key players:

- Investors
- Brokers/Sub-brokers
- Stock Exchanges (NSE/BSE)
- Clearing Corporations
- Depositories (CDSL/NSDL)

3.21 Brokers and Client Acquisition

Brokers:

- Help you buy/sell shares
- Register with SEBI
- Open your Demat + Trading Account

3.22 Trade Execution

Process:

1. Place order via app or broker
2. Order sent to exchange
3. Matched with opposite party
4. Trade confirmed

Happens in milliseconds using technology.

3.23 Clearing and Settlement of Trades

- Once trade is done, shares and money are exchanged
- Done by clearing corporations like NSCCL
- Usually settles in T+1 day (Trade + 1 working day)

3.24 Trading and Settlement from Investor's Point of View

Investor:

- Buys through app → amount is blocked
- Shares received in Demat account
- Can sell when needed
- Everything is online and transparent

3.25 Market Information and Regulation

- Exchanges give real-time price data
- SEBI monitors all activities
- Insider trading, fraud, and manipulation are strictly punished

3.26 Risk Management Systems

To avoid fraud and default:

- Margin requirements
- Circuit breakers (limit sudden price movements)
- Surveillance systems

3.27 Rights, Obligations & Grievance Redressal

Investor Rights:

- Receive timely info
- Get shares/money on time
- File complaints through SEBI SCORES platform

3.28 Secondary Market Trading & Reporting for Debt Securities

- Debt securities also trade in secondary markets
- Investors can buy/sell government and corporate bonds
- Prices are influenced by interest rates and credit rating

CHAPTER 4 What is Mutual fund, ETF And PMS

4.1 Meaning and Description of a Mutual Fund

A Mutual Fund is a pool of money collected from many investors, managed by professionals who invest it in stocks, bonds, or other assets.

It's like a joint investment account, where your money is combined with others' to create a large fund, making it easier to invest and manage risk.

4.2 Terms and Concepts Related to Mutual Funds

- NAV (Net Asset Value) – The price of one unit of a mutual fund
- AMC (Asset Management Company) – The company that manages mutual funds
- Fund Manager – The expert who decides where to invest the fund's money
- Expense Ratio – Charges for managing the fund
- AUM (Assets Under Management) – Total money invested in a fund

4.3 Types of Open-ended Mutual Fund Products

Open-ended funds allow you to invest or withdraw anytime.

Types:

- Equity Funds – Invest in shares; high risk, high return
- Debt Funds – Invest in bonds; lower risk, steady income
- Hybrid Funds – Mix of equity and debt
- Index Funds – Track a stock index like Nifty or Sensex
- ELSS – Tax-saving equity fund (lock-in of 3 years)

4.4 Types of Closed-ended Mutual Fund Schemes

Closed-ended funds have a fixed time period and can only be invested in during NFO (New Fund Offer).

You can only exit by selling on the stock exchange.

Examples:

- Fixed Maturity Plans (FMPs)
- Capital Protection Schemes

4.5 Investment Approaches – Active and Passive

- Active Funds – Fund manager actively picks stocks to beat the market
- Passive Funds – Just track an index (e.g., Nifty 50) with lower cost

Passive investing is low-cost and good for beginners.

4.6 Processes for Investing in Mutual Funds

Steps:

1. Complete KYC
2. Choose fund type (equity/debt/hybrid)
3. Use app, website, or agent to invest
4. Track performance regularly
5. Redeem when goal is reached

You can invest via:

- Lump sum – one-time investment
- SIP (Systematic Investment Plan) – monthly fixed amount

4.7 Systematic Transactions

- SIP – Invest fixed amount every month
- STP (Systematic Transfer Plan) – Move money from one fund to another in parts
- SWP (Systematic Withdrawal Plan) – Regularly withdraw money (ideal for retirees)

4.8 Switches

Switching means shifting your investment from one mutual fund to another – e.g., from debt fund to equity fund.
Can be done online, based on market conditions or financial goals.

4.9 Reading Mutual Fund Information

Important things to check:

- NAV trend
- Past returns
- Expense ratio
- Risk level

- Portfolio holdings

All this is available on AMC websites or apps like Groww, Zerodha, or Kuvera.

4.10 Benefits and Costs of Investing in Mutual Funds

Benefits:

- Professionally managed
- Diversified investment
- Easy and flexible
- Low investment starting amount (as low as ₹100)

Costs:

- Management fee (expense ratio)
- Exit load (if you redeem early)

4.11 Regulation of Mutual Funds

Mutual funds are regulated by SEBI to ensure safety and transparency.

All AMCs must:

- Register with SEBI
- Follow investment limits and disclosures
- Report regular performance

4.12 Investor Service Standards

AMCs must:

- Provide timely updates
- Allow easy redemptions
- Offer online services
- Handle complaints quickly

4.13 Specialized Investment Funds

These are mutual funds with special focus or structure, such as:

- Sector Funds – Focus on specific sectors (IT, pharma, etc.)
- International Funds – Invest in foreign companies

- REITs – Real estate investment trusts
- Thematic Funds – Follow specific themes like ESG or energy

These funds carry more risk but offer focused exposure.

4.14 Portfolio Management Services (PMS)

What is PMS?

Portfolio Management Services (PMS) is a premium investment service where professional fund managers manage your money by creating a customized investment portfolio of stocks, bonds, or other securities.

It's like having a personal stock expert who handles your investments based on your goals and risk appetite.

Types of PMS

1. Discretionary PMS
    - The fund manager makes all decisions for the investor
    - Most common type in India
2. Non-Discretionary PMS
    - The fund manager gives advice, but you take the final decision
3. Advisory PMS
    - Only advice is given; you manage your portfolio on your own

Features of PMS

- Minimum investment: ₹50 lakhs (as per SEBI rules)
- Personalized investment strategy
- Direct ownership of stocks (unlike mutual funds)
- Detailed performance reports
- Higher risk and potential for high returns
- Charges: Fixed fee or profit-sharing model

Who Should Choose PMS?

- High-net-worth individuals (HNIs)

- Experienced investors
- People who want personalized wealth management

Risks in PMS

- Market risk (just like equity investing)
- High charges (2–3% fee or 20% profit share)
- No guaranteed returns

Popular PMS Providers in India

- Motilal Oswal
- ASK Investment Managers
- ICICI Prudential PMS
- Kotak PMS
- Marcellus Investment Managers

4.15 Exchange Traded Funds (ETFs)

What is an ETF?

An Exchange Traded Fund (ETF) is a type of mutual fund that is traded on the stock exchange just like shares.

It holds a basket of securities (stocks, bonds, commodities) and tracks an index, like Nifty 50 or Sensex.

ETFs give you diversification like mutual funds and flexibility like stocks.

Types of ETFs

1. Equity ETFs – Track stock indices (e.g., Nifty 50 ETF)
2. Gold ETFs – Invest in gold (price linked to real gold)
3. Debt ETFs – Invest in government/corporate bonds
4. International ETFs – Track global indices (like Nasdaq 100)
5. Thematic ETFs – Focus on themes like banking, IT, ESG, etc.

How ETFs Work

- You can buy/sell ETFs on the stock exchange during market hours
- Prices change throughout the day (like shares)
- You need a Demat + Trading account to invest in ETFs

Benefits of ETFs

- Low cost (lower expense ratio than mutual funds)
- Highly liquid – easy to buy/sell anytime
- Transparent – track the same index every day
- Good for long-term and passive investors
- No minimum investment limit like PMS

Risks in ETFs

- Market fluctuations
- Tracking error (when ETF returns differ slightly from index returns)
- Liquidity risk (some ETFs may have low trading volume)

ETFs vs Mutual Funds vs PMS – Quick Comparison			
Feature	ETFs	Mutual Funds	PMS
Minimum Investment	No limit	₹100 (SIP)	₹50 lakhs
Active/Passive	Mostly Passive	Active & Passive	Active
Liquidity	High (traded daily)	Less liquid	Less liquid
Cost	Low	Medium	High
Who Should Invest	Beginners	All types of investors	HNIs only

Conclusion

- ETFs are great for new and cost-conscious investors who want passive exposure to markets.
- PMS is ideal for wealthy investors who want personalized expert management.
- Understand your goals, risk appetite, and available capital before choosing.

Chapter 5: Legal and Regulatory Environment

The stock market in India is governed by strict laws and regulations to ensure fairness, safety, and transparency for all investors. These rules are made and enforced by the government and regulators like SEBI.

5.1 Securities Contracts (Regulation) Act, 1956 (SCRA)

This is one of the oldest laws in the Indian stock market.

Main Purpose:

- To regulate trading in stocks, shares, and other securities.
- To ensure only recognized stock exchanges operate legally.
- To prevent fraud, speculation, and manipulation.

Key Points:

- Defines what a "security" is.
- Regulates contracts and dealings in securities.
- Allows SEBI and government to monitor exchanges.

5.2 Securities and Exchange Board of India Act, 1992 (SEBI Act)

SEBI (Securities and Exchange Board of India) is the main regulator of the Indian securities market.

Purpose of SEBI Act:

- To protect investors.
- To regulate market participants (brokers, mutual funds, etc.).
- To ensure the orderly growth of the market.

SEBI's Powers:

- Register and supervise stock exchanges and intermediaries.
- Make rules for fair trading.
- Investigate insider trading or fraud.
- Take action against defaulting brokers or companies.

5.3 Regulations in Trading

To ensure safe trading, SEBI has set rules on:

- Who can trade: Only registered brokers and investors with demat/trading accounts.
- How to trade: Transparent platforms like NSE and BSE.
- Price movement limits: Circuit breakers to control sudden price spikes or falls.
- Insider Trading: Strictly prohibited.

Example: A promoter cannot buy or sell shares based on secret company info.

5.4 Regulations in Clearing, Settlement & Risk Management

Once a trade is done, shares and money must be exchanged properly.

Clearing & Settlement:

- Managed by clearing corporations (e.g., NSCCL, ICCL).
- Follows T+1 settlement system (trade + 1 day).

Risk Management:

- Margins are collected to reduce risk.
- Circuit filters avoid panic selling.
- Surveillance systems track unusual trades.

These rules protect investors from fraud or settlement failures.

5.5 Eligibility Criteria for Membership on Derivatives Segment

Only certain brokers or trading members (TMs) can deal in derivatives (futures/options).

Eligibility:

- Must be registered with SEBI.
- Must have minimum net worth (e.g., ₹1 crore for trading members).
- Must meet infrastructure and manpower requirements.
- Must follow strict compliance and reporting rules.

This ensures that only qualified players handle complex instruments like derivatives.

5.6 Standard Operating Procedure (SOP) in Case of Default by TM or CM

TM = Trading Member | CM = Clearing Member

If a broker (TM or CM) fails to settle trades or misuses investor money:

- Exchanges follow a standard procedure to handle the default.
- Investor trades are settled using clearing fund or investor protection fund.

- SEBI and exchanges may suspend or penalize the defaulting broker.

This system protects investors from losing money due to broker fraud.

5.7 SOP for Handling Stock Exchange Outage

If NSE or BSE goes down due to technical issues, then:

- Exchanges inform SEBI and the public.
- A backup exchange (like moving from NSE to BSE) is activated.
- Timelines for trade execution are revised.
- A full report is submitted to SEBI with cause and corrective actions.

This ensures the market runs smoothly and transparently, even during outages.

Summary

- Indian stock markets are highly regulated for your safety.
- SEBI is the watchdog that ensures fair trading and punishes fraud.
- You should always invest via SEBI-registered brokers.
- Understanding the legal framework helps you stay safe and smart in your investment journey.

Chapter 6: Accounting and Taxation

6.1 Accounting

Accounting is the process of recording, classifying, and summarizing financial transactions to understand the financial health of a person or business.

Why is Accounting Important in Stock Market?

For investors and traders:

- To track profits/losses from trades
- To calculate capital gains for tax purposes
- To prepare documents for income tax filing
- To maintain clarity and discipline in investing

Key Accounting Terms

Term	Meaning
Ledger	Book where transactions are recorded
Profit & Loss Statement	Shows income and expenses
Balance Sheet	Snapshot of assets and liabilities
Capital Gain	Profit from sale of shares or assets
Turnover	Total transaction value in trading
Speculative Income	Income from intraday equity trading
Non-Speculative Income	Income from futures & options (F&O), delivery trading, etc.

Types of Market Participants (from accounting point of view)

1. Investor – Buys & holds shares for long term
2. Trader – Actively trades (intraday, F&O, etc.)

Accounting treatment differs based on category:

- Investors: Use capital gain calculation
- Traders: Treated like business income

6.2 Taxation of Derivative Transactions in Securities

Derivatives (Futures & Options or F&O) are considered business transactions, not capital assets.

Tax Rules for Derivative Traders (F&O)

1. Income Type: Classified as business income
2. Tax Rate:
    - Added to total income and taxed as per income tax slab
    - Losses can be set off against other business income
3. Turnover Calculation:
    - Total of positive and negative differences from trades
    - Important for audit requirements

Tax Audit Rules (under Section 44AB)

If:

- Derivative trading turnover exceeds ₹10 crore OR
- Profit is less than 6% of turnover and total income is above exemption limit

Then tax audit is mandatory.

Filing ITR for Derivative Traders

- Use ITR-3 (for business income)
- Must maintain books of accounts
- Can opt for Presumptive Taxation under Section 44ADA/44AD in some cases

Set-off & Carry Forward of Losses

- F&O losses = non-speculative business losses
- Can be set off against other business/professional income
- If not used, can be carried forward for 8 years

Tax Tips for Traders

- Always maintain records of trades
- Track brokerage, charges, expenses – these are deductible

- Use a CA or software to help file correctly
- Don’t ignore small losses – they reduce your tax burden

Summary for Students

- Learn basic accounting to track your profit/loss clearly
- Derivative (F&O) income is business income and taxed under income tax slabs
- Tax audit may be required if turnover or profit is high
- Keep your documents and broker statements safe
- Consult a CA if you’re actively trading

Chapter 7: Introduction to Clearing and Settlement System

When you buy or sell a share, the trade doesn’t end there. Behind the scenes, there is a clearing and settlement system that ensures:

- The buyer gets the shares
- The seller gets the money

This system is handled by specialized institutions and is tightly regulated to avoid risk and fraud.

7.1 Clearing Members (CM)

Clearing Members are authorized firms (often large brokers or banks) who:

- Settle trades on behalf of traders/investors
- Take care of the payment and delivery process

Not all brokers are clearing members. If your broker isn't one, they work through a CM.

7.2 Clearing Mechanism

This refers to the process of matching trades, calculating who has to pay or receive, and ensuring everything is ready before final settlement.

Steps:

1. Trade Matching – Orders are matched on exchange
2. Obligation Calculation – How much money or shares to be paid/received
3. Position Finalization – Final list of who owes what to whom

Clearing is done by clearing corporations like NSCCL (NSE) or ICCL (BSE).

7.3 Interoperability of Clearing Corporations

Earlier, each stock exchange had its own clearing corporation. Now, interoperability means:

- One clearing corporation can clear trades of multiple exchanges
- Increases efficiency and reduces risk

For example, a broker can settle trades from both NSE and BSE through a single clearing entity.

7.4 Settlement Mechanism

Settlement means the final exchange of money and shares.

- Stock market follows T+1 settlement, i.e., the trade is settled 1 working day after it happens.
- If you buy shares on Monday, they will reflect in your demat account on Tuesday.

Two types of settlement:

- Rolling Settlement – Ongoing, daily settlement (used in stock market)
- Account Period Settlement – Old method (no longer used in India)

7.5 Risk Management

To protect market participants, clearing corporations use:

- Margins – Money collected from traders in advance to cover risk
- Daily Monitoring – Unusual activity is flagged
- Default handling – In case a broker fails to deliver, the system steps in to protect investors

7.6 Margining and Mark-to-Market under SPAN

SPAN = Standard Portfolio Analysis of Risk

- It's a system used to calculate margin requirements in Futures & Options (F&O) trading
- Mark-to-Market (MTM): Adjusts the trader's position value daily, based on market price changes

If your F&O trade goes in loss, additional margin may be required immediately.

7.7 Position Limits

Position limits control how many contracts or shares a trader or institution can hold at once in F&O.

There are 3 levels:

1. Client Level – For individual traders
2. Member Level – For brokers
3. Market Level – Total open interest limit in the market

This avoids manipulation and extreme risk-taking.

7.8 Violations and Penalties

If a broker or trader:

- Exceeds position limits
- Misses margin payment
- Fails to deliver shares

They face:

- Fines
- Trading restrictions

- Suspension or license cancellation

All trades are monitored by SEBI and exchanges to detect such violations.

7.9 Settlement of Running Account of Client's Funds with TM

Sometimes, clients keep extra funds with their broker (Trading Member or TM).

Rules for this:

- Brokers must return unused funds to clients periodically
- Investors can ask for a refund anytime
- Must be reported transparently

7.10 Settlement Guarantee Fund (SGF) & Investor Protection Fund (IPF)

- SGF: Used if a broker or CM defaults during settlement. It ensures trades are still settled on time.
- IPF: Used to compensate investors who suffer financial loss due to broker fraud or failure

This makes the stock market secure and trustworthy for all.

7.11 Cyber Security & Cyber Resilience Framework (CSCRF) for Stock Brokers

As everything in trading is digital now, cyber security is critical.

CSCRF is a set of SEBI-mandated rules that brokers must follow to:

- Protect client data
- Prevent hacking or unauthorized access
- Ensure backup systems in case of a cyberattack
- Regular audits and reporting

It's like having a digital lock and safety vault for investor accounts.

Summary

- The clearing & settlement system ensures safe and smooth delivery of money and shares
- Clearing Members and Corporations handle this backend process
- Margins, risk checks, and investor protection funds safeguard everyone
- Cyber security is a must in today's online stock trading environment.

Chapter 8: Basics of Derivatives

8.1 Basics of Derivatives

A derivative is a financial contract whose value depends on an underlying asset like stocks, gold, oil, or currency.

It is called a “derivative” because it derives its value from something else.

Example:
If you buy a contract based on Nifty 50, its value moves as the Nifty index moves.

Common underlying assets:

- Shares
- Indices (like Nifty, Bank Nifty)
- Commodities (Gold, Crude Oil)
- Currency (USD, EUR)

8.2 Derivatives Market – History & Evolution

- Globally, derivatives started with commodity trading (like wheat or cotton futures) centuries ago.
- In modern finance, derivative contracts became popular for:
    - Hedging (managing risk)
    - Speculation (betting on price movement)
    - Arbitrage (buying low and selling high in different markets)

India’s Evolution:

- Introduced in 2000 with Index Futures on NSE
- Gradually expanded to:
    - Stock Futures
    - Options (Stock & Index)
    - Currency Derivatives
    - Commodity Derivatives

8.3 Indian Derivatives Market

India's derivatives market is among the largest in the world in terms of volumes.

Major exchanges:

- NSE – National Stock Exchange (F&O on Nifty, Bank Nifty, stocks)
- BSE – Bombay Stock Exchange

- MCX – For commodity derivatives (Gold, Silver, etc.)
- NCDEX – For agricultural commodities

India allows trading in:

- Index Futures and Options
- Stock Futures and Options
- Currency Derivatives
- Commodities Derivatives

8.4 Market Participants

1. Hedgers – Use derivatives to protect against price risk
    - Example: A farmer locks future price of wheat.
2. Speculators – Bet on price movement to earn profits
    - Example: A trader predicts Nifty will rise and buys a future.
3. Arbitrageurs – Take advantage of price differences in different markets
    - Example: Buy in one exchange and sell in another.
4. Margin Traders – Use leverage (small money to control big position)

8.5 Types of Derivatives Market

1. Exchange-Traded Derivatives (ETDs)
    - Traded on platforms like NSE, MCX
    - Standardized contracts
    - Regulated by SEBI
2. Over-the-Counter (OTC) Derivatives
    - Private agreements between parties
    - Mostly used by large institutions or banks
    - Less transparent than exchange-traded

8.6 Significance of Derivatives

Derivatives are important because they:

- Protect against risk (hedging)
- Help in price discovery (future outlook)
- Provide leverage (earn more with less capital)

- Allow portfolio diversification
- Support efficient markets by reducing cost and spreading risk

8.7 Risks Faced by Participants in Derivatives

Derivatives offer opportunities, but they also involve significant risks:

1. Market Risk – Prices move in unexpected direction, leading to loss
2. Leverage Risk – High leverage means small changes can cause big gains or losses
3. Liquidity Risk – Not all contracts have buyers/sellers available when needed
4. Operational Risk – Mistakes in execution or settlement
5. Legal Risk – Lack of proper contracts or regulation in OTC markets
6. Counterparty Risk – In OTC, the other party might default

Structure of Derivative Markets

There are two major types of derivative markets:

1. Exchange-Traded Derivatives (ETD)
    - Traded on NSE, BSE
    - Regulated by SEBI
    - Transparent and secure
2. Over-the-Counter (OTC) Derivatives
    - Private contracts between institutions
    - Not traded on exchange
    - More flexible, but higher risk

In India, most retail traders deal in exchange-traded derivatives.

8.8 Trading and Settlement Process: Equity Futures and Options

1. Placing an Order
    - Through broker's platform (e.g., Zerodha, Upstox)
2. Order Matching
    - Orders matched on exchange
3. Margins Paid
    - SPAN and exposure margin required

4. Mark-to-Market (MTM)
    - Daily profit/loss settled
5. Settlement
    - On expiry day:
        - Futures: Cash settled
        - Options: Only exercised if in-the-money (ITM)

Expiry is usually on the last Thursday of every month.

8.9 Risk Management in Derivative Markets

Because derivatives involve high leverage, risk management is very important.

Tools used:

- Margins – Collected upfront to protect against losses
- Position Limits – Restrictions on how much one can trade
- Circuit Filters – To prevent extreme price movement
- Monitoring Systems – Exchanges monitor unusual trades

Even small mistakes can lead to big losses, especially in options trading.

8.10 Application of Derivative Products in Risk Management

Businesses and investors use derivatives to hedge against losses.

Examples:

- A farmer sells wheat futures to lock the price.
- An investor buys a Put Option to protect stock portfolio.
- A company hedges against foreign exchange loss using currency futures.

Derivatives reduce uncertainty by allowing you to "lock in" prices..

Summary

- Derivatives include Futures, Options, Forwards, and Swaps
- They're used to speculate, hedge, or protect investments
- The Indian market offers F&O on stocks and indices
- Always focus on risk control and discipline
- Understanding market indicators helps in better trading decisions

Chapter 9: What is future and option concepts and trading techniques

9.1 Introduction to Forward Contracts

- A forward contract is a private agreement between two parties to buy or sell an asset at a specific price on a future date.
- These contracts are customized and not traded on exchanges.

Example:
A farmer and a grain buyer agree today on a fixed price for wheat delivery after 3 months.

9.2 Futures Contracts

- A futures contract is similar to a forward but it is:
    - Standardized
    - Traded on stock exchanges like NSE, BSE
    - Regulated by SEBI
- Both parties are bound to fulfill the contract on expiry.

9.3 Contract Specifications of Futures

Every futures contract has fixed details like:

- Lot size (e.g., 75 shares for Nifty)
- Expiry date (monthly, weekly)
- Tick size (minimum price movement)
- Underlying asset (like Reliance stock or Nifty index)

9.4 Key Futures Terminology

- Long position – Buy now, expecting price to rise
- Short position – Sell now, expecting price to fall
- Mark-to-market (MTM) – Daily profit/loss adjustment
- Initial margin – Upfront money to enter a trade

9.5 Forwards vs Futures

Feature	Forwards	Futures
Traded	Private	Exchange
Risk	High (counterparty risk)	Low (clearinghouse involved)
Standardized	No	Yes
Liquidity	Low	High

9.6 Payoff Charts for Futures

- Buyer of Futures: Profit if price goes up
- Seller of Futures: Profit if price goes down

▲ *Payoff is linear – unlimited profit/loss potential.*

9.7 Futures Pricing

Futures price = Spot Price + Carrying Cost

- Carrying cost includes interest, dividend, etc.
- Prices may differ from spot due to time left till expiry.

9.8 Price Discovery & Convergence

- Price discovery: Futures reflect future price expectations.
- On expiry day, futures price and spot price converge (become equal).

9.9 Uses of Futures

- Hedging: Reduce risk (e.g., lock price)
- Speculation: Earn from price movement
- Arbitrage: Profit from price differences between markets

9.10 Basics of Options

An option is a contract that gives the buyer the right but not the obligation to buy or sell an asset at a set price within a specific time.

Two Types:

- Call Option: Right to buy
- Put Option: Right to sell

9.11 Contract Specs (Exchange-Traded Options)

- Standardized contracts
- Fixed lot size, expiry, and strike prices
- Traded on NSE/BSE under SEBI guidelines

9.12 Moneyness of an Option

Defines whether an option is profitable:

- In the Money (ITM) – Profitable if exercised
- At the Money (ATM) – Strike = Market price
- Out of the Money (OTM) – Not profitable

9.13 Intrinsic & Time Value

- Intrinsic Value: Actual profit if exercised now
- Time Value: Extra premium due to time left till expiry

9.14 Payoff Charts

- Call Buyer: Limited loss (premium), unlimited gain
- Put Buyer: Limited loss, large gain if price falls
- Sellers (Writers) have limited profit and unlimited loss

9.15 Futures vs Options

Feature	Futures	Options
Obligation	Yes	Only buyer has choice
Premium	No	Yes, buyer pays
Risk	High for both	Limited for buyer

9.16 Option Greeks (Basics)

Used to analyze option pricing:

- Delta – Price movement
- Theta – Time decay
- Gamma – Change in Delta
- Vega – Volatility effect
- Rho – Interest rate impact

9.17 Option Pricing Models

Used to calculate fair price:

- Black-Scholes Model
- Binomial Model

Advanced models used by professionals and institutions.

9.18 Implied Volatility (IV)

- Shows expected price movement
- Higher IV → Expensive options
- Traders use IV to time trades

9.19 Buyer vs Seller View

- Buyers want high movement in price
- Sellers want the option to expire worthless

Most option buyers lose; most sellers make small gains (but carry big risk)

Chapter 10: Strategies Using Futures and Options

10.1 Futures Strategies: Hedging, Speculation & Arbitrage

- Hedging: Protect against losses
- Speculation: Trade based on price prediction
- Arbitrage: Profit from price differences

Futures are useful for businesses, institutions, and active traders.

10.2 Option Strategies: Trading & Hedging

Simple:

- Buying Calls/Puts
- Writing Covered Calls

Advanced:

- Straddle – Buy Call + Put (expect big movement)
- Strangle – Buy OTM Call + Put (cheaper)
- Spread – Combine two positions to reduce cost and risk

10.3 Put-Call Parity (Arbitrage Concept)

Shows mathematical relationship between calls and puts. If violated, arbitrage opportunity exists.

10.4 Delta Hedging

Used by institutions to neutralize price movement risk by adjusting positions based on Delta.

10.5 Using Open Interest (OI) & Put-Call Ratio (PCR)

- High OI: High trader interest
- PCR > 1: Bullish signal
- PCR < 1: Bearish signal

Used by traders to gauge market sentiment.

Summary for Learners:

- Forwards are private; Futures are exchange-traded and standardized
- Options offer more flexibility but are more complex
- Derivative strategies can be used to hedge, speculate, or earn income
- Risk management is essential, especially with leverage

Chapter 11 Option Chain Analysis – Complete Guide for Beginners

11.1 What is an Option Chain?

An Option Chain, also known as an Options Matrix, is a table that displays all available option contracts for a particular stock or index, for a specific expiry date.

It shows:

- Strike Prices
- Call and Put premiums
- Open Interest
- Volume
- Implied Volatility
- Bid-Ask Spread
- Change in OI
- Net Change in premium

Think of it as a snapshot of trader sentiment, showing where big players are betting the market will go.

Structure of an Option Chain (as seen on NSE or other platforms)

Strike Price	CALL OI	CALL Change in OI	CALL LTP	...	PUT LTP	PUT Change in OI	PUT OI
...	...	...	...	...	...	...	...

Left side: Call Options
Right side: Put Options
Middle: Strike Prices

Key Terms in Option Chain

1. Strike Price

The fixed price at which the buyer can exercise the option.

2. Open Interest (OI)

The number of open contracts at a strike price that haven't been squared off.

- High OI = High trader interest

3. Change in OI

Shows how much OI has increased or decreased from the previous day.

- Rising OI + Rising Price = Long Buildup

- Rising OI + Falling Price = Short Buildup

4. LTP (Last Traded Price)

The most recent price at which the option contract was traded.

5. Volume

Total contracts traded during the day.

6. Implied Volatility (IV)

Shows expected volatility.

- Higher IV = Higher Option Premium

11.2 How to Read an Option Chain for Market Direction

Call Side (Resistance Zone)

If you see:

- Very High Call OI at a strike
- And OI is increasing

That strike price becomes a resistance
Means: Many traders believe the market will not go above this level.

Put Side (Support Zone)

If you see:

- High Put OI
- And it's rising

That strike becomes support
Means: Traders are confident the market will stay above that level.

Interpreting OI & Price Together

OI	Option Price	Meaning
↑	↑	Long buildup (bullish)
↑	↓	Short buildup (bearish)
↓	↑	Short covering (bullish)
↓	↓	Long unwinding (bearish)

11.3 How to Use Option Chain for Trading Decisions

1. Identify Support & Resistance

- Look for highest OI in Put side (Support)
- Look for highest OI in Call side (Resistance)

2. Track Change in OI

- See where traders are building fresh positions

3. Look at Implied Volatility (IV)

- If IV is very high, avoid buying options (premiums are expensive)
- If IV is low, options are cheaper

4. PCR (Put/Call Ratio)

- PCR = Total Put OI / Total Call OI
- >1 = Bullish, <1 = Bearish

Practical Example (Nifty Option Chain)

Let's say:

- Highest Put OI at 22,000 → Strong Support
- Highest Call OI at 22,500 → Strong Resistance
- PCR = 1.2 → Market Sentiment: Bullish
- IV rising → Expect big move soon

In this case, traders may:

- Buy Call Options
- Sell Put Options
- Avoid Option Buying if IV is too high

References & Sources:

- Investopedia: Excellent for foundational knowledge on options
- NISM Derivatives Module (Series VIII): SEBI-approved syllabus for professional understanding
- NSE/BSE Option Chains: Live data with OI and IV
- Trading platforms (Zerodha, Upstox, Sensibull): Provide visual analysis of option chain
- Books:
    - *Options, Futures and Other Derivatives* by John C. Hull
    - *Option Trading Strategies* by Option Institute

Common Mistakes to Avoid

- Don’t trade based only on OI – combine with chart analysis
- Avoid buying OTM options with low OI
- Don’t ignore IV and premium decay (Theta loss)
- Be careful near expiry — wild price swings can happen

Summary for Students & Beginners

Learn This	Why It Matters
Option Chain Terms	Helps understand market structure
Support/Resistance via OI	Predict where market may reverse
IV & OI Change	Know when to enter or avoid trades
PCR & Volume	Measure trader sentiment
Combine with charts	Make better entry/exit decisions

Chapter 12: Hedging in the Stock Market – A Complete Guide

12.1 What is Hedging?

Hedging is a strategy used to protect yourself from financial loss due to price fluctuations in the market.

In simple terms, hedging is like insurance — you pay a small cost (premium or opposite trade) to reduce the risk of a big loss.

Definition:

"Hedging is an investment made to reduce the risk of adverse price movements in an asset. It typically involves taking an offsetting position in a related security."

Why is Hedging Important?

The stock market is unpredictable. Prices of shares, commodities, or currencies can go up or down due to:

- Economic news
- Interest rate changes
- Global events
- Political decisions

A hedger doesn't want to make a profit from this movement — they want to protect their existing position.

Who Uses Hedging?

1. Retail Investors – To protect their portfolios
2. Farmers/Exporters – To lock prices of crops or currency
3. Businesses – To protect raw material or sales value
4. Institutional Investors – To reduce fund volatility

12.2 :Common Hedging Instruments in India

Instrument	Use
Futures Contracts	Lock buying/selling price
Options (Calls/Puts)	Buy insurance against market moves
Forwards	Used in currency and commodity hedging
Swaps	Used by corporates for interest rate and currency hedging

Examples of Hedging

1. Stock Hedging with Put Option

If you own Reliance shares at ₹2,500, but fear a fall, you can buy a Put Option at ₹2,500.

- If Reliance falls to ₹2,300
- You still have the right to sell at ₹2,500
- Loss in stock is offset by profit in Put

Like buying insurance for your portfolio.

2. Index Hedging with Futures

You hold a large portfolio but fear a short-term market fall.

- Sell Nifty Futures
- If the market falls, your portfolio loses value
- But your short position gains — offsetting the loss

3. Hedging for Exporters

An exporter is expecting $100,000 in 2 months. If USD/INR falls, they lose in rupee value.

- So, they enter a forward contract to lock USD/INR at today's rate.

This protects them from currency risk.

Cost of Hedging

Hedging usually comes with a cost, such as:

- Paying an option premium
- Forgoing potential profit (futures hedge can limit gains)

But this cost is justified when the goal is protection, not profit.

12.3: Types of Hedging Strategies

1. Protective Put

- Buy Put Option to protect stock from fall
- Used by long-term investors

2. Covered Call

- Sell Call Option on stocks you already own
- Earn premium while keeping the stock

3. Futures Hedge

- Sell futures to protect against fall
- Used by mutual funds and institutions

4. Straddle or Strangle (for uncertain events)

- Buy Call and Put before major event (e.g., budget, results)

Hedging vs Speculation vs Arbitrage

Feature	Hedging	Speculation	Arbitrage
Purpose	Reduce risk	Earn profit from price move	Exploit price differences
Risk	Low	High	Low to medium
Tools	Options, Futures	Options, Futures	Futures, Currency, Commodities

12.4 List of Hedging Strategies – Explained in Simple Language

1. Protective Put (Long Put Hedge)

What it is:
You own a stock and want to protect it from a fall in price.

How it works:
Buy a Put Option at a strike price close to current market price.

Use Case:
Investor owns TCS shares at ₹3,500. To protect against downside, buys a ₹3,500 Put. If price drops, the Put will rise in value.

Used like insurance for stock holdings.

2. Covered Call

What it is:
You hold a stock and sell a Call Option on it.

How it works:
Earn premium from the Call Option while still holding the stock.

Use Case:
If you own HDFC Bank and expect it to stay flat, sell a Call to earn money. If stock rises, you may have to sell it at strike price.

Generates income while holding shares.

3. Collar Strategy (Protective Put + Covered Call)

What it is:
Combines a Protective Put and a Covered Call.

How it works:

- Buy Put to protect downside
- Sell Call to finance the Put

Use Case:
Hold Infosys, worried about fall. Buy Put at ₹1,500 and sell Call at ₹1,700. Limited loss and limited gain.

Great for balanced risk-reward.

4. Short Future Hedge

What it is:
Sell Futures to protect against falling prices of your stock portfolio.

How it works:
If stock falls, loss in portfolio is offset by gain in short future.

Use Case:
Investor holds a ₹10 lakh portfolio. Sells Nifty Futures worth ₹10 lakh. If Nifty falls, losses in stocks are hedged by futures gain.

Used by mutual funds, institutions, large traders.

5. Long Future Hedge

What it is:
You have a short position (or sold shares), and buy futures to protect from price increase.

Use Case:
A business has sold goods to be delivered later. If prices rise, it will lose. So it buys futures now to hedge price rise.

Used by exporters/importers.

6. Synthetic Hedge

What it is:
Use Options to create the same effect as buying/selling stock.

Example:
Buy Call + Sell Put = Long Stock position

Use Case:
If margin is low for buying stock, create synthetic long using options.

Used for margin efficiency.

7. Delta Hedging

What it is:
Used by option sellers and institutions to neutralize risk from price movement.

How it works:
If you sell a Call Option (negative Delta), you buy shares or futures to offset the movement.

Advanced strategy used by professionals.

8. Risk Reversal

What it is:

- Sell Put
- Buy Call

Use Case:
Used when you expect the market to rise. It gives upside potential with little or no cost.

Used in aggressive bullish hedging.

9. Calendar Spread (Time-Based Hedge)

What it is:
Buy a far-month option and sell a near-month option at the same strike.

Use Case:
If you're neutral on the market but want to protect from short-term volatility.

Low-cost strategy to hedge short-term noise.

10. Commodity/Currency Hedging

Use Case:
A jeweler can hedge gold price using gold futures.
An importer can hedge USD risk by buying USD-INR futures.

Used by real businesses for real asset protection.

11. Volatility Hedge (Straddle/Strangle)

What it is:
Buy both Call & Put at the same (or different) strike.

Use Case:
Before events like budget, RBI policy, elections — where direction is unknown but movement is expected.

Hedges from volatility, not price direction.

12. Interest Rate Hedging (Swaps/Futures)

What it is:
Used by banks, NBFCs, or large firms to manage interest rate risk.

Tools:

- Interest rate swaps
- MIBOR-based futures

For corporate treasury hedging.

Summary Table of Hedging Strategies

Strategy	Tools Used	Purpose	Suitable For
Protective Put	Buy Put Option	Protect stock from fall	Investors
Covered Call	Sell Call Option	Earn income from holdings	Investors
Collar	Buy Put + Sell Call	Cost-effective protection	Cautious investors
Short Future	Sell Futures	Hedge against fall	Traders, Funds
Long Future	Buy Futures	Hedge short sales	Exporters, Sellers
Synthetic Hedge	Options	Create long/short	Low capital traders
Delta Hedge	Options + Futures	Neutralize Delta risk	Institutions
Risk Reversal	Buy Call + Sell Put	Bullish hedge	Aggressive traders
Calendar Spread	Options (diff expiry)	Hedge over time	Experienced traders
Commodity Hedge	Commodity Futures	Protect price risk	Business owners
Currency Hedge	Currency Futures	Lock forex rate	Exporters/Importers
Volatility Hedge	Straddle/Strangle	Event-based moves	Event traders

Chapter 13: Foundamental analysis

13.1 What is Investing?

- Investing means putting your money into assets (like stocks, mutual funds, gold, real estate) to earn a return over time.
- The goal is to grow wealth, beat inflation, and meet long-term goals like buying a house, funding education, or retirement.

Smart investing is backed by research — not tips or emotion.

13.2 The Role of Research in Investment Activity

- Research helps investors make informed decisions rather than gambling.
- It helps answer:
    - Is the company profitable?
    - Is the stock undervalued or overvalued?
    - Is it the right time to buy/sell?

Types of research in investing:

- Fundamental Analysis – Studies company & economy
- Technical Analysis – Studies price charts
- Quantitative Research – Uses data and formulas

- Behavioral Analysis – Studies human emotions & psychology

13.3 Technical Analysis

- Focuses on price charts, patterns, and volume.
- Believes “price reflects everything” — including news, earnings, or sentiment.
- Traders use tools like:
    - Moving averages
    - RSI, MACD indicators
    - Candlestick patterns

Used mostly by short-term traders to predict market direction.

13.4 Fundamental Analysis

- Looks at the company’s actual business performance.
- Focus areas:
    - Revenue, profit, growth
    - Debt, cash flow, assets
    - Industry position
    - Management quality

Used by long-term investors to find good companies at the right price.

13.5 Quantitative Research

- Uses math, models, and statistics to pick stocks or strategies.
- Often used by:
    - Mutual funds
    - Algo traders
    - Hedge funds

Examples:

- Factor investing (momentum, value)
- Risk-adjusted return models

Good for advanced users with data skills.

13.6 Behavioral Approach to Equity Investing

- Studies how emotions affect investing decisions:
    - Fear makes people sell too early.
    - Greed makes people chase risky stocks.
    - Herd mentality causes bubbles.

Understanding psychology helps investors avoid common mistakes like panic selling or blindly following trends.

Key Takeaways for Learners

Concept	Meaning
Investing	Using money to grow wealth
Research	Helps make informed decisions
Technical Analysis	Focuses on charts and price movement
Fundamental Analysis	Focuses on company's financial health
Quantitative Research	Uses numbers and models to analyze
Behavioral Analysis	Understands emotional mistakes in investing

13.7 ECONOMIC ANALYSIS

How the economy affects the stock market and your investments

13.7.1 Basic Principles of Microeconomics

- Microeconomics studies individual decisions — like how a consumer chooses a product or how a company sets its prices.
- Key concepts:
    - Demand & Supply – Affect prices of goods and services.
    - Elasticity – How sensitive demand is to price changes.
    - Costs & Profits – Help analyze business operations.

💡 *Understanding microeconomics helps analyze a company's pricing power, competition, and consumer behavior.*

13.7.2 Basic Principles of Macroeconomics

- Macroeconomics deals with the economy as a whole — country-level or global level.
- Focuses on:
    - GDP (Gross Domestic Product) – Total income of a country.
    - Inflation – Rising prices, reducing purchasing power.
    - Interest Rates – Cost of borrowing money.
    - Employment – Jobs and income level in society.

Macroeconomics tells us whether the economy is growing or slowing — which directly impacts businesses and stocks.

13.7.3 Introduction to Various Macroeconomic Variables

Let's understand important macroeconomic indicators that investors track:

Indicator	Meaning	Impact
GDP Growth	Economic expansion	Positive for businesses
Inflation (CPI/WPI)	Rise in prices	Can reduce profits if not controlled
Interest Rates (Repo Rate)	Rate at which RBI lends	Higher rates = lower borrowing and spending
Unemployment Rate	% of people without jobs	High = weak economy
Fiscal Deficit	Govt. overspending	Can lead to inflation, higher borrowing
Exchange Rates (INR/USD)	Value of rupee	Affects importers/exporters

Tracking these helps investors decide when to invest and in which sectors.

13.7.4 Role of Economic Analysis in Fundamental Analysis

- Helps understand how the external environment affects companies.
- Example:
    - High inflation = FMCG companies face higher input costs.
    - Low interest rates = Banks may lend more = More profit.

Before analyzing a company, always look at the economy it operates in

13.7.5 Secular, Cyclical, and Seasonal Trends

Trend Type	Meaning	Example
Secular Trend	Long-term trend (5–10 years)	EV revolution, Digital India
Cyclical Trend	Repeats in cycles (3–5 years)	Auto sales boom and slowdown
Seasonal Trend	Short-term, time-based	AC sales rise in summer, Gold demand in festivals

Understanding trends helps in timing investments and choosing the right sectors.

13.7.6 Sources of Information for Economic Analysis

Reliable data sources include:

- RBI – Interest rate, monetary policy
- MOSPI (Govt. of India) – GDP, inflation, employment
- Economic Survey / Union Budget – Government plans & targets
- SEBI / NSE / BSE – Market and financial reports
- IMF, World Bank, OECD – Global economic outlook
- Business News – Bloomberg, CNBC, Economic Times
- Research Reports – Brokerages, mutual fund houses, rating agencies

Always refer to official or credible sources for investment decisions.

Key Takeaways for Learners	
Concept	Importance
Microeconomics	Helps understand individual business dynamics
Macroeconomics	Understand overall economy & trends
Economic Indicators	Help decide when and where to invest
Secular/Cyclical/Seasonal Trends	Aid in sector and stock selection
Data Sources	Provide verified insights to base research on

For Housewives, Students, and Business Owners:

- If interest rates fall, loans become cheaper → real estate and auto stocks benefit.
- If inflation rises, your purchasing power falls → invest in inflation-beating assets like equity or gold.
- During festivals or seasonal booms, look at sectors like jewellery, FMCG, or travel.

- Stay updated through RBI policy, Union Budget, and key business news.

13.8 INDUSTRY ANALYSIS

Understanding the sector before choosing the right company to invest in.

13.8.1 Role of Industry Analysis in Fundamental Analysis

Before investing in any company, you must understand the industry it operates in.

Why?

- Even the best company can perform poorly if the industry is struggling.
- A rising industry can lift even average companies.

Industry analysis helps you find growth opportunities and avoid risky sectors.

13.8.2 Defining the Industry

- An industry is a group of companies making similar products or services.
    - Example: Auto industry = Maruti, Tata Motors, Hero MotoCorp
    - IT industry = Infosys, TCS, Wipro

To analyze an industry:

- Understand what it does
- Know who the key players are
- Study who its customers are
- Know the products and services offered

13.8.3 Understanding Industry Cyclicality

There are 3 types of industries based on how they behave in different economic cycles:

Type	Meaning	Example
Cyclical	Rise and fall with economy	Auto, real estate, metals
Defensive	Stable even in slowdown	FMCG, pharma, utilities
Growth	Fast-growing sectors	IT, renewable energy, EV

💡 *Know whether the industry is cyclical or stable before investing.*

13.8.4 Market Sizing and Trend Analysis

- Market Size = Total value of products/services sold in that industry.
    - Big market size = More growth opportunities.
- Trend Analysis = Identifying if the market is:
    - Growing or shrinking?
    - Changing in technology or customer habits?

Example:
India's online grocery market is small but growing fast = good future potential.

13.8.5 Secular Trends, Value Migration and Business Life Cycle

- Secular Trends = Long-term changes (5–10 years)
    - Ex: Shift to electric vehicles, digital payments, online education
- Value Migration = Shift of profits from old to new business models
    - Ex: From offline retail to e-commerce
- Business Life Cycle:

1. Startup
2. Growth
3. Maturity
4. Decline

Find industries in the growth or early maturity stage for best returns.

13.8.6 Understanding the Industry Landscape

Key points to analyze:

- Market Share – Who is the leader?
- Barriers to Entry – Easy or tough to enter?
- Customer Loyalty – Is the product essential?
- Cost structure – Are raw materials volatile?

Also study:

- Threats from new companies
- Dependency on imports or government policies

- Competition intensity

A strong industry has high entry barriers, growing demand, and few competitors.

13.8.7 Key Industry Drivers and Industry KPIs

Industry Drivers = Factors that make the industry grow
Example:

- Auto: Income level, fuel prices, interest rates
- Pharma: R&D spending, approvals, patents
- IT: Global demand, currency movement

KPIs (Key Performance Indicators) = Industry-specific metrics
Example:

- Retail: Same-store sales growth
- Airlines: Passenger load factor
- Banks: Net Interest Margin (NIM), NPA ratio

Track the right KPIs to know if the industry is doing well.

13.8.8 Regulatory Environment/Framework

Every industry works under rules and laws set by the government.

- Telecom = TRAI
- Banking = RBI
- Stock Market = SEBI
- Pharma = DCGI, FDA

Strong regulations can improve trust but too much control can limit growth.

13.8.9 Taxation

Tax laws can affect industry profits:

- Higher GST = Lower demand
- Export incentives = Better margins
- Subsidies = Help for agriculture, power sectors

Always check if taxation or government policy helps or hurts the industry.

13.8.10 Sources of Information for Industry Analysis

Reliable data comes from:

- Government sites – RBI, MOSPI, SEBI, Ministry websites
- Industry Associations – FICCI, CII, ASSOCHAM
- Brokerage Reports – Motilal Oswal, ICICI Direct, HDFC Securities
- Company Annual Reports – Read industry outlook section
- Business News & Magazines – Bloomberg, Economic Times, Business Standard
- Rating Agencies – CRISIL, ICRA, CARE

Use verified sources, not just social media opinions.

Key Takeaways

Topic	What to Remember
Industry Analysis	Understand sector before stock
Types	Cyclical, Defensive, Growth
Market Sizing	Bigger = More opportunity
Trends	Track secular & tech trends
Drivers/KPIs	Know what moves the industry
Rules & Taxes	Check government impact
Sources	Use official & research-backed data

For Housewives, Students, and Business Owners:

- If you're investing in a stock, first learn about its industry.
- Don’t invest in sectors you don’t understand.
- For business owners: track trends and competitor industries too.
- Housewives: apply this knowledge to invest wisely in sectors like FMCG, banking, gold, etc.
- Students: study fast-growing industries like IT, clean energy, and fintech.

13.9 COMPANY ANALYSIS – BUSINESS AND GOVERNANCE

Understand how to study a company before investing in it.

13.9.1 Role of Company Analysis in Fundamental Research

Company analysis helps you answer:

- Is the business strong and sustainable?
- Does it have a future?
- Is the management honest and efficient?

Before investing in a company's stock, it's important to understand what the company does, how it earns money, and who runs it.

13.9.2 Understand Business and Business Models

Ask: What does the company do and how does it make money?

- Business model = How a company creates, delivers, and captures value.
- Examples:
    - Zomato – Commission-based & delivery model
    - Tata Motors – Sells vehicles through dealerships
    - Infosys – Provides IT services globally

A clear and scalable business model = better long-term investment.

13.9.3 Pricing Power and Its Sustainability

Pricing power = Company's ability to raise prices without losing customers.

- Example: Apple, Asian Paints, Nestle – customers continue even at higher prices.
- Weak pricing power = commodity businesses (e.g., cement, steel).

Companies with pricing power often have better profit margins and are good long-term bets.

13.9.4 Competitive Advantage / Differentiation

Ask: What makes this company better than others?

Common advantages:

- Strong brand (Tata, HDFC)
- Cost leadership (DMart)
- Technology (Infosys)

- Scale (Reliance)
- Distribution network (HUL)

Warren Buffett calls this an "economic moat." A wide moat = safe investment.

13.9.5 SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats)

SWOT Element	Description	Example
Strengths	Internal advantages	Strong brand, low debt
Weaknesses	Internal limitations	Poor customer service
Opportunities	External growth potential	Entering new markets
Threats	External risks	New competition, regulations

SWOT helps you see the full picture of a company.

13.9.6 Quality of Management and Governance Structure

Look for:

- Experienced leadership (e.g., Infosys founders, Ratan Tata)
- Transparent decision-making
- No frauds or insider trading
- Board independence

Check:

- CEO/CFO background
- Promoter holding
- Past scandals or controversies

Good management creates wealth; bad management destroys it.

13.9.7 Risks in the Business

Every company has risks:

- Industry risk (e.g., slowdown in auto sector)
- Regulatory risk (e.g., price control in pharma)
- Currency risk (for exporters like TCS)
- Technology risk (e.g., traditional retailers vs Amazon)

Assess how well the company can handle risks.

13.9.8 History of Credit Rating

- Credit rating shows company's ability to repay debt.
- Agencies: CRISIL, ICRA, CARE, India Ratings
- High rating (AAA) = safe to lend
- Downgrade = risk is increasing

💡 *Credit history helps you judge the financial stability of a company.*

13.9.9 ESG Framework (Environmental, Social, Governance)

Investors are now asking: Is the company ethical and sustainable?

- Environmental – Is it polluting or using clean energy?
- Social – Does it treat employees and communities well?
- Governance – Is the leadership honest and transparent?

Example:

- Infosys, HUL = strong ESG scores
- ESG-compliant companies are attracting more investments globally.

ESG helps identify responsible and long-term businesses.

13.9.10 Sources of Information for Analysis

Use reliable sources like:

- Annual Reports – Best source for company vision, financials, management talk
- Investor Presentations – Clear summary of operations & future plans
- Company Website – Product lines, media, ESG, leadership
- Credit Rating Agencies – Financial health and debt review
- SEBI, NSE, BSE websites – Company filings, disclosures
- Broker Research Reports – Independent analysis with valuation

Don't rely on YouTube or WhatsApp tips. Use verified sources only.

Summary Table

Topic	What to Analyze
Business Model	What and how the company earns
Pricing Power	Ability to raise prices
Competitive Advantage	Differentiation from others
SWOT	Internal & external view
Governance	Ethics, leadership, transparency
Risks	What can go wrong?
Credit Rating	Past debt and repayment history
ESG	Is the company responsible & sustainable?
Sources	Use official and trusted data

For Housewives, Students, and Business Owners:

- Always know how the company makes money before investing.
- Don't buy shares based on price alone – study the business.
- Just like you check reviews before buying a phone, check company fundamentals before buying its stock.
- Business owners can use this knowledge to benchmark their own companies or competitors.

13.10 COMPANY ANALYSIS – FINANCIAL ANALYSIS

How to read and understand company financials before investing.

13.10.1 Introduction to Financial Statement

Financial statements are official documents that show a company's financial health.

There are 3 main statements:

1. Balance Sheet – What the company owns and owes
2. Profit & Loss Statement (P&L) – What the company earns and spends
3. Cash Flow Statement – Real cash coming in and going out

These statements help investors know if the business is profitable, stable, and growing.

13.10.2 Stand-Alone vs Consolidated Financial Statements

- Stand-alone: Shows performance of only the main company.
- Consolidated: Includes performance of subsidiaries + parent company together.

Always prefer consolidated reports for a full picture of business performance.

13.10.3 Balance Sheet

Think of it like a snapshot of the company's financial position at a point in time.

Formula:
Assets = Liabilities + Shareholders' Equity

Section	Meaning
Assets	What the company owns (cash, buildings, stock)
Liabilities	What the company owes (loans, payables)
Equity	Owners' capital in the business

💡 *A strong balance sheet = more assets, less debt, and good cash balance.*

13.10.4 Basics of Profit and Loss Account (P&L)

This shows how much profit or loss the company made during a period (quarter/year).

Key Terms:

- Revenue / Sales – Income from business
- Expenses – Cost of making that income
- Net Profit – What remains after all costs and taxes

Consistently rising profit = healthy business.

13.10.5 Statement of Changes in Shareholders' Equity

Shows how the shareholders' money changed over time:

- New capital issued
- Dividends paid
- Buyback or retained earnings

It explains movements in the ownership value of the company.

13.10.6 Basics of Cash Flows

This tracks real cash (not accounting profits).

It has 3 parts:

1. Operating Activities – Cash from main business
2. Investing Activities – Buying/selling assets
3. Financing Activities – Borrowing/repaying loans or equity

Profit can be fake, but cash flow tells the truth. Always check this.

13.10.7 Notes to Accounts

These give extra details about the numbers in the financial statements:

- Accounting methods
- Pending legal issues
- Related party transactions
- Breakdown of expenses

📄 *Don't skip these. Notes help understand the story behind the numbers.*

13.10.8 Important Points While Analyzing Financials

Look for:

- Sales and profit growth
- Debt levels
- Cash flow consistency
- Inventory and receivables
- Profit margins

Avoid:

- Sudden profit jumps without revenue growth
- Rising debt and falling profits
- Poor cash flow despite profit

13.10.9 Reading the Audit Report

Auditors are like financial watchdogs.

Check:

- If audit report is clean or qualified
- If there are any red flags or concerns
- Emphasis of matter — tells about pending risks

- *Good auditors = honest books. Bad audit = avoid that company.*

13.10.10 Financial Statement Analysis Using Ratios

Ratios help quickly understand company performance.

Grouped into:

- Profitability Ratios
- Liquidity Ratios
- Solvency Ratios
- Efficiency Ratios
- Valuation Ratios

Ratios make comparison easier — across companies and time.

13.10.11 Commonly Used Ratios

Ratio	Formula	Meaning
ROE (Return on Equity)	Net Profit / Equity	How well capital is used
ROCE	EBIT / Capital Employed	Business efficiency
Current Ratio	Current Assets / Liabilities	Liquidity check
Debt to Equity	Total Debt / Equity	Financial risk
Net Profit Margin	Net Profit / Revenue	Profitability
EPS (Earnings per Share)	Net Profit / Shares	Per-share earning
PE Ratio	Price / EPS	Valuation — is it cheap or expensive?

13.10.12 DuPont Analysis

A detailed method to calculate ROE using 3 steps:

1. Profit Margin – How much profit from sales
2. Asset Turnover – How well assets are used
3. Equity Multiplier – How much debt is used

Helps find what's driving the returns — sales, efficiency, or debt.

13.10.13 Forecasting Using Ratio Analysis

Use historical ratios to:

- Project future profits
- Predict cash flows
- Estimate stock valuation
- *Forecasting helps decide target price and investment potential.*

13.10.14 Peer Comparison

Always compare the company with:

- Other players in the same industry
- Sector averages
- Leaders and laggards

One company's performance doesn't mean much unless you compare it with its peers.

✅ Summary Table

Section	What You Learn
Balance Sheet	Assets, liabilities, equity
P&L	Revenue, costs, profits
Cash Flow	Real money in and out
Ratios	Quick analysis of health
Audit & Notes	Red flags or hidden info
Forecast & Comparison	Future potential vs competitors

For Housewives, Students, and Business Owners:

- Just like you check weight, sugar, and expiry while buying food — check financial statements before buying a stock.
- Use ratios like PE, ROE to know how strong and how expensive a stock is.
- A company with high debt and low cash flow is a red flag.
- Always compare 3–5 years of performance before investing.

Chapter 14: What is Technical Analysis?

Technical Analysis is the study of past market data (mainly price and volume) to forecast future price movements of stocks or other securities.

It helps you:

- Decide when to buy/sell
- Find support and resistance
- Time your entry and exit perfectly

It is based on:

- Price discounts everything
- Prices move in trends
- History repeats itself (patterns repeat)

14.1 Chart Types in Technical Analysis

Line Chart

- Connects closing prices with a line
- Good for trend overview

Candlestick Chart (Most Popular)

- Shows open, high, low, close in a candle
- Red candle = price fell
- Green candle = price rose

Bar Chart

- Similar to candle but uses bars instead

14.2 What is a Candlestick?

A candlestick shows the price movement of a stock in a single period (like 5 mins, 1 hour, 1 day).

Each candle shows 4 prices:

- Open
- High
- Low
- Close

Red Candle – Price closed lower than it opened (bearish)
Green Candle – Price closed higher than it opened (bullish)

14.3 Single Candlestick Patterns

These patterns form from just one candle and give early signals of a trend change or continuation.

Pattern	Shape & meaning
Doji	◈ Candle with almost no body. It means buyers and sellers are confused. Usually found at tops or bottoms = Indecision, possible reversal.
Hammer	◈ Small body on top, long lower shadow. Appears at bottom of a downtrend = Bullish reversal.
Hanging Man	◈ Looks like a hammer but appears at top of an uptrend = Bearish signal.
Inverted Hammer	◈ Small body, long upper wick. Appears after downtrend = Bullish reversal if next candle is strong green.
Shooting Star	◈ Inverted hammer at top of trend = Bearish reversal warning.

Single candles are warning signs — wait for confirmation in the next 1–2 candles.

Double Candlestick Patterns

These are made of two candles, usually showing a change in control from buyers to sellers or vice versa.

Pattern	What It Means
Bullish Engulfing	A small red candle followed by a big green candle that engulfs the red one = Strong buying signal at the bottom.
Bearish Engulfing	A small green candle followed by a big red one = Strong selling pressure at the top.
Piercing Pattern	First candle is red, second is green and opens gap-down but closes above midpoint of red candle = Bullish reversal.
Dark Cloud Cover	First candle is green, second is red and opens gap-up but closes below midpoint of green = Bearish reversal.

Double candles show shift in sentiment — great for short-term trades.

Triple Candlestick Patterns

These use three candles and provide more reliable signals than single or double ones.

Pattern	What It Means
Morning Star	Red candle, then small candle (any color), then big green candle = Bullish trend reversal.
Evening Star	Green candle, small candle, then big red candle = Bearish reversal at top.
Three White Soldiers	Three strong green candles with higher highs = Strong bullish confirmation after downtrend.
Three Black Crows	Three red candles with lower lows = Strong bearish confirmation after uptrend.

Triple patterns are considered powerful and are used by professional traders.

Summary Table

Pattern Type	Signal	Reliable For
Single	Early warning	Short-term traders
Double	Reversal confirmation	Swing traders
Triple	Strong reversal	Position traders

Real-Life Analogy

Think of these candles as body language of the market:

- A hammer says: “I’m done falling.”
- A shooting star says: “I can’t rise further.”
- A bullish engulfing says: “Bulls are back!”
- A morning star says: “Good days are coming.”

14. 4Chart Patterns in Technical Analysis

Reversal Patterns (Trend Change)

Pattern	Direction
Head and Shoulders	Top pattern – bearish
Inverse Head & Shoulders	Bottom pattern – bullish
Double Top	Bearish reversal
Double Bottom	Bullish reversal
Triple Top/Bottom	Strong reversal

Continuation Patterns (Trend will continue)

Pattern	Meaning
Flag & Pennant	Small pause before trend continues
Symmetrical Triangle	Breakout likely, direction unknown
Ascending Triangle	Bullish continuation
Descending Triangle	Bearish continuation
Rectangle	Range-bound trading zone

Patterns are easier to spot on daily and weekly charts.

14.5. Support and Resistance

- Support = Price level where demand is strong, price bounces up
- Resistance = Price level where supply is strong, price bounces down

Used to set stop loss and target.

14. 6. Technical Indicators and How to Read Them

Trend Indicators

Indicator	Use
Moving Averages (SMA/EMA)	Show average price. Golden Cross = Buy signal
MACD	Signal line crossover = Buy/Sell
ADX	Shows trend strength (>25 = strong trend)

Momentum Indicators

Indicator	Use
RSI (Relative Strength Index)	Overbought >70, Oversold <30
Stochastic Oscillator	Similar to RSI, but faster signal
CCI (Commodity Channel Index)	Identifies price cycles

Volatility Indicators

Indicator	Use
Bollinger Bands	Price near upper band = overbought, lower band = oversold
ATR (Average True Range)	Measures volatility

Volume Indicators

Indicator	Use
Volume	Confirms trend. Rising volume = strong trend
OBV (On Balance Volume)	Measures buying/selling pressure

Indicators are better when used in combination (not alone).

14.7. Putting It All Together – A Sample Process

1. Identify trend – Use moving averages or trendlines
2. Look for support/resistance – Set SL and targets
3. Check candlestick patterns – Confirm trend strength or reversal
4. Use indicators – RSI for strength, MACD for crossovers, volume for confirmation
5. Enter with logic, exit with discipline

Summary for Learners

Tool	Use
Candlesticks	Price behavior & reversal
Chart Patterns	Predict future trends
Indicators	Confirm entry & exit
Support & Resistance	Decide SL/Target
Volume	Strength of the move

conclusion

- You don’t need to predict — just react to what the chart says.
- Focus on 1-2 indicators and few reliable patterns.
- Use paper trading or demo apps before using real money.
- Use technical for short-term decisions, fundamentals for long-term.

Chapter 15: **How to Trade in Intraday (Day Trading Guide)**

Buy and sell on the same day — know the rules before jumping in!

15.1 What is Intraday Trading?

Intraday trading means buying and selling a stock on the same day — you do not carry the position overnight.

Example:
You buy Tata Motors at ₹700 at 10:15 AM and sell it at ₹715 at 12:45 PM = ₹15 profit per share.

It’s fast-paced and riskier than long-term investing — but gives opportunity to earn daily income if done with discipline.

15.2 Basic Rules of Intraday Trading

1. Always square-off (close) your position before 3:15 PM
2. Use technical analysis (candles, support/resistance, indicators)
3. Never trade on emotions or tips
4. Set Stop Loss before entering trade
5. Don’t carry intraday trades to next day

15.3 Popular Intraday Strategies Used by Traders

1. Breakout Strategy
    - When to Buy: Stock breaks above resistance with volume
    - When to Sell: Breaks below support
    - Tool: Use 15-min chart, volume, price action
    - Example: If HDFC breaks ₹1620 with volume, buy with SL ₹1605

2. Reversal Strategy
    - Identify stock that has gone up/down too much — prepare for pullback
    - Use RSI (<30 = oversold, >70 = overbought) + candlestick pattern (hammer, doji)

3. Moving Average Crossover
    - Buy when short-term MA (e.g., 9 EMA) crosses long-term MA (e.g., 21 EMA) upward
    - Sell when crossover happens downward

4. Support & Resistance Trading
    - Buy near support level, sell near resistance
    - Works well in sideways market
    - Combine with Bollinger Bands or RSI

5. Gap-Up/GAP-Down Trading
    - Trade stocks that open gap-up/down due to news, results, or global cues
    - Wait 15–30 mins aftermarket open, and then enter trade in direction of trend

6. Volume Spike Strategy
    - Sharp increase in volume = upcoming big move
    - Combine with price breakout
    - Entry after volume breakout with SL and target

15.4Top Tools/Indicators for Intraday Trading

Tool	Use
RSI	Spot overbought/oversold zones
Moving Averages (EMA/SMA)	Trend direction
VWAP	Institutional average price – trade above = bullish
MACD	Trend and momentum
Supertrend	Trend-following indicator (green = buy, red = sell)
Volume	Confirms price action

15.5 Risks in Intraday Trading

Risk	Impact
No Stop Loss	Huge losses in seconds
Overtrading	Emotional, impulsive losses
No Plan	Random entries = guaranteed loss
Volatility	Sudden news or movement can hit SL
Leverage Misuse	₹1,000 capital can act like ₹10,000 — works both ways!

15.6 Rewards and Advantages

Advantage	Benefit
Quick profit	Money in 1 day
No overnight risk	No tension of next day news or gap
Short selling allowed	Earn when stock falls
Daily learning	Improves discipline and analysis

15.7 Who Should Do Intraday Trading?

Suitable for:

- Full-time traders
- Housewives, students with time in market hours
- Professionals who can focus for 1–2 hours daily

Not suitable for:

- Those without proper knowledge
- Those working full-time jobs
- Emotionally impulsive people

15.8 Tips for Beginners (Golden Rules)

1. Start with paper trading (demo account)
2. Trade with small capital first
3. Risk only 1–2% of capital per trade
4. Keep fixed SL and target
5. Avoid revenge trading after loss
6. Don’t follow WhatsApp or Telegram tips blindly
7. Focus on 3–5 stocks only
8. Learn from your own trade journal

Investors vs Traders – Key Difference

Feature	Investor	Intraday Trader
Holding period	Long-term (months/years)	Same-day (minutes/hours)
Goal	Wealth creation	Daily income
Analysis	Fundamental	Technical
Risk	Lower	Higher
Stress level	Low	High

Summary

- Intraday trading is high-reward but high-risk.
- Use proper strategy + risk management.
- Follow 1 or 2 strategies that suit your style.
- Never trade blindly — always have a plan.

Chapter 16: **Risk Management in Trading and Investing**

"Don't focus on profit first—focus on how not to lose!"

16.1: What is Risk Management?

Risk management means identifying, understanding, and controlling the risk of loss in your trading or investment.

The goal is not to avoid risk — but to manage risk smartly so that even if you lose some trades, your capital remains protected.

16.2 Why is Risk Management Important?

- No strategy works 100% of the time.
- Even top traders lose money — but their losses are small and controlled.
- One bad trade without stop loss can destroy your entire capital.

"The market rewards discipline, not emotions."

16.3 Types of Risks in Stock Market

Risk Type	Explanation
Market Risk	Prices fall due to economic events, news, etc.
Liquidity Risk	You can't exit due to low volume
Leverage Risk	Using margin can increase losses
Emotional Risk	Greed, fear, revenge trades
Gap Risk	Overnight news causes price gaps in opening
Systemic Risk	Risk from the whole market (crash, war, etc.)
Operational Risk	Mistakes in placing orders or internet failure

16.4 Top Risk Management Tools & Techniques

1. Stop Loss (SL)

- A predefined price at which you exit your trade to limit loss.
- Example: Buy stock at ₹500, SL at ₹490 → Max loss = ₹10/share

2. Risk-Reward Ratio

- Always aim for 2:1 or better.
- Example: Risk ₹10 to make ₹20 or more.
- Avoid trades where risk is more than reward.

3. Position Sizing

- Never invest all your money in one trade.
- Example: If your capital is ₹1,00,000 — risk only ₹1,000 to ₹2,000 per trade.
- Formula:
  Position Size = Capital × % Risk / (Entry - Stop Loss)

4. Diversification

- Spread investments across different stocks or sectors.
- Don't put all eggs in one basket.

5. Avoid Overtrading

- Too many trades increase mistakes and losses.
- Trade only 1–2 high-confidence setups.

6. Use of Margin (Leverage) Carefully

- Don't take big positions using broker's margin.

- It can turn small losses into huge losses quickly.

16.5 Sample Risk Management Plan

Let's say:

- Total Capital: ₹1,00,000
- Risk per trade: 1% = ₹1,000
- Entry Price: ₹500
- Stop Loss: ₹490
- Risk per share = ₹10

Position size = ₹1,000 ÷ ₹10 = 100 shares

16.6 Golden Rules of Risk Management

Rule	Meaning
Always place stop loss	Protect your capital
Don't risk more than 1–2% per trade	Stay in the game
Stay calm after a loss	Don't revenge trade
Maintain a trading journal	Learn from past mistakes
Use capital allocation	Keep cash for emergency
Never average a losing trade	Adds to losses
Don't risk capital you can't afford to lose	Be realistic

Conclusion

- Don't try to earn fast — try to lose slow.
- Focus on risk first, profit will follow automatically.
- Even 60% winning trades can make you rich — if your losses are small and profits are big.

Summary Table

Tool	Purpose
Stop Loss	Exit before big losses
Risk % Rule	Protect capital
Risk-Reward Ratio	Ensure good profit potential
Position Sizing	Control trade amount
Diversification	Reduce portfolio risk
Trading Journal	Improve discipline