



*Wish You All A Very Happy Dushehra-Diwali and A Great Year ahead...!!*



| Contents                                       |      |
|--|------|
| Particulars                                    | Page |
| Market Round Up                                | 3    |
| Technical Outlook and F&O Strategy             | 4    |
| A Good Diverse Folio                           | 5    |
| G-Sec Funds: Safety of F/D with Easy Liquidity | 8    |
| Forex Trading- Easy way to Trade               | 9    |
| Options Guide                                  | 10   |

## There is big difference between Investing and Trading.....

As an Investor Keep Large diverse Folio. A Folio of 15-20 Scrips is desirable...Smaller Folio is riskier

As a Trader Keep Concentration on a few Charts. At a time only 4-5 trades should be initiated....Large number of trades are difficult to manage.

As an Investor Can put in upto 80% of the funds at a time in diverse Folio on Pre-decided long time horizon, often many years.

As a Trader Very high Cash-In-Hand level (upto 60%-70% atleast) is desirable. Time horizon is sometimes a few hours.

As an Investor Focus on scrips that appreciate over a period, paying regular dividends. Scrips with high Promoters and/or institutional holdings. These can be "Low Beta" Scrips.

As a Trader Focus on scrips that fluctuate very fast, up or down. Scrips with Low Promoter and/or institutional holding i.e. high floating stock. "High Beta" Scrips are desired for trading.

Great Investment Scrip (like ITC, HUL, MRF) may not be good for trading. Companies with huge Debt and always in media news are not desirable for Investing BUT can be great for trading (up or down)

One thing is Common to both "Stop-losses" (unless you belong to Warren Buffet Camp of Investing for Decades)

September as expected turned out to be sideways month after sharp sell off in August. Indian markets emerged as “Out-performer” as they fell lesser than what happened in Global arena. **October has never been a kind month to equities, however given fall in August and excessive fears and bearish news all around, there are fair chances of this October being different and we may see an upmove this Festive season.**

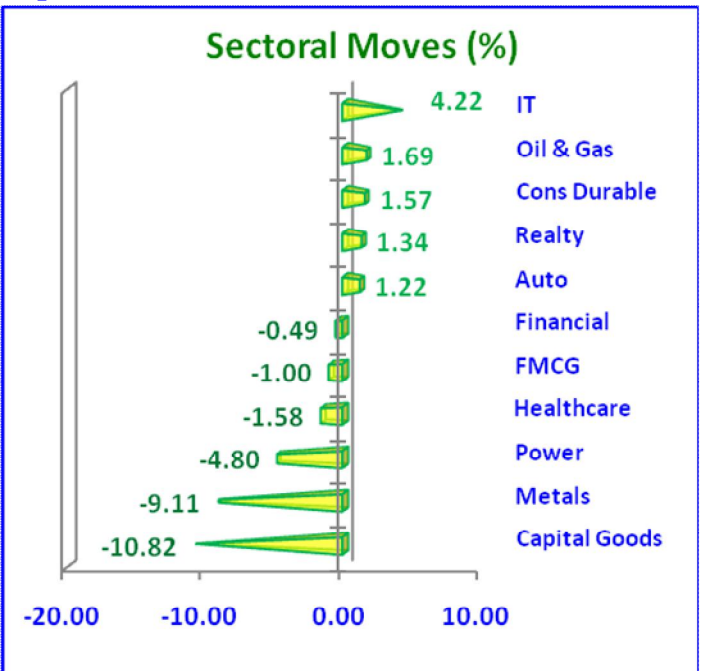
Few **things that strongly favor BULLS** come back; can be Sharp Sell-Off in Metals. SILVER clearly looking more bearish than GOLD. Headwinds in SILVER can restrict any major upmove in GOLD also. Base Metal, Crude etc. are also correcting, which benefits in form of lower costs for manufacturers. **This is positive for equities.**

There is demand for Debt Paper. It is due to shift towards less risky assets and also, there are expectations on Fall in Interest rates, especially in Emerging Markets like India. **This is again positive for equity.**

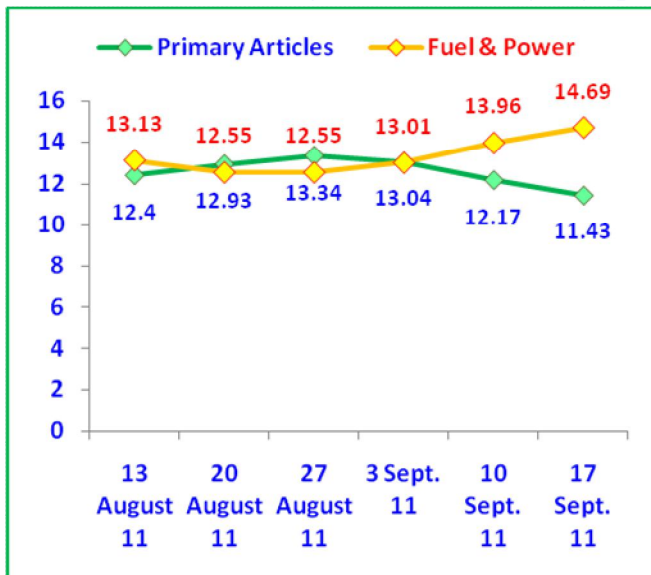
### Markets in September

| INDEX         | DOW      | NASDAQ  | DAX     |
|---------------|----------|---------|---------|
| 30 Aug        | 11613.53 | 2579.46 | 5784.85 |
| 30 Sep        | 10913.38 | 2415.4  | 5502.02 |
| Points Change | -700.15  | -164.06 | -282.83 |
| % Change      | -6.03    | -6.36   | -4.89   |
| Monthly High  | 11733.11 | 2643.37 | 5794.5  |
| Monthly Low   | 10789.87 | 2414.31 | 5403.58 |

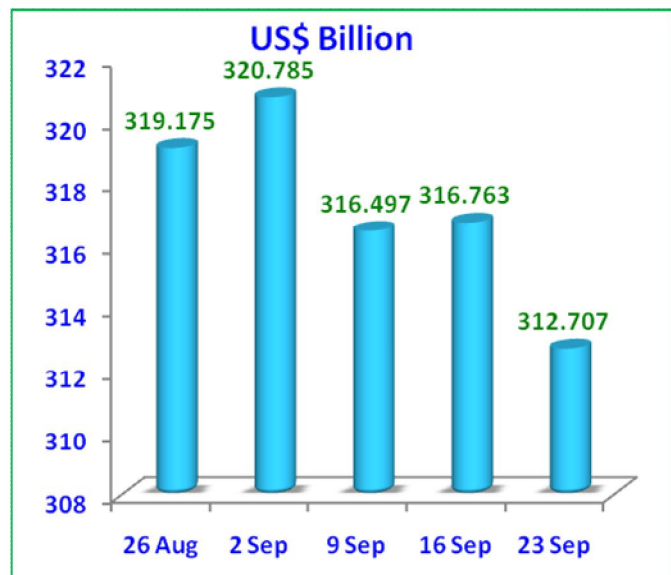
| INDEX         | NEKKEI  | BSE 30   | NSE 50  |
|---------------|---------|----------|---------|
| 30 Aug        | 8955.2  | 16676.75 | 5001    |
| 30 Sep        | 8700.29 | 16453.76 | 4943.25 |
| Points Change | -254.91 | -222.99  | -57.75  |
| % Change      | -2.85   | -1.34    | -1.15   |
| Monthly High  | 9098.15 | 17211.8  | 5169.25 |
| Monthly Low   | 8359.7  | 15801.01 | 4758.85 |



### Food Inflation is falling but fuel Cost is going up.



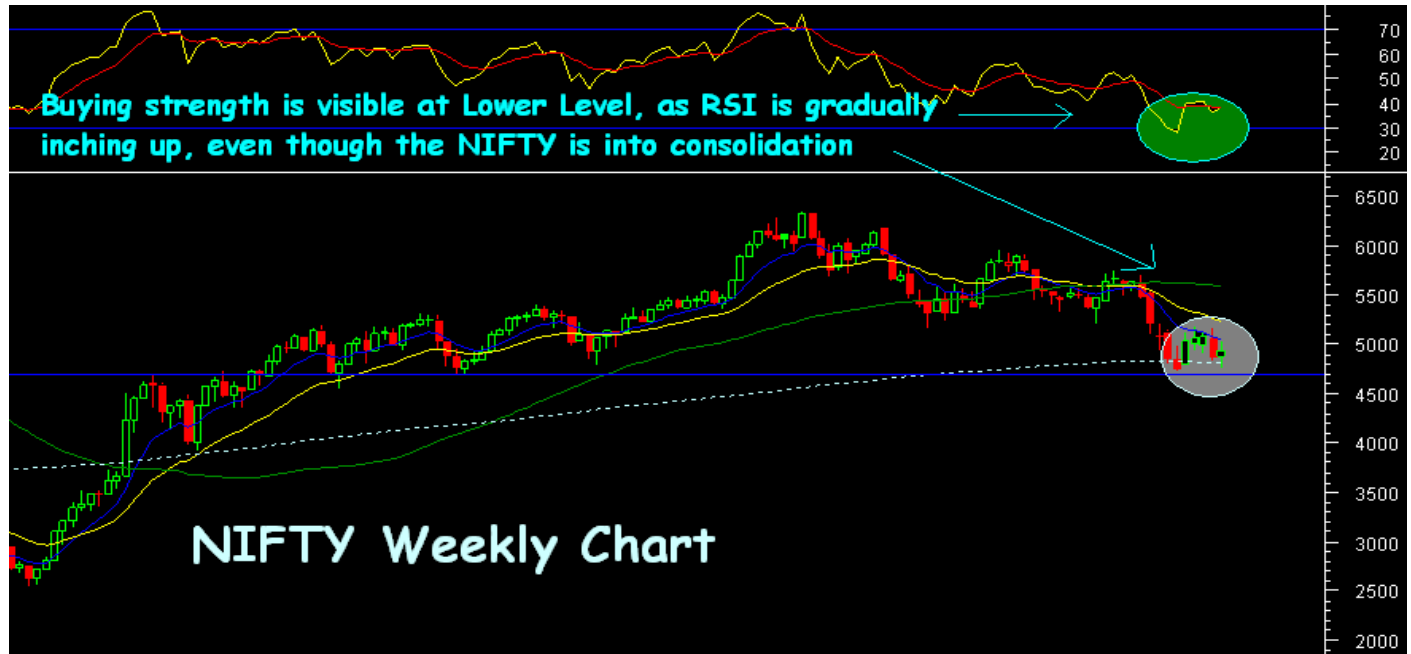
### Fall in Forex Reserves is a concern.



As expected September was a sideways BUT very choppy month. Very wild Intra-day movements were visible as news were flowing from Europe, US and domestically.

October is likely to be bearish initially, expected to be stronger towards the end. The major Gold & Silver buying season getting over at the end of October, things can be more bearish for the 2 Precious Metals. Bond Yields are showing downtrend for short term and uptick for long term beyond 3 years.

Which indicates, better days for Equities.



**SUPPORTS: 4850-4800-4750-4700**

**RESISTANCES: 5060-5120-5170-5230**

October can be mild Bullish, but choppiness volatility will be higher than September and there is likely to be high Folio churning among sectors.

**F&O Strategy:**

October Series offers good opportunity in OPTIONS. Traders will have to keep entering and exiting position as market moves between 4800 & 5200 levels.

**When NIFTY is near 4800:** BUY 1 Lot 5000 Call (it should be around Rs.65-70) and SELL 2 Lots 5200 Call (it should be around Rs. 20 each), Net Outflow will be around Rs.30-35 and as NIFTY crosses 5040 the strategy should be in Profit. Look to book gains. Risks in strategy are unlimited if NIFTY Crosses 5400

**When NIFTY is near 5100:** BUY 1 Lot 5000 Put (its should be around Rs. 90-95) & SELL 2 Lots 4800 Put (it should be around Rs.40-45), with negligible Outflow. If NIFTY crosses 5000 on downside, the strategy will be in profit. Look to book gains. Risks in strategy are unlimited if NIFTY crosses below 4800.



Today, the news that can be heard from every Tom, Dick & Harry is.....Trouble in Europe, Double Dip Recession in US. World economies towards 2008 like situation et.all.

### **There is Big Difference between 2007-2008 and Now:**

2008 was a Giant Assets Bubble BUT today Smart Money is Changing its Class.

In **2007-2008** every Asset was funded by margins. From Real Estate to Stocks, Commodities to Bonds (Bonds mainly in developed markets), all were funded on margins and Rising Assets Prices were "Castles In Air". Things were going on well so long as it was Uptrend all over.....But once a negative signal emerged in form of confirmation of Slowdown in late 2007, the Balloon landed on needle tip. Real Estate, Stocks, Bonds, Metals, Crude, Gold-Silver etc. all fell as if suddenly someone changed the gear from Top to Reverse in an F1 car and threw all power with Full Trottle.

To Quote a legendary investor " When Tide is High Small Boats rise to the height of a Ship.....But when the tide is low you get to know who was swimming naked."

What **differs in 2011** .? There is No Bubble like what was in 2007. Its just the circulation of Smart Money among various Assets Classes.

When Global recovery started in 2009, Smart Money was in Equities.

When US & Europe started to get nervous, Smart Money was in Precious Metals.

Real Estate was not given much importance (the way it was in 2007), as it is highly illiquid Asset Class with poor transparency of pricing and high transaction Costs.

### **Smart Money strictly follows Mantra "Be Greedy when Others are Fearful and Be Fearful when others are Greedy"**

Everyone on the Financial Streets to Village Streets could be heard saying "Gold will be 35,000 by Diwali, Silver 75000...." Even many of Media channels had No other News BUT to show their worry about Northward Cruising Price of Precious Metals ahead of the Most Important Festival seasons in the SAARC region (which has traditionally being among the largest buyer of Ornaments). **Where are Gold & Silver today..??**

Retail Buying is evident in these Commodities, as Smart Money has already offloaded its most of holding.

**In our SEPTEMBER Market Mantra we advised Profit Booking in GOLD & SILVER for Long Term Investors in these Commodities.**

**If Smart Money is exiting Gold & Silver, where is it heading..?? Definitely not into Banks Current Accounts.**



**Real Estate Bubble had bad burst in developed nation and it will take very long to recover the wounds. In Emerging Markets its strictly controlled in China and there are local issues in India.** Given the highly illiquid nature and highest transaction costs among various assets classes in Land Assets, “Hot Money” taste doesn’t match with Real Estate.

**Don’t Expect much Fund Flow into Real Estate. Then where..??**

**Currencies** are good for hedging & Trading BUT this Asset class has direct intervention by Governments. The Market Freedom is restricted by the respective Central banks, as Sharp movement in Forex had direct impact on economic balances.

Now **Smart Money is in Bonds/Treasuries.** (We suggested G-Secs to Investors about 2 months back. Please see **Parasram Monthly Mantra** of AUGUST & then September).

**PROOF:** In spite of RBI increasing the rate recently, Repo is 8.25% and Reverse Repo is 7.25% after 16 Sept hike the Bond Yield have not gone up. The G-Sec Yield stand as (Even though these Bonds have built in Interest): Source: fimmda.org, Yields as on 29 September 2011

- 1 Year 8.09%
- 3 Year 8.37%
- 5 Year 8.40%
- 10 Year 8.44%

**Yield curve is raising Left to Right on Yield-Time Chart. Danger is Inverted Yield Curve-Left to Right falling (i.e. Short Term Yields higher than Long term Yields which is sign of Recession) which is not there. Just unwanted Fear, Fear and Fear.**

Smart Money seems to be Reading very well that going ahead Interest rates will be cooling. Falling Interest rates directly benefit Equities. And as the masses act on Well publicized news of all Global fears, **Equities are the next destination for Smart Money.**

Mind it, **Falling Interest Rates directly benefit those who have huge exposure to G-Secs.** G-Sec Mutual Funds and Banks, especially **PSU banks** are noteworthy here.

**Inflation:** Another “Newspaper Cover” Fear. With Commodities Prices Cooling Off, Agriculture Output rising, how long can the Inflation remain at high levels.?? UP Elections in less than a year, followed by 5 North Indian states and then central Govt going to voters in next 18 months. Fair chances of a figure of 4-5% very much possible. And big base will also play role ahead in shrinking Inflation figure.

So, all indications of better days for equities and it’s the last leg of Pain left.

**Lets analyze, what is the worst for market.??** 2008 like situation is ruled out. Will people stop eating, stop buying clothes, stop transportation, stop buying electronic gizmos & automotives..?? When sales figure has to be better on longer term charts, then how can markets sink on long term charts..??



Yes, in **short term its anybody's game**. Fearful market can tank further, may be another 5-8%. In next few weeks.?? Some scrips may fall much more and others may not and still **a few may go up..!!** But Over-Sold markets give very sharp upmove recovery and those who are waiting for the bottom, never get it.

BUY Large Caps as they will be the 1<sup>st</sup> to move up. Once Large caps have moved up and these is strength in upmove, smaller ones follow.

**Its time to go aggressively for Blue Chips. Every Rise should be used to reduce “Junk” from Folio and every decline should be used to get into BLUE CHIPS, focus on Top 200 Scrips. When markets move up, Top 200 especially NIFTY 50 counters take the lead.**

**I.T. Sector** could see buying initially and after heavy weights (INFY & TCS) results are over, a correction may be seen in IT.

**Financial Sector** May see buying during the mid of month and RBI meet expected in late October may give cheer to the sector as Interest rates may be left unchanged, if not reduced. Mid and Small PSU Banks are at decent valuations. Apart from SBI and PNB, banks like Corporation, Andhra, Central etc. should be on buying radar.

NBFCs like REC, PFC, PTC Finance, HDFC etc. are good picks to yield gains in long term.

**Engineering & Infra** may see value buying as giants like LT, BHEL, Power Grid, NTPC etc. have fallen heavily in past few days.

**Energy Sector** PSUs like ONGC, OIL India, Coal India, SCI, NHPC, etc. are at decent valuation, offering bait to Dividend yield seekers.

Scrips like GAIL, IGL, Petronet LNG, NTPC etc. can also be looked.

**Auto** Interest rates top out to benefit Automakers, further there is fall in Crude and Metals, which is also positive for the industry. M&M (with in-built valuations of Tech Mahindra, Satyam, M&M Finance, Mahindra Holidays, Real Estate company Mahindra Lifespace) looks to be the best among the lot. M&M is also the most diversified Auto maker, its products ranges from 2-Wheelers to Heavy Trucks. Auto Component makers like Tyre makers JK Tyre, CEAT etc. offer Dividend yields and very low Sales/M Cap Ratio.

**Cement** scrips like Ambuja, JP Associate, Grasim etc. may see some more upside.

**FMCG & AGRI** ITC, Renuka Sugar, Tata Chemicals, GNFC etc. are also offering value.

**Investors holding LONG Positions in GOLD & SILVER are advised to book profits at every rise.**

**Investors who put in Bank F/D with fixed Lock-In period, can look at Debt Mutual Funds for safe returns and scope for Capital Appreciation. (Details given in Next Section)**



## G-Sec Mutual Funds (GILT FUNDS)

**Rising Interest Rates are offering good opportunity to look at G-Sec Mutual Funds. 10-Year Benchmark is at about 8.5% Yield.**

Debt Mutual funds are funds which invest money in debt instruments such as short and long term bonds, government securities, T-bills, corporate paper, commercial paper, call money etc. The fees in debt funds are lower, on average, than equity funds because the overall management costs are lower. The main investing objectives of a debt fund is usually preservation of capital and generation of income.

**In Bank F/D, Post Office F/D etc. though there is Fixed earnings BUT the time period is fixed and there is NO scope for further capital appreciation besides, pre-determines interest rates. In Debt Mutual Funds, there are gains due to interest inflows and also good probability of capital appreciation. There is no fixed time period, Debt Funds can be redeemed anytime (except Fixed Period Close ended schemes)**

Debt Funds can be with (i) DIVIDEND Option i.e. Dividend is paid at Pre-defined Regular Interval or (ii) GROWTH Option, where no dividend is paid, NAV of the Fund gradually increases over time.

One very popular and among the safest form of Debt Funds are the **G-Sec MUTUAL FUNDS.**

GILT FUNDS or G-Sec FUNDS are those funds which invest only in securities issued by the Government. This can be the Central Govt. or even State Govts. Gilt funds are safe to the extent that they do not carry any Credit Risk. However, it must be noted that even if one invests in Government Securities, interest rate risk always remains.

### **Relation of Bond Yield & Its Rate**

There is an **inverse** relation between the Price of Bond and its Yield. As The Yield Rises, the prices Fall and when Yields start coming down, Prices move up. When Govt/RBI increases Interest rates, Yields also go up and when Interest Rates are curtailed by RBI, Yields Fall Prices of Bonds shoot up.

**Here the RULE of Interest Inflows come into play. The Fall in Price of a Bond, due to increasing Yield is not that high as the rise in Prices when Yields come down. Take this illustration:**

**A G-Sec is at Rs.100 Presently and offering Yield of say 8%. Tomorrow RBI increases rates to 9%, why will someone Buy a 8% Return Bond, when Interest rate is 9%..?? For this Bond to give yield of 9% (Equal to new RBI rate), its price must come down to Rs.89, only then it will offer 9% Yield.**

**But this gives out 8% Return annually. Its Price wont be 89 BUT around Rs.96 (we are not taking time factor presently, to keep calculations simple. Those who are interested into details can please refer to NSE-NCFM Module on Interest Rates Derivatives) Mathematically, Its  $((100+8)*8\%)$  Divided by 9% i.e. (Bond Price+ Interest) Multiplied by Interest Rate divided by Yield.**

**Take it the other way, that is RBI reduces Interest Rates, say from 8% to 7%. So for the Yield to fall to 7%, as everybody rushes to Buy the Bond with 8% return. The Price will shoot up to Rs.114.**

**So with the Increase in RBI Rates Fall in Bond Price is less than The Rise in Bond Prices when RBI Rates start to cool down.**

**RBI is likely to stop Rate Hike cycle may be after another 0.25%-0.5% more increment, as economy has started feeling the slow down and Global cues are also not very supportive. G-Sec Mutual Funds are likely to give decent returns.**

**G-Sec Mutual Funds can be about 25-30% of the total Debt Folio of an investor. There are good G-Sec Funds from all leading Fund Houses.**

**We offer G-Sec investment solutions, at PARASRAM Mutual Funds & Insurance Department. Investors can contact us at : 011-47000000 Ext. 407, 9999796253**



## Forex Trading Myths & Facts

**Huge Funds Required ?** Many people feel Huge Funds are required in trading Forex. Fact is, Currency Derivatives have among the lowest Margin Requirements. (Please check with the broker/customer care). **CAUTION: Low Margin Requirements should not tempt you to go over leverage.**

**Very High Volatility ?** Compared to Stocks and Many of the Commodities, Currencies have very low volatility. As wild fluctuations in Forex has impact on economies, respective Governments try to keep wild fluctuations in their currencies under check. Generally currencies trade in a band or range. Even if the price moves against your bet, **there can be fair chances that your price comes back.**

**Very Risky ?** Currencies are the least risky compared to Commodities and Stocks. They lack very wild fluctuations and a Currency Collapse directly means financial collapse of the nation (in such situation all other Assets Class are also not spared).

**High Costs ?** Traders can easily do Intra-day trading as **costs are very low**, slight favorable move yields gains (Please check brokerage with customer care). Infact, **intra-day trades are desirable**. Indian Forex Exchanges (2 major ones include mcx-sx.com and nseindia.com) trade for 8 hours presently 9:00 AM to 5:00 PM. The 16 hours trading in global markets from 5:00 PM (Indian Standard Time) to 9:00 AM, when Indian Forex Exchanges are closed result in Gap Up or Gap Down openings on many occasions in Indian markets. So, intra-day is the Best strategy.

## Major Factors Impacting Forex

- Domestic Economic Condition, Inflation, Interest rates, Growth Prospects.
- Foreign Trade Balance (Net of Exports & Imports)
- Domestic Investments abroad & Foreign Investment in local economy.
- Global Economic Conditions & Forex movement against each other in major currencies like US\$ and EURO. Dollar Index is an important global currency indicator being tracked.
- Prices of Bullion (Gold & Silver), Crude etc.

## What is DOLLAR Index

**US Dollar Index (USDIX)** is an Index (or measure) of the US\$ value relative to a **basket of 6 Currencies** (The Weight of each currency can fluctuate depending on its movement vs the other USDIX Currencies):

EURO (EUR) 57.6% Weight  
Japanese Yen (JPY) 13.6% Weight  
British Pound (GBP) 11.9% Weight  
Canadian Dollar (CAD) 9.1% Weight  
Swedish Krona (SEK) 4.2% Weight  
Swiss Franc (CHF) 3.6% Weight

USDIX Goes up when US\$ gains, compared to other 6 Currencies and Vice-Versa.

**Forex Trading can be good entry point for day Trading beginners. Besides present intra-day traders have good Low Risks & Low margin “Add-On” avenue to their existing trading systems.**

**We have been helping Clients through the late evening “Forex” Newsletter available on our website  
“[parasramindia.com](http://parasramindia.com)”**



Most of the Investors and Traders are familiar with the words like “Derivatives”, “Futures” and “Options” Futures are simpler and they are like taking position in Cash market. We are highlighting some key Points in OPTIONS, which can help Traders in better Fund Management in Options.

**What is an Option?** A financial derivative that represents a contract sold by one party (option writer) to another party (option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date).

**Buyer of the Option:** The buyer of an option is the one who by paying the option premium buys the right but not the obligation to exercise his option on the seller/writer. **His Risk is limited to the extent of Premium paid, his rewards are unlimited, if the move is in favorable direction.**

**Seller/Writer of the Option:** The writer of a call/put option is the one who receives the option premium and is thereby obliged to sell/buy the asset if the buyer exercises on him. **His Reward is limited to the extent of Premium received by him, his Risks are unlimited if the move is in Unfavorable direction.**

**There are two basic types of options, Call options and Put options**

**Call Option:** A call option gives the holder the right but not the obligation to buy an asset by a certain date for a certain price.

**Put Option:** A put option gives the holder the right but not the obligation to sell an asset by a certain date for a certain price.

**In-the-money option: An in-the-money (ITM)** option is an option that would lead to a positive cash flow to the holder if it were exercised immediately. A **Call Option** on the index is said to be in-the-money when the current index stands at a level higher than the strike price (i.e. **spot price > strike price**). If the index is much higher than the strike price, the call is said to be deep ITM. In the case of a put, the **put is ITM if the index is below the strike price.**

**At-the-money option: An at-the-money (ATM)** option is an option that would lead to zero cash flow if it were exercised immediately. An option on the index is at-the-money when the current index equals the strike price (i.e. **spot price = strike price**).

**Out-of-the-money option: An out-of-the-money (OTM)** option is an option that would lead to a negative cash flow if it were exercised immediately. A **Call Option** on the index is out-of-the-money when the current index stands at a level which is less than the strike price (i.e. **spot price < strike price**). If the index is much lower than the strike price, the call is said to be deep OTM. In the case of a put, **the put is OTM if the index is above the strike price.**

**The various Factors impacting Value of Options**

| Impacting Factor    | CALL Option    | PUT Option     | Explanation                                |
|---------------------|----------------|----------------|--|
| Rise in Price       | Increase       | Decrease       | Direction Favors CALL Buyer                |
| Fall in Price       | Decrease       | Increase       | Direction Favors PUT Buyer                 |
| Higher Strike Price | Low Value      | High Value     | OTM for Call & ITM for PUT                 |
| Lower Strike Price  | High Value     | Low Value      | OTM for PUT & ITM for Call                 |
| Rise in Interest    | Increase       | Decrease       | Rise in Futures Cost                       |
| Fall in Interest    | Decrease       | Increase       | Fall in Futures Cost                       |
| High Volatility     | Increase       | Increase       | Options Premium Rise with High Uncertainty |
| Low Volatility      | Decrease       | Decrease       | Options Premium Fall with Low Uncertainty  |
| More Time to Expire | More Value     | More Value     | Risks with Time & Costs are high           |
| Less Time to Expire | Less Value     | Less Value     | Risks with Time & Costs are Less           |
| Dividends           | Decrease Value | Increase Value | Prices generally Fall Ex-Dividend          |

**Huge Upcoming Opportunity:** Presently, Option are Traded in Indices, a few Selected F&O Stocks and US\$/INR pair on NSE. Like Global markets, Options are likely to be allowed in all Derivative Exchange Traded Currencies, all Commodities etc. in time to come. There will be huge opportunity for Traders, Investors, Hedgers and Speculators.

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