LEARNWITHKRISU

48 LESSONS

NSE · BSE · INVESTING · TRADING · F&O

Stock Market Complete Guide

The Complete Beginner-to-Pro Guide

Beginner to Pro · Worked examples · Common mistakes · Self-tests

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How to use this book

This guide takes you from the very basics of stock market to professional-level risk management. Lessons build on each other, so read them in order the first time.

Each lesson has: a plain-language explanation, a worked example, a deeper section with real mechanics and calculations, common mistakes, key points and a short self-test with answers.

Examples use made-up numbers to explain ideas. They are not real prices, results or recommendations.

A suggested path

- Read one or two lessons a day and redo the calculations by hand.
- Answer the self-test before reading the answer.
- Practise on paper or a demo before using real money.
- Keep a journal of what you learn and what you get wrong.

Important notice

This ebook is for education only. It is not investment, tax or legal advice, and it is not a recommendation to buy or sell anything. Trading and investing involve risk, including loss of capital. Tax and regulation change often, so verify current rules with official sources and a qualified professional. LearnwithKrisu does not guarantee any result.

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LEVEL 1 · BEGINNER

Module 1: Stock market foundations

Start here if you have never bought a share. These lessons explain what the market is, who runs it and how a trade actually happens.

LESSON 1 OF 48

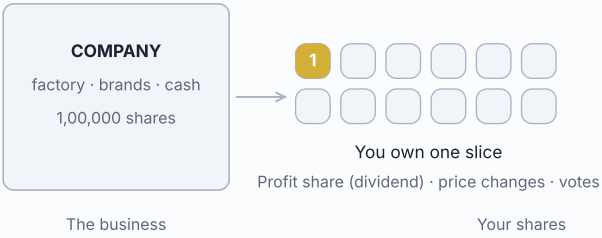
What is the stock market and why does it exist?

A company needs money to grow: to build a factory, open stores or develop a product. It can borrow from a bank, or it can sell small pieces of ownership to the public. Each piece is a **share** (also called a stock or equity). The stock market is the organised place where these shares are first sold and then bought and sold again between investors.

When you own a share you own a tiny part of the business. If the business earns more over time, the share can become more valuable, and some companies also pay part of their profit to shareholders as a **dividend**. If the business does badly, the share price can fall and you can lose money.

Prices move because of supply and demand. If more people want to buy a share than sell it, the price rises. If more want to sell, it falls. News, company results, interest rates and plain human emotion all push that balance around.

There are two markets. The **primary market** is where a company sells shares to the public for the first time (an IPO). The **secondary market** is the stock exchange, where investors trade those shares with each other every day. The company does not receive money when you buy from another investor.



A share is a small slice of a real business: you share in its profits and its risks.

WORKED EXAMPLE

Riya's company, Asha Foods, wants to build a new plant costing 100 crore rupees. It sells 10 crore new shares at 10 rupees each in an IPO. Arjun buys 100 shares for 1,000 rupees. He now owns a very small part of Asha Foods. A year later Arjun sells his 100 shares to Meera on the exchange for 1,500 rupees. Asha Foods gets nothing from that second sale, because it was a trade between two investors.

Go deeper

Why share prices are not "random". In the short run price is set by the last buyer and seller who agreed, so it is partly emotion. In the long run it follows the company's earning power. Benjamin Graham's famous image: the market is like a moody business partner, Mr. Market, who offers you a different price every day. You are free to accept it only when it is good for you.

Types of shares. Equity shares carry voting rights and a claim on profit after everyone else is paid. Some companies also issue **preference**

shares (fixed dividend, usually no vote) and **differential voting rights (DVR)** shares. When a company is wound up, lenders and bondholders are paid first, then preference holders, and equity holders last. That is why equity is the riskiest part of a company's funding and why it must offer the highest potential return.

How shareholders earn. Three ways: price appreciation, dividends and corporate actions. **Bonus shares** and **stock splits** do not create value by themselves. A 1:1 bonus doubles your shares and halves the price, so your total holding value stays the same on that day. A **buyback** returns cash to shareholders. A **rights issue** lets existing shareholders buy new shares, usually at a discount.

Market value vs book value. The market may value a company at many times its net assets because it expects growth, or at less than its net assets because it expects trouble. Neither is automatically right.

COMMON MISTAKES

- Thinking a low price per share means the stock is cheap. A 20-rupee stock can be more expensive than a 2,000-rupee stock once you compare earnings.
- Believing a bonus or split makes you richer. It only divides the same value into more pieces.
- Treating the stock market as a way to double money fast instead of a way to own businesses.

KEY POINTS

- A share is a small piece of ownership in a company.
- Share prices move with supply and demand, not with a fixed formula.
- Primary market = company raises money. Secondary market = investors trade among themselves.
- Returns are never guaranteed. You can make money or lose money.

TEST YOURSELF

Q. You hold 100 shares at 500 rupees and the company announces a 1:1 bonus. What are your holding and the approximate new price after the record date, ignoring market moves?

A. You hold **200 shares** and the price adjusts to about **250 rupees**. Total value stays near 50,000 rupees. The bonus created more pieces, not more value.

Q. Why do equity holders get paid last when a company fails?

A. Because they own the residual: lenders, employees and suppliers have fixed claims that must be paid first. That higher risk is why shares must offer a higher potential return than safer instruments.

LESSON 2 OF 48

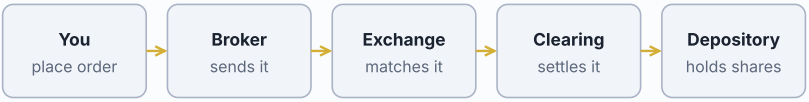
How the Indian market is organised: NSE, BSE, SEBI, depositories

India has two main stock exchanges: the **NSE** (National Stock Exchange) and the **BSE** (Bombay Stock Exchange). Most large companies are listed on both. They provide the electronic platform where buy and sell orders meet.

The market is supervised by **SEBI** (Securities and Exchange Board of India). SEBI writes the rules, registers brokers, advisers and mutual funds, and punishes fraud. When someone gives paid investment advice in India, they are expected to be a SEBI-registered investment adviser or research analyst.

Your shares are not kept as paper certificates. They are held in electronic form in a **demat account** with a **depository**. India has two depositories, **NSDL** and **CDSL**. Your broker is a Depository Participant (DP) that opens the demat account for you. Separate bodies called clearing corporations guarantee that the buyer gets the shares and the seller gets the money.

So there are several roles: you place the order with your **broker**, the **exchange** matches it, the **clearing corporation** settles it and the **depository** records the new owner.



SEBI regulates every step

Your order travels from you to the exchange, and your shares sit safely in a depository.

WORKED EXAMPLE

You place an order through your broker app to buy 10 shares of a company. The broker sends it to NSE. NSE matches your order with someone who wants to sell. The clearing corporation makes sure money and shares change hands. The next trading day the 10 shares appear in your demat account held at CDSL or NSDL.

Go deeper

What happens in the 24 hours after you click Buy. Your broker's system runs risk checks (do you have funds or margin?), sends the order to the exchange's matching engine, which matches by **price-time priority**: the best price first, and among equal prices, the earliest order first. You get a trade confirmation within milliseconds. For delivery, the clearing corporation (NSE Clearing or ICCL for BSE) becomes the counterparty to both sides, which removes the risk that the other party defaults. On settlement day your broker pays the money to the clearing corporation and the shares move from the seller's demat to your demat.

Why the clearing corporation matters. Without it, you would worry about whether a stranger will deliver. The clearing corporation collects margins from members and maintains a **settlement guarantee fund**, so the system rarely fails even when a broker does.

Other players you should know. Stock brokers (members of exchanges), **sub-brokers/authorised persons**, **merchant bankers** (manage IPOs), **registrars and transfer agents (RTAs)** (maintain shareholder records), **custodians** (hold assets for big institutions) and **rating agencies**. **Investor protection:** SEBI runs the Investor Protection and Education Fund, exchanges run an Investor Protection Fund and brokers must keep client money separate from their own funds.

Segregation matters. Since 2020 the **pledge/re-pledge** system means shares you pledge for margin stay in your demat account with a lien marked, rather than moving to the broker's account, which cut a major source of misuse.

COMMON MISTAKES

- Giving a power of attorney (POA) to a broker or "adviser" without understanding that it lets them act on your demat.
- Assuming the broker holds your shares. They are in your own demat account at the depository.
- Ignoring SMS and email alerts from the depository and exchange. They are your early warning against unauthorised trades.

KEY POINTS

- NSE and BSE are the exchanges. SEBI is the regulator.
- NSDL and CDSL hold your shares in electronic form.
- Your broker is the gateway. You never trade directly on the exchange.
- Check that your broker and any adviser are SEBI-registered.

TEST YOURSELF

Q. Name the four parties between your "Buy" click and the shares appearing in your account.
A. **Broker** (routes the order), **exchange** (matches it), **clearing corporation** (guarantees settlement) and **depository** (NSDL or CDSL, records the new owner).

Q. What does price-time priority mean?
A. Orders at the best price are matched first. If several orders have the same price, the one placed earliest gets filled first.

LESSON 3 OF 48

Demat account, trading account and how to open one

To invest you need three linked things: a **bank account**, a **trading account** (to place orders) and a **demat account** (to hold shares). Most brokers open the trading and demat accounts together online.

To open one you complete **KYC** (Know Your Customer). You usually need a PAN card, Aadhaar, a bank account, a photo and a signature, and the process is done digitally with e-sign. It often takes a day or two. Make sure the mobile number and email are your own, and link the bank account in your own name.

Brokers come in two broad types. **Discount brokers** charge low or zero brokerage on delivery and a flat fee on intraday and F&O, and give you a self-service app. **Full-service brokers** charge more but may offer research, advice and a relationship manager. Compare total costs, platform reliability, customer support and SEBI registration rather than only the brokerage headline.

Never share your login password, OTP or PIN with anybody, including people who say they are from your broker. Never give someone else control of your account.

WORKED EXAMPLE

Karan opens an account with a discount broker. He uploads his PAN and Aadhaar, links his savings account, signs digitally and gets his client ID the next day. He adds 10,000 rupees from his bank account through UPI. The money appears as his available balance and he can now place orders.

Go deeper

Choosing a broker systematically. Make a table with these rows: (1) SEBI registration number and exchange membership, (2) account opening and annual maintenance charges, (3) brokerage for delivery, intraday, futures and options, (4) other fees (call-and-trade, DP charge on sells, pledge charges, platform fees), (5) margin policy, (6) app and website stability on busy days like budget day, (7) quality of charting and order types, (8) customer service and complaint record, and (9) whether it offers the products you need such as mutual funds, IPOs, SGBs and bonds. The cheapest broker is not always the best if its platform freezes during volatility.

Account types. A **regular demat** account is for most people. A **Basic Services Demat Account (BSDA)** is for small holders with low value and lower charges. **Joint accounts** and **minor accounts** (operated by a guardian) exist. **NRIs** need separate PIS/non-PIS accounts. Always add a **nominee** at opening.

Charges to read before you sign. Account opening, **AMC** (annual maintenance charge), DP charges per sell transaction, brokerage slabs and any minimum monthly brokerage. Ask for a **sample contract note** and look at how charges are shown.

Security habits. Use a unique password and 2-factor authentication, log out on shared devices, confirm that your registered mobile and email are yours, check the **CDSL/NSDL statement and exchange SMS alerts** monthly and never install screen-sharing apps at a stranger's request.

COMMON MISTAKES

- Opening an account with an unregistered "broker" because it promises tips or huge leverage.
- Ignoring the nominee field, which makes it hard for your family to claim shares.
- Choosing a broker only on zero brokerage, ignoring platform downtime and other charges.

KEY POINTS

- Demat holds your shares. Trading account places the orders. Bank account moves the money.
- KYC needs PAN, Aadhaar, bank details and an e-sign.
- Compare costs, reliability and support, not only brokerage.
- Never share passwords or OTPs. Beware of anyone offering to trade your account.

TEST YOURSELF

Q. Where can you verify that a broker is registered?
A. On the **SEBI website's intermediaries list**, and on the exchange's member list (NSE or BSE). Check the registration number, not a logo on a website.

Q. Why should you add a nominee?
A. So your holdings can be transferred to your chosen person without a long legal process if something happens to you.

LESSON 4 OF 48

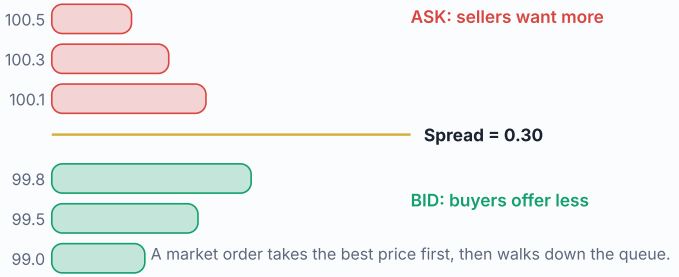
Order types: market, limit, stop-loss, GTT, delivery and intraday

An **order** is your instruction to buy or sell. Choosing the right type matters.

A **market order** buys or sells immediately at the best available price. It is fast, but in a thinly traded stock you may get a worse price than you expected. A **limit order** lets you set the price: a buy limit executes only at your price or lower, a sell limit only at your price or higher. It may never execute if the price does not reach you.

A **stop-loss (SL) order** is used to limit a loss. You set a trigger price. When the share reaches it, a sell order is activated. **SL-M** becomes a market order when triggered. **SL-L** becomes a limit order, which gives price control but may not fill in a fast fall. A **GTT** (good till triggered) order stays active for up to a year until its trigger is hit. An **AMO** is an order placed after market hours for the next session.

Then there is the product type. **Delivery (CNC)** means you take and hold the shares in your demat account. **Intraday (MIS)** means you must square off the same day; the broker closes the position automatically near the close if you do not. **NRML** is used for carrying futures and options positions overnight.



Buyers (bids) and sellers (asks) queue at different prices. The gap between them is the spread.

WORKED EXAMPLE

A share trades at 200 rupees. You want to buy only if it falls to 195, so you place a buy limit at 195. You also decide that if you buy and the price drops to 188, you will exit, so you add a stop-loss with trigger 188. If you bought 50 shares, the planned loss is about 7 rupees times 50 shares, which is 350 rupees, before charges.

Go deeper

Slippage and order choice. A market order in a liquid large-cap with a spread of 5 paise costs almost nothing extra. The same market order in a stock with a 2 percent spread can cost you more than your brokerage and tax combined. For anything thinly traded, use limit orders and be patient.

Stop-loss limit vs stop-loss market in detail. With SL-M, the trigger converts the order to a market order, so you get out even if the price gaps, but at whatever price is available. With SL-L (limit), you set a trigger and a limit price slightly below it (for a sell). If the stock gaps

below your limit, the order stays unfilled and you stay in the trade. For liquid stocks both work; for gap-prone stocks, SL-M guarantees exit while SL-L guarantees a minimum price but not an exit. Note that exchanges have restricted SL-M in some segments (such as options), so check what your broker allows.

Order validity. Day orders expire at the close. **IOC** (immediate or cancel) fills what it can immediately and cancels the rest. **GTT** can be placed for up to a year; remember that GTT triggers a limit order, which may not fill. **Bracket** and **cover orders** (offered in the past by some brokers, now restricted in many segments) bundled entry and stop; check availability.

Auction and circuit situations. If a stock hits the upper circuit with only buyers, your sell may not fill for days, so never assume you can always exit.

COMMON MISTAKES

- Placing a stop-loss and assuming it guarantees the exit price. In a gap it can fill much lower or not at all (for SL-L).
- Using market orders in illiquid stocks and paying a huge hidden spread.
- Forgetting to square off an MIS position and getting auto-squared at a bad price with extra charges.

KEY POINTS

- Market order = speed. Limit order = price control.
- A stop-loss limits damage but cannot guarantee the exit price in a gap.
- Delivery holds shares. Intraday must be closed the same day.
- GTT and AMO help you plan without watching the screen.

TEST YOURSELF

Q. A stock closes at 100. Overnight bad news makes it open at 90. You held a sell stop-loss trigger at 95. What happens with SL-M and with SL-L (limit 94)?
A. **SL-M** triggers at the open and sells at about 90. **SL-L** triggers but the limit of 94 is above the market, so it **does not fill** and you remain in the stock. Neither protected you at 95.

Q. When would you prefer a limit order over a market order?
A. In thinly traded stocks or when you care about the exact price. A limit order controls price but risks non-execution.

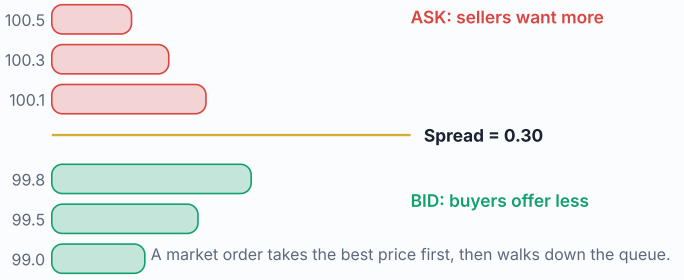
LESSON 5 OF 48

How to read a stock quote screen

Every stock screen shows the same basic data. Learning to read it quickly makes you calmer when you trade.

LTP is the last traded price. **Open, High, Low, Close** (OHLC) show the day's range. **Previous close** is the reference for the day's percentage change. **Volume** is the number of shares traded so far; it tells you how active the stock is. **Bid** is the highest price a buyer is willing to pay and **ask (offer)** is the lowest price a seller will accept. The gap between them is the **spread**; narrow spreads mean easy trading.

The **market depth** shows the best five buy and sell prices with quantities. **52-week high and low** show the yearly range. **Circuit limits** (upper and lower) are the maximum percentage a stock may rise or fall in a day; trading halts or stops at that price. **Market capitalisation** is share price times number of shares and tells you the company size: large-cap, mid-cap or small-cap.



Buyers (bids) and sellers (asks) queue at different prices. The gap between them is the spread.

WORKED EXAMPLE

A screen shows bid 100.00 and ask 100.05 for a liquid large company. The spread is 5 paise, so buying and selling at once costs you about 5 paise per share. For a small illiquid stock showing bid 50 and ask 52, the spread is 2 rupees, about 4 percent of the price. You lose that much just by entering and leaving, so such stocks are expensive to trade.

Go deeper

Market depth as a story. The top five bids and asks show immediate supply and demand. If the bid side shows 50,000 shares across five prices and the ask side shows 8,000, buyers outnumber sellers right now, but depth can change in a blink and large players hide orders (**iceberg orders**). Treat depth as a clue, not a prediction.

Circuit filters and price bands. Each stock has a daily price band (2, 5, 10 or 20 percent, or no band for F&O stocks and index constituents). When the band is hit, trading stops. Watch for stocks hitting **consecutive upper circuits**: a pump-and-dump setup can trap late buyers, as sellers vanish at the top and exits are impossible.

Fundamental fields on the screen. PE (price to earnings), **EPS**, **dividend yield**, **face value** (an accounting number that does not measure value), **beta** (sensitivity to the market: above 1 moves more than the index), **delivery percentage** (share of traded volume taken as delivery; high delivery suggests conviction). **Average volume** helps you judge whether today's volume is unusual: 3 times average volume on a breakout is meaningful.

Corporate action flags. Ex-dividend, ex-bonus and ex-split dates change the price mechanically; do not mistake them for a crash. Many charts show "adjusted" prices; know whether yours do.

COMMON MISTAKES

- Treating face value as a measure of cheapness.
- Buying a stock stuck in upper circuit assuming you can sell tomorrow.
- Reading a price drop on ex-dividend day as bad news.

KEY POINTS

- LTP, OHLC, volume and bid/ask are the core numbers.
- Narrow spread and high volume mean the stock is liquid.
- Circuit limits cap daily moves and can trap you in a falling stock.
- Market cap measures company size, not whether a stock is cheap.

TEST YOURSELF

Q. A stock has beta 1.5 and the market falls 2 percent. What move would you roughly expect?
A. About **3 percent down** (1.5 times 2 percent), though beta is only a historical average and real moves differ.

Q. Why is delivery percentage useful?
A. Intraday traders square off the same day, so a high delivery share suggests investors are taking shares home, which can signal stronger conviction than purely speculative volume.

LESSON 6 OF 48

Indices, market hours and settlement

An **index** tracks a basket of stocks to show how the market or a segment is doing. **Nifty 50** tracks 50 large NSE companies and **Sensex** tracks 30 large BSE companies. There are also sector indices such as Nifty Bank and Nifty IT, and broader ones for mid-cap and small-cap stocks. You cannot buy an index directly, but you can buy an index fund or an ETF that copies it.

The regular equity session in India runs from 9:15 am to 3:30 pm on weekdays, with a pre-open session before it. The market is closed on weekends and on exchange holidays; check the official holiday list each year.

Settlement is the actual exchange of shares and money after a trade. India uses **T+1**: a trade done on day T is settled on the next business day. That means shares you buy in delivery show up in your demat account the next working day. Selling shares you do not yet own in delivery is not allowed.

> **WORKED EXAMPLE**
>
> On Monday you buy 20 shares in delivery. The money is blocked immediately and the shares are credited on Tuesday. If Nifty was at 24,000 at the previous close and ends at 24,240, it rose by 240 points, which is 1 percent.

Go deeper

How a free-float index is built. Nifty 50 weights each company by its **free-float market capitalisation** (market value of shares available for

public trading, excluding promoter holdings). So a big company with low free float gets a smaller weight. The index is rebalanced periodically; weak performers can be replaced. Because large banks and IT companies carry big weights, the index can fall even when most of the 50 stocks rise.

Why you compare percentage, not points. A 200-point move means 1 percent at 20,000 but 0.5 percent at 40,000.

Trading calendar details. Pre-open (9:00 to 9:15 am) sets the opening price through a call auction. After the continuous session ends at 3:30 pm, there is a closing session and post-close window at the closing price. Special **muhurat trading** sessions happen on Diwali. T+1 settlement applies to all equity trades, which also means your sale proceeds are available the next business day, though brokers often let you use part of them the same day for new trades.

Reading the market breadth. The **advance-decline ratio** (stocks up vs down) tells whether a rally is broad. **India VIX** measures expected volatility from Nifty option prices: a high VIX means traders expect big moves and option premiums are expensive.

COMMON MISTAKES

- Judging the market only by Nifty points without noting the percentage.
- Assuming an index rise means every stock rose.
- Ignoring India VIX when planning option trades.

KEY POINTS

- Nifty 50 and Sensex are the headline indices. You invest in them through index funds or ETFs.
- Regular trading is 9:15 am to 3:30 pm on weekdays.
- Settlement is T+1 in India.
- Index percentage change is the number to compare, not the points.

TEST YOURSELF

Q. Why can Nifty rise while most of its stocks fall?
A. It is weighted by free-float market cap, so a few heavyweight stocks rising can outweigh many smaller ones falling.

Q. You sell shares on Monday. When is the settlement?
A. **Tuesday (T+1)**, assuming it is not a holiday.

LESSON 7 OF 48

IPOs, OFS and listing

An **IPO** (initial public offering) is when a private company sells shares to the public for the first time and gets listed. The company publishes a prospectus (the RHP) with its business, financials, risks and how it will use the money. Read it, especially the risk factors and the use of proceeds.

You apply through your broker or bank using **UPI** mandate. There is a price band, a minimum lot and often separate quotas for retail, high-net-worth and institutional investors. If the issue is oversubscribed, shares are allotted by lottery to retail applicants, so you may get nothing. Money for unallotted applications is released.

On listing day the share can open above or below the issue price. Some IPOs list well and some fall. A high listing gain in the past does not predict the next one. An **OFS** (offer for sale) is when existing shareholders, such as promoters, sell part of their stake on the exchange. SME IPOs are for small companies and carry higher risk and lower liquidity.

WORKED EXAMPLE

An IPO has a price band of 100 to 105 rupees and a retail lot of 140 shares. At the top price one lot costs 14,700 rupees. If you apply for one lot and get allotted, 14,700 rupees is debited. If the stock lists at 120, your lot is worth 16,800 rupees. If it lists at 95, it is worth 13,300 rupees and you have a loss.

Go deeper

Reading the RHP like an analyst. Check (1) **objects of the issue**: is money used to repay debt, fund growth or let promoters cash out via OFS? (2) the **fresh issue vs OFS split**: mostly OFS means insiders are selling; (3) **financials** for 3 to 5 years: growth, margins, cash flow, debt; (4) **valuation vs listed peers**: compare PE and price-to-sales; (5) **risk factors** and litigation; (6) **promoter background** and past issues; (7) **anchor investors**: big institutions who commit before the IPO opens, with a lock-in.

Grey market premium (GMP) is an unofficial indicator, not regulated, easily manipulated and often wrong. Do not base decisions on it.

Application mechanics. Retail investors can bid for a maximum of 2 lakh rupees in the retail category. Bid at the **cut-off price** to be eligible at any final price in the band. UPI mandates block your money until allotment. Unallotted applications are unblocked.

Subscription data. Look at the QIB, NII and retail subscription numbers on the last day. High QIB subscription from quality funds is a stronger sign than hype from retail.

After listing. Post-listing, investors can hold or sell. Many IPOs fall below the issue price within months. Consider waiting for the first results as a listed company.

COMMON MISTAKES

- Applying because of grey market premium or social media buzz.
- Ignoring that most of the issue is an OFS by promoters.
- Applying with borrowed money or for lots you cannot afford to hold if the listing is poor.

KEY POINTS

- Read the prospectus, especially risk factors and use of proceeds.
- Allotment is not guaranteed, and listing gains are not guaranteed.
- Apply only with money you are prepared to keep invested.
- SME IPOs are riskier and less liquid.

TEST YOURSELF

Q. An IPO has a fresh issue of 100 crore and an OFS of 400 crore. What does this mean?
A. Only 20 percent of the money goes into the company. 80 percent goes to existing shareholders selling out, which deserves a closer look at why they are selling.

Q. Why bid at cut-off price?
A. It makes your bid valid at whatever final price is set within the band, improving the chance that your application is eligible.

LESSON 8 OF 48

Investing, trading and speculation: know which game you play

These words get mixed up, but they describe different activities. **Investing** means buying good businesses and holding them for years, letting their earnings grow. Your time horizon is long and you mostly ignore daily price noise. **Trading** means trying to profit from price movements over a shorter period: minutes (scalping and intraday), days to weeks (swing trading) or months (positional). **Speculation** is taking a risk on an uncertain price move with no real analysis, closer to gambling.

Each style needs different skills and time. Investors need to understand businesses and be patient. Traders need chart skills, strict risk control and a calm mind, and they pay more in costs and taxes. Most beginners start by trading because it looks exciting and then lose money because they have no rules.

You can do both. A common sensible structure is a long-term investing core, such as index funds and quality stocks, and a small separate trading account with money you can afford to lose.

WORKED EXAMPLE

Neha invests 5,000 rupees a month in an index fund for 15 years: that is investing. Rohan buys a stock in the morning and sells it by afternoon for a 1 percent move: that is intraday trading. Sameer buys a stock a friend mentioned, without reading anything about it: that is speculation.

Go deeper

Time horizon changes everything. An investor holding for 10 years cares about business quality and ignores a 20 percent drop in a quarter. A swing trader holding for 5 days cares about price levels and does not care about the balance sheet. Mixing these causes the classic error: buying as a trade, the price falls, and then calling it a "long-term investment" to avoid taking a loss. Decide the holding style and the exit rule before entering.

The compounding illustration. 10,000 rupees monthly at 12 percent a year for 20 years grows to around 99 lakh rupees, of which only 24 lakh is your own money. This is **illustrative**, not a promise: actual returns vary a lot year to year. The point is that **time and consistency** do most of the work in investing, whereas trading demands skill and edge.

Why trading is hard. Each trade must beat costs, taxes and the other side, who may be a professional. Most retail traders in studies lose, particularly in derivatives. The honest question is: do you have an edge, and have you measured it?

A balanced structure. Many sensible people keep 90 to 95 percent of their market money in long-term investments and use 5 to 10 percent as a "learning account" for trading.

COMMON MISTAKES

- Turning a failed trade into an "investment" to avoid booking the loss.
- Using money meant for goals (education, home, emergencies) for trading.
- Copying a trader's style without checking your time, capital and temperament.

KEY POINTS

- Investing is long-term ownership. Trading is short-term price movement.
- Trading needs rules, time and risk control. It is not easier than investing.
- Keep long-term savings separate from your trading capital.
- Decide your style before you put in money.

TEST YOURSELF

Q. What is the difference between a stop-loss and "long-term holding" when a trade goes wrong?
A. A stop-loss is a **pre-decided exit** at a level where your idea is wrong. Calling a failed trade "long-term" after the fact is rationalising a loss without a plan.

Q. Why keep trading capital separate from investment capital?
A. So a trading drawdown can never damage your long-term goals, and so you can measure the performance of each approach separately.

LESSON 9 OF 48

The real cost of trading: brokerage, STT and other charges

Every trade costs money, and costs reduce your profit. For a trader who trades often they can decide whether you win or lose.

The main charges are **brokerage** (the broker's fee), **STT** (Securities Transaction Tax, collected by the government on each trade), **exchange transaction charges**, **SEBI turnover fees**, **GST** on brokerage and fees, **stamp duty** on buys, and **DP charges** (a fee when you sell delivery shares from demat). On top of these, there is **slippage**, the difference between the price you expected and the price you got.

The percentages and rates change from time to time, so always use the contract note and the broker's brokerage calculator for the current numbers. What matters is the habit: before a trade, ask what the round-trip cost is and how far the price must move just for you to break even.

> **WORKED EXAMPLE**
>
> Suppose a trade has total round-trip costs of 60 rupees and you trade 100 shares. You need the price to move 0.60 rupees per share just to break even. If you make 20 such trades in a month, costs are about 1,200 rupees. A strategy that earns 1,000 rupees in gross profit in that month is actually a loss after costs.

Go deeper

Building a break-even calculator. Break-even per share = total round-trip charges divided by quantity. Round-trip means both buy and sell. For delivery, you pay STT on both sides, stamp duty on the buy and DP charge on the sell; intraday has STT only on sell but much higher

turnover in rupees. For options, charges are on premium, with STT on the sell side. Your broker's brokerage calculator does the maths; run your typical trade through it.

Impact of costs on strategy choice. If your average profit per trade is 0.4 percent and costs per round trip are 0.15 percent, costs eat nearly 40 percent of your gross edge. High-frequency strategies need either tiny costs or large per-trade profit. A strategy with an average profit of 3 percent per trade is far less sensitive.

Tax on charges. Brokerage and some charges are deductible as business expenses for traders who file business income, but not STT in all situations (check with a CA). Keep the **contract notes**; they list every charge.

Hidden costs. Impact cost (price movement caused by your own order), **margin funding interest** (MTF) and **opportunity cost** of idle capital. Also **call-and-trade fees**, **pledge/unpledge charges** and **auto square-off charges** are cost surprises for beginners.

COMMON MISTAKES

- Calculating profit before charges and being surprised by the contract note.
- Over-trading small targets where costs eat the edge.
- Using margin funding without counting the interest.

KEY POINTS

- Brokerage is only one part. STT, GST, stamp duty and DP charges add up.
- Rates change, so use your broker's calculator and your contract notes.
- Frequent trading multiplies costs, so tiny edges disappear.
- Always know your break-even before you enter.

TEST YOURSELF

Q. A strategy earns 0.3 percent per trade on average and costs 0.12 percent per round trip. What is the net per trade and what fraction of the gross is consumed by costs?
A. Net is **0.18 percent**. Costs consume **40 percent** of the gross edge.

Q. Name three costs besides brokerage.
A. STT, GST on charges, stamp duty, exchange charges, SEBI fees, DP charges and slippage are all valid answers.

LEVEL 2 · INTERMEDIATE

Module 2: Fundamental analysis

Fundamental analysis asks one question: what is this business really worth, and is the price fair? These lessons teach you to read a company like an owner.

LESSON 10 OF 48

The three financial statements

Every listed company publishes quarterly and yearly results. Three statements tell the story.

The **profit and loss (P&L) statement** shows over a period how much the company earned (revenue or sales), what it spent, and what was left (profit). Key lines: revenue, operating profit (EBITDA), net profit (PAT) and EPS (earnings per share). The **balance sheet** is a snapshot on one date: what the company owns (assets), what it owes (liabilities) and the owners' stake (equity). Assets equal liabilities plus equity. The **cash flow statement** shows actual cash coming in and going out from operations, investing and financing.

Profit can be shaped by accounting; cash is harder to fake. A company that reports profits year after year but keeps showing weak or negative operating cash flow deserves questions. Always compare several years, not one quarter, and compare with peers.



Read profit top to bottom: each line removes a cost until only net profit remains.

WORKED EXAMPLE

A company reports revenue of 1,000 crore and net profit of 100 crore, so its net margin is 10 percent. Its operating cash flow is 20 crore for the year. Profit looks good but cash is thin. Perhaps customers have not paid yet (receivables rose) or inventory piled up. That mismatch is a flag to investigate in the annual report.

Go deeper

Reading the P&L from top to bottom. Revenue (sales) minus **cost of goods or raw materials** gives gross profit. Subtract employee and other operating costs to get **operating profit (EBITDA)**. Subtract **depreciation** (the yearly wear on assets) to get EBIT, subtract **interest** for profit before tax, subtract **tax** for **net profit (PAT)**. Compare each line as a percentage of sales across years: if raw materials rise faster than sales, margins are being squeezed.

The balance sheet in practice. On the asset side look at **receivables** (money customers owe), **inventory** and **fixed assets**. On the liability side look at **borrowings**, **payables** and **other liabilities**. A company where receivables grow faster than sales may be struggling to collect, or may be booking aggressive sales. Compute **receivable days** = receivables / sales x 365; a sharp rise is a flag. **Net worth** (equity) = share capital plus reserves.

Cash flow, the lie detector. CFO (cash from operations) should roughly track net profit over several years. **CFI** (investing) is mostly capex, and negative CFI funding growth is normal. **CFF** (financing) shows borrowing and dividends. **Free cash flow** = CFO minus capex: this is the cash that can really go to owners. A company that earns profits but keeps burning cash needs outside funding forever.

Standalone vs consolidated. Always use **consolidated** results, which include subsidiaries.

COMMON MISTAKES

- Looking at one quarter and ignoring five years of trend.
- Reading profit without checking cash flow and receivables.
- Using standalone numbers for a group that has large subsidiaries.

KEY POINTS

- P&L = performance over time. Balance sheet = position on a date. Cash flow = real cash movement.
- Compare at least 5 years and look at trends, not one quarter.
- Profit without matching cash flow is a warning sign.
- Compare numbers with competitors in the same industry.

TEST YOURSELF

Q. Sales rise 10 percent but receivables rise 40 percent. What might this signal?
A. Customers may be paying more slowly, or sales are being pushed on easy credit. It deserves a look at receivable days and cash flow, because profit may not turn into cash.

Q. What is free cash flow?
A. Cash from operations minus capital expenditure. It is what is left for owners after maintaining and growing the business.

Key ratios: PE, PB, ROE, ROCE, debt and margins

Ratios turn big statements into comparable numbers.

EPS is profit divided by the number of shares. The **PE ratio** is share price divided by EPS: how many rupees you pay for one rupee of yearly profit. **PB** is price divided by book value per share (net assets). **ROE** (return on equity) is profit divided by shareholders' equity and shows how well owners' money is used. **ROCE** (return on capital employed) measures profit relative to all capital, including debt. **Debt-to-equity** shows how much the company has borrowed relative to owners' money. **Operating margin** and **net margin** show how much of each rupee of sales turns into profit. **Dividend yield** is the yearly dividend divided by price. **Interest coverage** shows how easily profit pays the interest on debt.

No ratio is good or bad alone. A PE of 40 can be fine for a fast-growing company and expensive for a slow one. Compare with the company's own history and with similar companies, and use several ratios together.

> **WORKED EXAMPLE**
>
> Stock A price 200, EPS 10, so PE is 20. Stock B price 300, EPS 10, so PE is 30. Both earn 10 per share, but you pay 20 for A and 30 for B. B is only a better buy if its profits will grow much faster. Also check debt: if B has far more debt, its higher price is riskier.

Go deeper

Worked example. Company Z: Sales 1,000 cr, EBITDA 200 cr, depreciation 40 cr, interest 20 cr, tax 35 cr, so PAT = 200 minus 40

minus 20 minus 35 = **105 cr**. Equity 700 cr, debt 300 cr, shares 10 crore, price 150. EPS = 10.5. **PE = 14.3**. Book value per share = 70, so **PB = 2.1**. **ROE** = 105/700 = **15 percent**. Capital employed = 1,000, EBIT = 160 so **ROCE** = 16 percent. **Debt/equity** = 0.43. **Interest coverage** = 160/20 = 8 times. **Net margin** = 10.5 percent.

DuPont idea. ROE = net margin x asset turnover x financial leverage. Two companies can show 18 percent ROE: one from high margins (quality), the other from heavy debt (risk). Always decompose.

Industry differences. Banks use **NIM**, **gross and net NPA**, **CASA ratio** and price to book instead of debt-to-equity. Asset-heavy companies (steel, power) naturally have higher debt than software firms. Compare within a sector only.

PE traps. A low PE can be a **value trap** if earnings are about to fall (cyclical peaks look cheap). A high PE can be fair for fast, durable growth. Use **forward PE** with caution because forecasts are guesses.

COMMON MISTAKES

- Comparing PE of a bank with that of an IT company.
- Chasing a low PE at the peak of a cycle.
- Reading ROE without checking whether leverage produced it.

KEY POINTS

- PE = price / EPS. ROE and ROCE measure how well the business uses capital.
- High debt makes a company fragile when business slows.
- Always compare ratios with peers and with the company's own history.
- Never judge a stock by a single ratio.

TEST YOURSELF

Q. A company earns 20 rupees per share and trades at 400. What is its PE and earnings yield?
A. PE = **20**. Earnings yield = 20/400 = **5 percent**.

Q. Two firms both have 18 percent ROE. One has debt-to-equity of 0.1, the other of 2.5. Which has the better quality ROE?
A. The one with **0.1**. The other's ROE is boosted by borrowing, which also magnifies risk.

LESSON 12 OF 48

Valuation: is the price fair?

A great company can still be a poor investment if you pay too much. **Valuation** estimates what a business is worth so you can compare it with its price.

The simplest method is **relative valuation**: compare PE, PB or EV/EBITDA with competitors and with the stock's own long-run average. The **PEG ratio** divides PE by expected earnings growth rate, so a PE of 30 with growth of 30 percent gives PEG 1. A **discounted cash flow (DCF)** model estimates future cash flows and discounts them to today's value because money later is worth less than money now. DCF is powerful but very sensitive to assumptions, so small changes in growth or discount rate change the answer a lot.

The idea of **margin of safety** says to buy only when the price is comfortably below your estimate of value, so errors in your estimate do not hurt you. Valuation is a range, not an exact number.



Money later is worth less than money today. A DCF discounts every future cash flow back to today.

WORKED EXAMPLE

You estimate a company can earn 20 rupees per share next year and grow about 15 percent a year. A fair PE for such a business, based on peers, is around 20 to 25. That gives a fair value range of 400 to 500 rupees. If the stock trades at 700, you pay well above your range and have no margin of safety. At 350 you do.

Go deeper

A mini DCF, step by step. Suppose a company will generate free cash flow of 100, 115, 132, 152 and 175 crore over five years. You assume a **discount rate** of 12 percent (your required return) and a **terminal growth rate** of 5 percent after year five. Discount each year: 100/1.12 = 89.3; 115/1.12^2 = 91.7; 132/1.12^3 = 94.0; 152/1.12^4 = 96.6; 175/1.12^5 = 99.3; total about 471. **Terminal value** at year five = 175 × 1.05 / (0.12 minus 0.05) = 2,625; discounted = 2,625/1.12^5 = 1,489. Enterprise value is about **1,960 crore**. Subtract net debt and divide by shares to get a per-share value.

Sensitivity. Change the discount rate to 14 percent and the terminal growth to 4 percent and the value falls by roughly a third. This shows why DCF gives a range, not a number.

Other tools. EV/EBITDA (enterprise value to operating profit) is used across companies with different debt levels. **Price/Sales** suits loss-making growth firms but ignores profitability. **Dividend discount** suits mature payers. **Sum-of-the-parts** values each division separately.

Reverse DCF. Ask what growth the current price already assumes. If the price requires 25 percent growth for 10 years, the market is very optimistic.

COMMON MISTAKES

- Treating a DCF output as a precise price target.
- Using a terminal growth rate higher than the economy can sustain (above about 6 to 7 percent in rupee terms).
- Valuing a cyclical company on peak earnings.

KEY POINTS

- Price is what you pay. Value is what you get.
- Use relative valuation, PEG and DCF as cross-checks, not as single answers.
- Valuation results depend heavily on assumptions, so use ranges.
- Margin of safety protects you from your own mistakes.

TEST YOURSELF

Q. Why does terminal value dominate DCF results?
A. Because it captures all cash flows after the forecast period, often 60 to 80 percent of total value, so small changes in growth or discount rate swing the answer widely.

Q. What is a reverse DCF?
A. Working backwards from the current price to see what growth the market is assuming, then judging if that is realistic.

LESSON 13 OF 48

Business quality: moats, management and promoters

Numbers look backward. Quality helps you judge whether the numbers can continue.

A **moat** is a lasting advantage that protects profits from competitors: a strong brand, low costs, network effects, switching costs, patents or licences. Ask why customers choose this company and whether a rival can copy it easily. Look at **management**: do they have a track record, communicate honestly, allocate capital wisely and avoid unrelated risky ventures?

In India, **promoter holding** matters. Promoters are the founders or controlling owners. High and stable promoter holding can show confidence, while a rapidly falling stake needs an explanation. **Pledged shares** are shares promoters have used as collateral for loans; a high pledge is a risk because a price fall can force lenders to sell. Also review related-party transactions, auditor changes and frequent equity dilution. These show governance quality.

> **WORKED EXAMPLE**
>
> Two companies earn similar profit. Company X has promoters holding 60 percent with no pledge and a ten-year record of repaying debt. Company Y has promoters at 35 percent, 70 percent of it pledged, and an auditor who resigned last year. Even if their PE ratios match, Y carries governance risk that X does not.

Go deeper

A moat checklist. (1) **Brand and pricing power**: can the company raise prices without losing customers? (2) **Cost advantage**: scale or process that rivals cannot match. (3) **Switching costs**: banking, enterprise software and payroll are hard to change. (4) **Network effects**: a platform grows more valuable with each user. (5) **Regulatory licences** and **distribution reach**. Evidence of a moat shows up as **stable or rising margins and ROCE over 10 years**, not in a story.

Management scorecard. Read the last five years of **annual reports and concall transcripts**. Did management meet its past guidance? Did they raise capital at sensible prices? Is pay reasonable relative to profit? Do they discuss mistakes openly? Is the **promoter** buying or selling? Watch for **related-party transactions** that move money to promoter entities, **cross-holdings**, and frequent **change of auditors**.

Governance red flags. Pledged shares above 20 to 30 percent, qualified audit opinions, large contingent liabilities, delayed results, unexplained cash-flow gaps, rapid unrelated diversification, and **aggressive revenue recognition** (revenue jumping while cash does not).

Capital allocation. The best owners reinvest at high ROCE, repay debt and return surplus via dividends or buybacks. Poor ones chase acquisitions at high prices.

COMMON MISTAKES

- Believing the "story" without checking if margins and ROCE support a moat.
- Ignoring pledged shares because the stock is going up.
- Trusting management promises without checking past delivery.

KEY POINTS

- A moat protects profit. Ask why customers would not switch.
- Check promoter holding trends and pledged shares.
- Auditor exits, related-party deals and heavy dilution are red flags.
- Good governance is part of the price you pay for safety.

TEST YOURSELF

Q. How can you tell a genuine moat from a story?
A. Look for **10 years of stable or rising margins and ROCE** and evidence of pricing power or share gains. Stories disappear in the numbers.

Q. Why is promoter pledging a risk?
A. If the price falls, lenders can sell pledged shares, which pushes the price down further and can cause a spiral that hurts all shareholders.

LESSON 14 OF 48

Sectors, economy and market drivers

A company lives inside an industry and an economy. **Sector analysis** looks at how an industry earns money, how cyclical it is, how much competition and regulation it faces. Banks depend on credit growth and interest margins. IT exporters depend on global demand and the rupee. Autos and real estate depend on interest rates and consumer confidence. FMCG is steadier but grows slowly.

Macro factors move the whole market. **Interest rates** set by the RBI affect borrowing costs and valuations: lower rates tend to support stocks and higher rates tend to weigh on them. **Inflation**, **GDP growth**, currency moves, crude oil prices and the government budget all matter. **FII** (foreign institutional investors) and **DII** (domestic institutional investors) flows show who is buying and selling in size, and heavy foreign selling can pull down markets in the short term.

You cannot predict macro numbers reliably. Use them as context to understand why a sector is moving, not as a crystal ball.

> **WORKED EXAMPLE**
>
> The RBI lowers its policy rate. Borrowers pay lower EMIs, so home and car loan demand may rise. Real estate and auto companies could benefit, and companies with large debts pay less interest. But if inflation then rises, the RBI may reverse course, so the effect is never guaranteed.

Go deeper

Cycles and how sectors react. Cyclical sectors (autos, metals, real estate, capital goods, banks) earn more when the economy and credit expand and suffer when it slows. **Defensive sectors** (FMCG, pharma, utilities) hold up better in slowdowns but grow slower and are often expensive. **Growth sectors** (IT, new-age consumer) depend on innovation or global demand. Rotation between sectors is normal: money moves to cyclicals when rates are expected to fall and to defensives when growth fears rise.

Key macro indicators for India. GDP growth, **CPI inflation**, the **RBI repo rate**, **Current Account Deficit**, **fiscal deficit**, **crude oil prices** (India imports most of its oil), **rupee-dollar rate**, **GST collections**, **PMI** (manufacturing and services activity), **monsoon** (rural demand), and **FII/DII flows**. Learn the release schedule: RBI policy about every two months, inflation data monthly, GDP quarterly.

Transmission example. Oil price up leads to import bill up, leads to rupee weaker and inflation up, which can cause RBI to hold rates, which pressures rate-sensitive sectors, while IT exporters gain from a weaker rupee.

Use it carefully. Macro forecasting is unreliable even for professionals. Use macro to understand which sectors face tailwinds or headwinds and to avoid big surprises, not to predict index levels.

COMMON MISTAKES

- Trying to time the market from macro headlines.
- Treating all sectors the same during an interest-rate cycle.
- Ignoring valuation because "the sector has a tailwind".

KEY POINTS

- Learn how each sector makes money and what drives it.
- Interest rates, inflation, currency and oil influence the whole market.
- FII and DII flows show institutional buying and selling pressure.
- Macro helps explain moves. It does not predict them.

TEST YOURSELF

Q. Why might IT stocks benefit when the rupee weakens?
A. They earn revenue in dollars but pay costs largely in rupees, so a weaker rupee raises rupee profits.

Q. Which sectors are usually called defensive and why?
A. FMCG, pharma and utilities, because demand for their products stays steady in downturns.

LESSON 15 OF 48

Reading annual reports, results and using screeners

You do not need to read every page, but you should know where the truth is. The **annual report** has the business overview, management discussion, risks, audited financials and notes. The **quarterly results** and the investor presentation give recent trends. Exchange websites (NSE and BSE) publish filings, shareholding patterns and announcements for free.

Start with the management discussion for how the business explains itself. Read the auditor's report for qualifications. Check the notes for contingent liabilities, related-party deals and debt details. Compare year-on-year growth in revenue and profit, margins, receivable days and cash flow.

Screeners are websites that filter thousands of stocks by criteria, for example ROE above 15 percent and debt to equity below 0.5. Use them to build a shortlist, never as a final buy decision. Always read the actual filings of any stock you shortlist.

> **WORKED EXAMPLE**
>
> You screen for companies with five-year profit growth above 15 percent, ROCE above 18 percent and debt to equity below 0.5. The screen returns 40 names. You open the annual report of three that you understand. One shows rising receivable days and falling cash flow, so you drop it. You keep two for deeper research.

Go deeper

A 30-minute research routine. (1) Read the **business overview** and list how the company earns money, by segment and geography. (2) Open 10 years of data on a screener: sales, operating margin, net profit, ROCE, debt, cash flow. (3) Read the last **two concall transcripts** for management tone, guidance and analyst concerns. (4) Check the **shareholding pattern**: promoter trend, FII/DII changes, pledge. (5) Skim the **notes to accounts** for contingent liabilities, related-party transactions and changes in accounting policy. (6) Read the **auditor's report** and "key audit matters". (7) Compare with 3 peers. (8) Write a three-line thesis and a three-line risk list.

Screens that work as starting points. Quality: ROCE above 15 percent for 5 years, debt-to-equity below 0.5, positive free cash flow. Growth: 5-year sales and profit CAGR above 15 percent. Value: PE below industry average with improving margins. Always verify with filings because screeners can contain errors.

Understanding concalls. After results, management hosts an analyst call. Listen for what they avoid answering. Rising mentions of "one-time" or "temporary" issues repeated over several quarters are a warning.

Primary sources. Exchange announcements, annual reports, investor presentations and the company's website. Treat social media tips as unverified.

COMMON MISTAKES

- Buying straight from a screener list without reading a single filing.
- Ignoring the shareholding pattern changes over time.
- Trusting "one-time" excuses that repeat every quarter.

KEY POINTS

- Use NSE and BSE filings and the annual report as primary sources.
- Check notes for debt, related-party deals and contingent liabilities.
- Screeners create a shortlist, not a decision.
- Prefer businesses you actually understand.

TEST YOURSELF

Q. List three items to check in the notes to accounts.
A. **Contingent liabilities**, **related-party transactions**, **debt terms** or changes in **accounting policies**.

Q. Why read concall transcripts?
A. They reveal management's guidance, how they handle tough questions and whether past promises were met.

LESSON 16 OF 48

Mutual funds, ETFs and SIP: easier ways to invest

If picking stocks feels difficult, funds are a legitimate alternative. A **mutual fund** pools money from many investors and a professional manager invests it. An **index fund** simply copies an index like Nifty 50 at low cost. An **ETF** (exchange-traded fund) also tracks an index or asset but trades on the exchange like a share. Funds differ by type: equity, debt, hybrid, liquid, and by style, active or passive.

Compare funds on the **expense ratio** (annual fee), consistency of performance against its benchmark across market cycles, and fund size and manager. Choose the **direct plan** if you invest on your own, because it has lower cost than the regular plan that pays a distributor commission.

A **SIP** (systematic investment plan) invests a fixed amount every month. It builds discipline and averages your buying price: you buy more units when prices are low and fewer when prices are high. A SIP does not remove market risk; it only spreads your entry over time.



Investing a fixed amount each month buys more units when prices are low, lowering your average cost.

WORKED EXAMPLE

You invest 5,000 rupees monthly in an index fund. In month one the unit price is 100 and you get 50 units. In month two the market falls and the price is 80, so you get 62.5 units. In month three it is 100 again and you get 50 units. Your average cost is below 100 because you bought more when it was cheaper.

Go deeper

Choosing an index fund or ETF. Compare **expense ratio** and **tracking error** (how closely it follows the index). A fund with 0.2 percent expense and small tracking error beats one with 0.5 percent over decades: on 10 lakh rupees over 20 years at 10 percent gross, a 0.3 percent difference in cost can mean several lakh rupees of difference. For ETFs also check **liquidity** (volume and spread) and use limit orders.

Active vs passive. Many active large-cap funds have struggled to beat their index after costs over long periods, though some mid and small-cap funds have done better. Evaluate any active fund by **5 to 10 year**

rolling returns, risk measures (standard deviation, drawdown) and fund-manager consistency, not last year's rank.

Fund categories. Equity: large, flexi, mid, small, sectoral. **Hybrid**: balanced advantage, aggressive hybrid. **Debt**: liquid, short-duration, gilt. **Solution-oriented**: retirement and children's funds. Match category to goal and time frame: money needed within 3 years should not sit in equity.

SIP details. SIP works best across market cycles; stopping SIPs during crashes defeats the point. **Step-up SIP** raises your instalment yearly. Taxation of mutual fund gains follows holding period rules, so check the current tax treatment before redeeming.

COMMON MISTAKES

- Picking a fund by last year's top return.
- Stopping SIPs during market falls.
- Holding the regular plan unknowingly and paying higher commission costs for years.

KEY POINTS

- Index funds and ETFs are simple, low-cost ways to own the whole market.
- Compare expense ratio, track record and plan type (direct vs regular).
- SIP builds discipline and averages cost, but it does not remove risk.
- Past fund performance does not guarantee future results.

TEST YOURSELF

Q. Which two numbers should you compare first when choosing an index fund?
A. **Expense ratio** and **tracking error**.

Q. Why should money needed in two years not be in equity funds?
A. Equity can fall sharply in the short term and may not recover before you need the money.

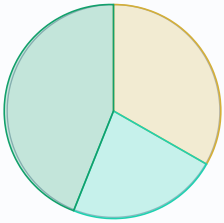
LESSON 17 OF 48

Building a portfolio: allocation and diversification

A portfolio is more than a list of stocks you like. **Asset allocation** decides how much goes into equity, debt, gold and cash, and it drives most of your long-term result and your comfort during crashes. A common rule of thumb is that the younger you are and the longer your horizon, the more equity you can hold, but your own sleep-at-night level matters more than any rule.

Diversification means not putting everything in one stock or sector. Owning 15 to 25 well-chosen stocks across different sectors, or owning index funds, reduces the damage when one company fails. Too many holdings, such as 80 small positions, makes tracking impossible and copies the index with extra effort.

Rebalancing means resetting back to your target mix once a year or when a part drifts a lot. It forces you to trim what has risen and add to what is lagging. Keep an **emergency fund** of several months of expenses outside the market, so you are never forced to sell investments at a bad time.



Equity (growth)

Debt (stability)

Gold / other (cushion)

Rebalance when one drifts too far

Spreading money across different assets reduces the damage when one of them falls.

WORKED EXAMPLE

You target 70 percent equity and 30 percent debt and gold. After a strong year equity grows so that the mix is 80 percent and 20 percent. To rebalance you sell part of the equity and add to debt until you are back to 70 and 30. This quietly sells high and buys low.

Go deeper

Designing an allocation. Start from goals and dates: emergency fund (6 months of expenses, in liquid funds or savings), short-term goals (0 to 3 years: debt), medium (3 to 7 years: balanced mix) and long-term (7+ years: mostly equity). Your **risk capacity** (how much loss you can afford financially) and **risk tolerance** (how much you can stomach) both matter. Take the lower of the two.

Sample structure (illustrative, not advice). A 30-year-old with stable income and a long horizon might hold 70 to 80 percent equity (mostly index funds, a smaller part in selected stocks), 10 to 20 percent debt, 5

to 10 percent gold. A person near retirement might hold far less equity. The right numbers depend on your situation.

Diversification maths. Combining assets with low correlation lowers volatility without lowering expected return as much. In 2020, equity fell sharply and gold rose in the same period, cushioning portfolios that held both. But correlations can rise in crises, so diversification reduces but does not remove risk.

Rebalancing rules. Calendar (yearly) or threshold (when an asset class drifts by 5 percentage points). Rebalance using new contributions first to avoid taxes and costs.

Behavioural point. The best allocation is one you can stick with during a 30 to 40 percent fall.

COMMON MISTAKES

- Choosing allocation from returns charts instead of your own risk capacity.
- Holding 100 tiny positions in the name of diversification.
- Never rebalancing and letting a winner dominate the portfolio.

KEY POINTS

- Asset allocation matters more than picking the perfect stock.
- Diversify across companies and sectors, but do not over-diversify.
- Rebalance on a schedule.
- Keep an emergency fund outside investments.

TEST YOURSELF

Q. Your target is 70:30 equity to debt. After a rally it is 80:20 on 10 lakh. What do you do to rebalance?
A. Equity is 8 lakh and should be 7 lakh, so **move about 1 lakh from equity to debt** (or direct new money to debt).

Q. What is the difference between risk capacity and risk tolerance?
A. Capacity is how much loss your finances can absorb; tolerance is how much loss you can bear emotionally. Use the lower of the two.

LEVEL 2 · INTERMEDIATE

Module 3: Technical analysis basics

Technical analysis studies price and volume on charts. It does not predict the future; it helps you plan entries, exits and risk using what the market is already doing.

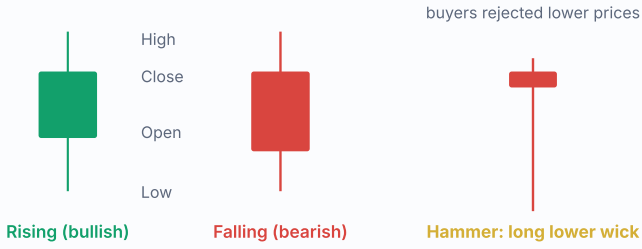
LESSON 18 OF 48

How to read candlestick charts

A **candlestick** shows four prices for a period: open, high, low and close. The thick **body** spans open to close and the thin lines (**wicks** or shadows) show the high and low. A green or white candle means the close was above the open; a red or black candle means the close was below the open. A candle can represent one minute, one day or one week, depending on the chart timeframe.

Shape tells a story. A long body shows strong buying or selling. A long upper wick shows buyers pushed the price up but sellers pushed it back down. A **doji**, where open and close are nearly equal, shows indecision. A **hammer** has a small body with a long lower wick and can show buyers defending a low. A **shooting star** is the opposite. An **engulfing** candle has a body that covers the previous candle's body and can show a shift in control.

One candle means little without context. Where it appears, at support, at resistance or in the middle of nowhere, matters more than its name.



A candle shows open, high, low and close. Long wicks show where price was rejected.

WORKED EXAMPLE

A stock has been falling for a week. Today it opens at 100, drops to 94, then rallies to close at 99. The candle is a hammer: small body, long lower wick of 5 rupees. Sellers pushed it down but buyers took it nearly back. If it appears near a level where the stock bounced before, it is a hint, not a promise, that selling pressure is weakening.

Go deeper

Anatomy and meaning. A candle shows open, high, low and close for one period. The **body** is the open-to-close distance; **wicks** show the extremes that price rejected. A long lower wick means sellers pushed price down but buyers took it back; a long upper wick means the reverse. Body size shows conviction: a big green body that closes near its high says buyers controlled the whole period.

Example. A stock opens at 100, falls to 94, rallies and closes at 99 with high 100.5. The long lower wick (94 to 99) shows buyers absorbing selling. If this appears at a known support zone, it is a **hammer**, a hint of rejection, not a guarantee.

Context beats patterns. A bullish engulfing candle after a long fall near support is meaningful; the same candle in the middle of a sideways range is noise. Always ask: where on the chart, after what move, with what volume, on which timeframe.

Confirmation. Many traders wait for the next candle to close beyond the pattern's high (for a bullish signal) before acting, and place the stop beyond the pattern's low. This costs a little price but filters many false signals.

COMMON MISTAKES

- Trading a pattern name without checking location and trend.
- Entering before the candle has closed.
- Using one-candle signals on very small timeframes full of noise.

KEY POINTS

- Each candle shows open, high, low and close.
- Wicks show rejection. Bodies show who won the period.
- Single candles need context such as support, resistance and trend.
- Confirm with the next candle or with volume.

TEST YOURSELF

Q. What does a long lower wick suggest?
A. Sellers pushed price down but buyers pushed it back up, showing rejection of lower prices.

Q. Why wait for the candle to close?
A. A candle can look strong mid-period and reverse before the close, changing its meaning completely.

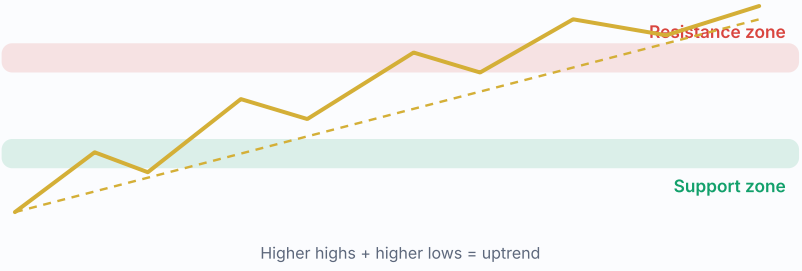
LESSON 19 OF 48

Support, resistance and trends

Support is a price area where buyers have repeatedly stepped in and stopped a fall. **Resistance** is an area where sellers have repeatedly stopped a rise. They are zones, not exact lines, because traders place orders around round numbers and previous highs and lows. When resistance breaks, it often becomes support, and the reverse.

A **trend** is the general direction of price. An **uptrend** makes higher highs and higher lows. A **downtrend** makes lower highs and lower lows. A **sideways range** moves between support and resistance. A **trendline** drawn under the rising lows (or over the falling highs) helps to see the trend and its break. The old saying is to trade with the trend, because it is easier to go with the flow than against it.

Draw levels on higher timeframes first (daily and weekly) because they matter more, then zoom in. Fewer, clearer levels are better than a chart covered in lines.



Support and resistance are zones where price reacted before. Broken resistance often becomes support.

WORKED EXAMPLE

A stock bounced from 150 in March, again in May and again in July. Support is around 150. In August it breaks below 150 on high volume. Later, a rally back to 150 fails and the price turns down again. The old support has become resistance. A trader who saw that could avoid buying into it.

Go deeper

Drawing zones, not lines. Support and resistance are **areas** where price reacted before, usually a band of a few percent, not an exact number. Mark levels where price turned at least twice, where it consolidated, and round numbers. Higher-timeframe levels (weekly, monthly) matter more than hourly ones.

Role reversal. When price breaks above resistance and later returns to it, the old resistance often acts as new support, because traders who missed the breakout buy the retest. A level that is tested many times gets weaker, since orders at it are used up.

Trends. An **uptrend** is a series of higher highs and higher lows; a **downtrend** is lower highs and lower lows. A trendline joins at least two lows (uptrend) and the more touches, the stronger it is. Use a steepness sense too: very steep trendlines break easily.

Example. Stock rises from 100 to 140, pulls back to 125 (previous resistance), bounces to 155. That 125 zone is now support. A close below 125 with high volume would be the first sign that the uptrend structure is damaged.

Use. Levels give logical stop locations and targets, which is their real value.

COMMON MISTAKES

- Drawing dozens of lines until the chart is unreadable.
- Treating levels as exact prices instead of zones.
- Fighting a clear trend because "it must be too high now".

KEY POINTS

- Support and resistance are zones where price reacted before.
- Uptrend = higher highs and higher lows. Downtrend = lower highs and lower lows.
- Broken support often turns into resistance.
- Mark levels on daily and weekly charts first.

TEST YOURSELF

Q. What is role reversal?

A. Broken resistance becomes support (or broken support becomes resistance) when price returns to test it.

Q. Why prefer weekly levels over hourly ones?

A. More participants and capital watched them, so reactions there are usually stronger and more reliable.

LESSON 20 OF 48

Common chart patterns

Chart patterns are repeating shapes that show how buyers and sellers are behaving. They work best when they appear within a clear trend and are confirmed by volume.

Continuation patterns suggest the trend will resume: flags and pennants (a short pause after a sharp move), triangles (ascending, descending, symmetrical) and rectangles. **Reversal patterns** suggest the trend may change: **head and shoulders** (a peak, a higher peak and a lower peak, with a neckline), **double top** and **double bottom**, and rounding bottoms. A **cup and handle** is a bullish pattern with a rounded base and a small pullback.

Patterns fail often. Rules for using them sensibly: wait for a close beyond the breakout level, check that volume expands on the breakout, and place your stop-loss on the other side of the pattern. Measure a rough target by adding the pattern's height to the breakout point, but treat it as a guide only.

> **WORKED EXAMPLE**
>
> A stock rises from 100 to 120, consolidates between 112 and 120 for three weeks and then closes at 122 on heavy volume. The rectangle height is 8, so a rough target is 120 plus 8, or 128. A stop-loss under the pattern at 110 risks 12 rupees to gain about 6, which is a poor ratio, so a careful trader might skip it.

Go deeper

Continuation vs reversal. Continuation patterns (flags, pennants, rectangles, ascending triangles in uptrends) show a pause before the

trend resumes. Reversal patterns (head and shoulders, double top and bottom) show a possible change of trend.

Measured moves. Pattern height gives a rough target. Example: a double bottom with lows at 100 and a neckline at 120 has height 20; a breakout above 120 suggests a target near 140. Stop goes below the lows, about 98, so risk is 22 against a 20 target if you buy at 120: not attractive. Entering on a retest nearer 122 with a stop under 112 changes the reward-risk. This is why entry choice matters.

Volume. Healthy breakouts usually show rising volume; breakouts on weak volume fail more often. Pullback volume in flags should shrink.

Failure is information. A failed breakout that quickly returns inside the range often leads to a sharp move the other way. Do not marry patterns; if price invalidates it, exit.

Reliability. No pattern works every time. Test any pattern you trade on your own charts and record outcomes before trusting it.

COMMON MISTAKES

- Seeing patterns that are not there by forcing the shape.
- Buying a breakout with no volume and a distant stop.
- Ignoring the reward-to-risk of the pattern target.

KEY POINTS

- Patterns are probabilities, not guarantees.
- Wait for a confirmed breakout with volume.
- Put the stop on the other side of the pattern.
- Always check that the reward is bigger than the risk before entering.

TEST YOURSELF

Q. Pattern height is 30 and breakout is at 200. What is the rough target?

A. About **230** (breakout level plus the pattern height), treated as an estimate.

Q. What does a failed breakout tell you?

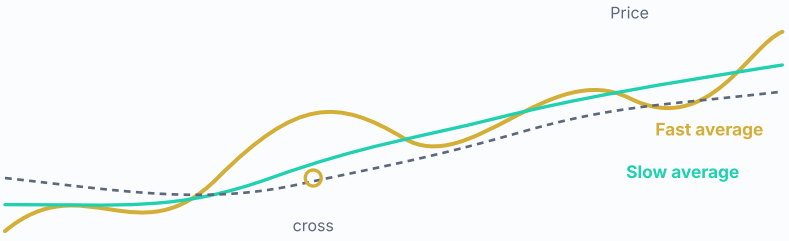
A. Buyers lacked strength; trapped breakout buyers may become sellers, often causing a sharp move in the opposite direction.

Volume and moving averages

Volume shows how many shares changed hands and tells you how much conviction is behind a move. A breakout on high volume is more reliable than one on low volume. A price rise on falling volume may be losing strength. Unusual volume spikes often come with news.

A **moving average (MA)** smooths price by averaging the last N closes. A **simple moving average (SMA)** weights all days equally; an **exponential moving average (EMA)** weights recent days more. Popular lengths are the 20, 50 and 200-day averages. Price above a rising 200-day average suggests a long-term uptrend. A **crossover** happens when a short average crosses a long one, for example 50 above 200 (a "golden cross") or below (a "death cross"). They lag behind price, so they confirm trends rather than predict them.

Moving averages work in trending markets and give many false signals in sideways ones. Use them as a trend filter, not a stand-alone buy or sell button.



A moving average smooths price. The faster average crossing the slower one hints at a trend change.

WORKED EXAMPLE

A stock closes at 305. Its 50-day EMA is 298 and its 200-day SMA is 270. Price is above both and both are rising, so the trend filter says uptrend. A pullback toward the 50-day average, with a bullish candle and normal volume, is where a trend follower might consider a trade with a stop below the average.

Go deeper

Volume. Volume shows participation. A rise on high volume is more trustworthy than on thin volume. Climactic volume after a long fall can mark exhaustion. In India, **delivery percentage** (shares actually taken for delivery) helps separate investment buying from intraday churn.

Moving averages. The **SMA** is a simple average of the last N closes; the **EMA** weights recent prices more. Example SMA(5) of closes 10, 11, 12, 13, 14 = 12. Popular settings: 20 (short), 50 (medium), 200 (long-term trend). Price above a rising 200-day average suggests an uptrend. A **golden cross** (50 above 200) and **death cross** (50 below 200) are lagging signals and often arrive after much of the move.

Use as dynamic support. In strong trends, price often pulls back to the 20 or 50 EMA and resumes. In sideways markets moving averages whipsaw, so use them with a trend filter.

VWAP (volume-weighted average price) is popular intraday: price above VWAP shows buyers in control that day.

Limits. Moving averages describe the past. Use them to define trend and context, not to predict.

COMMON MISTAKES

- Using moving-average crossovers in a sideways market.
- Ignoring volume on breakouts.
- Piling on five different averages that say the same thing.

KEY POINTS

- Volume shows the strength behind a move.
- EMAs react faster than SMAs. Both lag price.
- Price above a rising 200-day average suggests a long-term uptrend.
- Moving averages fail in sideways markets.

TEST YOURSELF

Q. Calculate SMA(3) for closes 20, 23, 26.
A. (20 + 23 + 26)/3 = **23**.

Q. Why are crossovers called lagging?
A. They are based on past prices, so the signal comes after the move has already started.

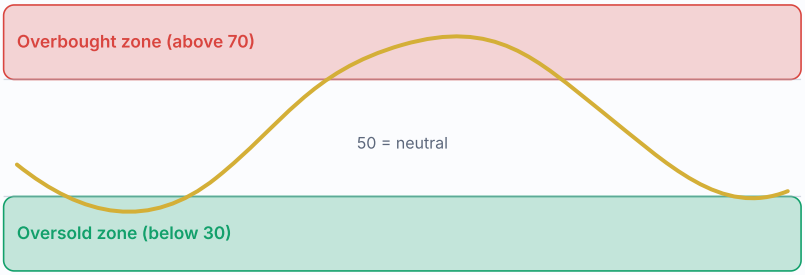
LESSON 22 OF 48

Indicators: RSI, MACD, Bollinger Bands and ATR

Indicators are calculations on price and volume. They help you read momentum and volatility, but they never replace the price chart.

RSI (relative strength index) moves between 0 and 100 and measures the speed of recent moves. Above 70 is often called overbought and below 30 oversold, but in strong trends RSI can stay above 70 for a long time, so it is not an automatic sell signal. **Divergence**, where price makes a new high but RSI does not, can warn of fading momentum. **MACD** compares two moving averages: the MACD line crossing above its signal line shows rising momentum and the reverse shows falling momentum. **Bollinger Bands** draw bands around a moving average using standard deviation; they widen when volatility rises and narrow when it falls. **ATR** (average true range) measures how much a stock typically moves, and is very useful for setting stop-losses and position sizes.

Use two or three indicators that show different things, for example trend, momentum and volatility. Ten indicators that all say the same thing only give false confidence.



RSI measures momentum from 0 to 100. In strong trends it can stay above 70 for a long time.

WORKED EXAMPLE

A stock has an ATR of 4 rupees. You buy at 200 and place the stop at 200 minus 1.5 times ATR, which is 194. If the stock normally swings 4 rupees a day, a stop only 1 rupee away would be hit by routine noise. The ATR-based stop gives the trade room to breathe.

Go deeper

RSI measures speed of recent gains vs losses on a 0 to 100 scale, usually 14 periods. Above 70 is "overbought" and below 30 "oversold", but in strong trends RSI can stay above 70 for weeks, so these are not sell or buy commands. Better uses: in uptrends RSI often finds support near 40 to 50; **divergence**, where price makes a new high but RSI makes a lower high, hints at weakening momentum.

MACD is the difference between a 12 and 26 EMA, with a 9-period signal line and a histogram. The MACD crossing above its signal line shows rising momentum; crossing above zero shows the faster average

has moved above the slower. The histogram shrinking warns that momentum is fading before price turns.

Bollinger Bands use a 20-period average with bands at two standard deviations; they widen in volatility and narrow before breakouts. **ATR** measures average true range and is used for stops (for example 1.5 times ATR).

Principle. Indicators are derived from price, so they cannot give new information. Pick two or three that cover different jobs (trend, momentum, volatility) and learn them deeply.

COMMON MISTAKES

- Selling only because RSI crossed 70 in a strong uptrend.
- Stacking many indicators and waiting for all to agree.
- Changing settings after every losing trade.

KEY POINTS

- RSI over 70 or under 30 is information, not an automatic signal.
- MACD tracks momentum. Bollinger Bands and ATR track volatility.
- Use few indicators that measure different things.
- ATR is excellent for stop-loss distance and position sizing.

TEST YOURSELF

Q. What is bearish divergence?

A. Price makes a higher high while the indicator makes a lower high, suggesting upward momentum is weakening.

Q. What is ATR used for?

A. Measuring typical price movement, helping set stops and position sizes that suit the instrument's volatility.

LESSON 23 OF 48

Timeframes and multi-timeframe analysis

The same stock can look bullish on one chart and bearish on another, because each timeframe shows a different picture. Long-term investors look at weekly and monthly charts, swing traders at daily and four-hour charts and intraday traders at 5, 15 and 60-minute charts.

Multi-timeframe analysis means you start on a higher timeframe to understand the main trend and key levels, and drop to a lower timeframe to time your entry. A common approach uses three: a trend chart, a setup chart and an entry chart, each about four to six times shorter than the previous one, for example daily, 1-hour and 15-minute.

The rule is simple: the higher timeframe usually wins. A bullish 15-minute pattern right under a major daily resistance is a risky buy. Also decide your timeframe before you trade and keep to it, because flipping to a smaller chart when a trade goes against you is a classic way to justify a bad position.

> **WORKED EXAMPLE**
>
> On the daily chart a stock is in an uptrend and pulling back to a support zone at 480. You switch to the 1-hour chart and wait for a higher low and a bullish engulfing candle near 482. You enter with a stop at 476. The higher timeframe gave the direction, and the lower timeframe gave a tighter entry.

Go deeper

Top-down analysis. Start on a higher timeframe to see the dominant trend and key levels, then drop to a lower one for entries. A common

stack: weekly (direction), daily (setup), 15-minute or hourly (entry). Trading a 5-minute buy signal straight into a weekly resistance is a typical mistake.

Matching timeframe to style. Investors use weekly and monthly; swing traders daily with 4-hour; intraday traders 15-minute with a 1 or 5-minute entry. Your stop size, holding period and time availability must match.

Fractal nature. The same patterns appear on all timeframes, but higher-timeframe signals carry more weight and less noise. A level on the daily chart is stronger than one on the 5-minute.

Example. Daily trend up, price pulls to the 50 EMA near an old support. Drop to hourly and wait for a bullish candle closing above the previous high. Stop is below the hourly swing low. Risk is small relative to the daily target, which is the point of using multiple timeframes.

Avoid overload. Three timeframes are plenty; more only create conflicting signals.

COMMON MISTAKES

- Looking at five timeframes and finding a reason for any trade.
- Taking lower-timeframe signals against the higher trend without a plan.
- Changing timeframe after entry to justify holding a loss.

KEY POINTS

- Higher timeframes show trend and key levels. Lower timeframes help with entry.
- Use three linked timeframes, not ten.
- Do not switch timeframes to defend a losing trade.
- Match the timeframe to your trading style.

TEST YOURSELF

Q. Why check the higher timeframe first?
A. It shows the dominant trend and major levels, so lower-timeframe entries are taken with that context.

Q. What is a sensible three-timeframe stack for a swing trader?
A. For example weekly for direction, daily for setup, and 4-hour or hourly for entry.

LEVEL 3 · ADVANCED

Module 4: Trading strategies and styles

Now you combine tools into a repeatable plan. A strategy is a set of rules for entry, exit, stop-loss and position size that you write down and test before risking real money.

LESSON 24 OF 48

Price action and market structure

Price action trading uses raw price, candles and levels with few or no indicators. **Market structure** is the sequence of swing highs and swing lows. In an uptrend each swing low is higher than the one before. A **break of structure** happens when price makes a new swing high in the trend direction, confirming continuation. A **change of character** happens when price breaks the last higher low in an uptrend, a first sign that the trend may be turning.

Price often visits areas where many orders sit: previous highs and lows, round numbers and the origin of strong moves. Sometimes price briefly runs just beyond a previous high or low, triggers stops, and then reverses; traders call it a **liquidity sweep** or stop hunt. Knowing this, you avoid placing your stop at the obvious level where everyone else puts theirs; place it a little beyond.

The skill of price action is patience: waiting for a clear level, a clear reaction and a defined risk, and ignoring everything else.

> **WORKED EXAMPLE**
>
> A stock makes higher lows at 100, 104 and 108 and highs at 110, 115 and 120. Then price falls below 108 and closes at 106. The structure of higher lows is broken, so a trader who was long might tighten the stop or exit, and a new long would wait for the structure to rebuild.

Go deeper

Structure. Uptrend = higher highs (HH) and higher lows (HL). A **break of structure** happens when price takes out a prior swing high in an

uptrend (continuation). A **change of character** occurs when an uptrend makes a lower low, the first evidence that sellers are taking over.

Liquidity idea. Stop orders cluster above obvious highs and below obvious lows. Price sometimes sweeps those levels (a quick poke beyond) and then reverses, which is a liquidity grab. This is why many breakouts that look obvious fail briefly.

Supply and demand zones. An area where price left sharply (a big candle after a small base) marks where large orders may remain. Returns to such zones often react, but each retest weakens it. These ideas overlap with what some call order blocks or SMC concepts: treat them as frameworks to test, not truths.

Practical routine. Mark swing highs and lows on the daily chart, note the trend structure, mark two or three key zones, and wait for price to reach them and show rejection on a lower timeframe.

Honesty point. Many traders name the same ideas differently; the edge comes from discipline and risk control, not the vocabulary.

COMMON MISTAKES

- Marking every small swing as a zone.
- Assuming every sweep reverses.
- Ignoring higher-timeframe structure when entering on a lower one.

KEY POINTS

- Uptrend = higher highs and higher lows, downtrend = the opposite.
- A break of the last swing low in an uptrend warns of weakness.
- Stops placed at obvious levels get hit. Give them a little room.
- Fewer, cleaner setups beat constant trading.

TEST YOURSELF

Q. What marks a change of character in an uptrend?
A. Price makes a lower low, breaking the higher-low sequence.

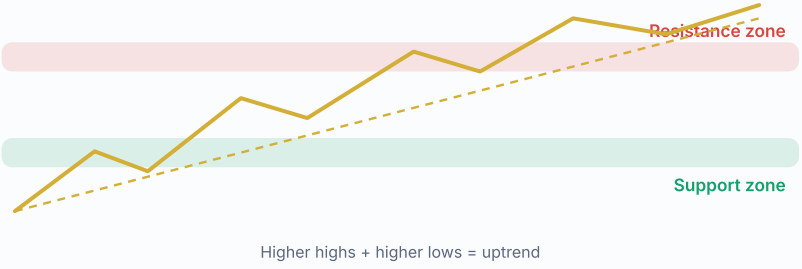
Q. What is a liquidity sweep?
A. Price briefly moves beyond an obvious high or low to trigger stop orders, then reverses.

Breakout, pullback and trend-following strategies

Three classic setups cover most of what traders do.

A **breakout** trade enters when price closes beyond a key level, such as a multi-week high, with rising volume. The risk is a **false breakout** that reverses. Reduce it by waiting for a candle close and by checking volume and the wider trend. A **pullback** (or retracement) trade waits for a trending stock to dip back to support, a moving average or a Fibonacci level, and enters when it resumes the trend. It gives a better price and a tighter stop than chasing the breakout, but you can miss a trade that never pulls back. **Trend following** holds a position as long as the trend lasts, using a trailing stop. It has a low win rate but the winners can be large.

For each setup define the entry trigger, stop-loss, target or trailing rule and position size before you enter. A strategy you cannot describe in a few lines is usually not a strategy.



Support and resistance are zones where price reacted before. Broken resistance often becomes support.

WORKED EXAMPLE

A stock trades in an uptrend and pulls back from 250 to 240, touching its rising 50-day average and printing a bullish candle that closes at 243. Entry 243, stop 237 (risk 6). First target the earlier high of 255 (gain 12), which is twice the risk. If the trade works, the stop can be raised to 243 to protect capital.

Go deeper

Three entry styles. Breakout: buy as price clears resistance with volume; fast but prone to false breaks. **Pullback**: wait for price to return to a broken level or moving average and then buy; better reward-risk but you may miss runaway moves. **Trend-following**: hold while structure stays intact, trail the stop under each higher low.

Example with numbers. Resistance at 200; breakout buy at 203 with stop at 195 gives risk 8. Target 227 (3 times risk = 24) gives 1:3. Pullback entry at 201 with stop at 196 gives risk 5 and the same target 227 gives about 1:5, but there is a chance price never retests.

Filters. Breakouts after a tight base, with rising volume and a market in an uptrend, work better than breakouts into overhead resistance.

Trailing stops. Trail below the last swing low or a moving average; avoid trailing too tight, which exits good trends early.

Expectancy. Trend strategies often have win rates of 35 to 45 percent but large winners; judge them by expectancy, not win rate.

COMMON MISTAKES

- Chasing a breakout far from the base and placing a distant stop.
- Trailing the stop too tightly and exiting early.
- Expecting a high win rate from a trend system.

KEY POINTS

- Breakout = enter beyond a level. Pullback = enter on a dip in a trend.
- Trend following has a low win rate but large winners.
- Write entry, stop, target and size before the trade.
- Check that the target is at least twice the risk.

TEST YOURSELF

Q. Entry 203, stop 195, target 227. What is the reward-to-risk?
A. Risk 8, reward 24, so **1:3**.

Q. Why do trend systems often win less than half their trades yet profit?
A. Winning trades are much larger than losing ones, so expectancy stays positive.

LESSON 26 OF 48

Intraday trading: how it works and common approaches

Intraday trading means opening and closing positions on the same day, so you hold no overnight risk. Because the moves are small, it relies on leverage from the broker (margin), costs matter a lot, and decisions are fast. Statistics show that most intraday traders lose money, mainly because of costs, overtrading and weak risk control. Treat it as a serious skill that needs months of practice on paper before real money.

Common approaches: the **opening range breakout (ORB)** trades a break above or below the first 15 or 30 minutes' high or low. **VWAP** (volume-weighted average price) is the day's average price weighted by volume, and many institutions use it as a benchmark; price above VWAP is seen as bullish for the day. **Gap trades** look at stocks that open far above or below the previous close. Pick liquid stocks only, avoid the first few chaotic minutes unless your strategy needs them, and set a maximum daily loss after which you stop.

Intraday margin can make a small mistake into a big loss. Never use all the available leverage.

WORKED EXAMPLE

A liquid stock's first 15-minute range is 500 to 506. At 9:45 it breaks above 506 on strong volume. You buy at 507 with a stop at 503 (risk 4). If your account risk limit per trade is 500 rupees, the quantity is 500 divided by 4, which is 125 shares. If it hits the stop you lose about 500 rupees plus costs, which you decided in advance.

Go deeper

Basics. Intraday positions must be closed the same day (MIS in India), using leverage from your broker, which magnifies mistakes. Most retail intraday traders lose money, as SEBI studies of derivatives and intraday traders have reported, so treat this as a skill that requires proof on small size first.

Common setups. Opening range breakout: mark the high and low of the first 15 minutes and trade a close beyond with a stop at the other side. **VWAP pullback**: in a trending stock, buy dips toward VWAP. **Gap and go** / **gap fill** after news. Choose stocks with good liquidity and tight spreads.

Time and costs. The first 30 minutes and last 45 are the most volatile; the middle is often choppy. Brokerage, STT, exchange charges and slippage matter more as trade count rises: ten trades a day with 100 rupees each in total costs is 1,000 daily.

Rules. Fix a **daily maximum loss** (for example 1 to 2 percent of capital) and stop trading when hit. Do not average losers. Avoid trading around results or major news unless that is your defined setup.

COMMON MISTAKES

- Overtrading to "recover" a loss.
- Using full leverage on every trade.
- Ignoring costs when the profit per trade is tiny.

KEY POINTS

- Most intraday traders lose money. Costs and overtrading are the main reasons.
- ORB and VWAP are popular, simple frameworks.
- Trade liquid stocks and set a daily loss limit.
- Do not use full margin. Size positions by risk.

TEST YOURSELF

Q. Explain an opening range breakout.
A. Mark the first 15-minute high and low; buy a close above the high (or sell below the low) with the stop at the opposite side.

Q. Why set a daily maximum loss?
A. It prevents a bad day from becoming a disaster and removes emotional decisions after losses.

LESSON 27 OF 48

Swing trading and positional trading

Swing trading holds trades from a few days to a few weeks to catch one "swing" in the trend. **Positional trading** holds for weeks to months, following a larger trend. Both use daily and weekly charts, so you do not need to watch the screen all day and costs matter less than in intraday trading. The trade-offs are overnight risk (news after the close can gap the price past your stop) and the need to hold through normal pullbacks.

A typical swing routine: scan for stocks in uptrends near support or breaking out, check the company has no near-term event like results, write the plan with entry, stop and target, and place orders after the market closes. Manage the trade with a trailing stop under the last swing low.

Choose the number of open positions you can manage, perhaps five to eight, and avoid putting them all in one sector, because correlated positions fall together.

> **WORKED EXAMPLE**
>
> A stock breaks out at 320 with a stop at 304 (risk 16) and a target of 360 (gain 40). Reward is 2.5 times risk. Over four weeks it reaches 350 and then pulls back. You trail the stop up to 331, under the last swing low, and exit there for a gain of 11 per share. Not the full target, but a rule-based exit.

Go deeper

Holding period. Swing trades last days to weeks, positional trades weeks to months. They need less screen time and smaller cost drag than intraday. Risk now includes **overnight gaps**: a stop at 95 can fill at 90 if bad news arrives.

Selecting stocks. Look for strong relative strength (outperforming the index), tight consolidation, rising volume on up days and a sector in favour. Check the **results calendar** and avoid holding through results unless planned.

Example. Stock at 500 breaks a 3-week base. Stop at 470 (below base low), risk 30 per share. With capital 5,00,000 and risk 1 percent = 5,000, quantity = 5,000/30 = **166 shares** (about 83,000 rupees position). Target 590 gives reward 90, which is 1:3.

Management. Move the stop to breakeven only after a clear advance, take partial profits at the first target, trail the remainder.

Delivery taxes. Swing trades in delivery have different tax treatment from intraday; see the taxation lesson and verify current rules.

COMMON MISTAKES

- Ignoring the results date and gapping through a stop.
- Moving the stop down when price approaches it.
- Taking positions so large that one gap hurts badly.

KEY POINTS

- Swing trades last days to weeks. Positional trades last weeks to months.
- Overnight gaps can jump past your stop-loss.
- Check the results calendar before entering.
- Avoid too many positions in the same sector.

TEST YOURSELF

Q. Capital 4,00,000, risk 1 percent, entry 250, stop 235. How many shares?
A. Risk amount 4,000; risk per share 15; quantity = 4,000/15 = **266 shares**.

Q. What is gap risk?
A. Price opening beyond your stop due to overnight news, so your loss can exceed the planned risk.

LESSON 28 OF 48

Fibonacci retracements and pivot levels

Fibonacci retracement levels, usually 38.2, 50 and 61.8 percent, are drawn between a swing low and a swing high to estimate where a pullback might end. They work not because of magic but because many traders watch the same levels, which makes them a place where orders cluster. They are most useful when they overlap with support, a moving average or a previous high.

Pivot points are calculated from the previous day's high, low and close and give intraday support and resistance levels, mainly used by day traders. Round numbers and previous day high or low are also watched by many.

Treat all of these as zones of interest. The real signal is how price reacts there: a rejection candle, rising volume, a rebound. If price slices through a level with big candles, do not argue with it.

> **WORKED EXAMPLE**
>
> A stock rallies from 100 to 140, a move of 40. A 50 percent retracement is 120 and a 61.8 percent retracement is about 115. The stock pulls back to 120 where an earlier resistance also sits, and prints a bullish candle. That overlap of a Fibonacci level and an old level makes 120 a stronger area to watch than 120 alone.

Go deeper

Retracement levels. After a move from 100 to 200, common retracement levels are 38.2 percent (162), 50 percent (150) and 61.8 percent (138). Traders watch them as possible pullback zones in a

trend. The ratios come from the Fibonacci sequence; their usefulness is partly because many traders watch them, a self-fulfilling effect.

Extensions. Targets beyond the prior high: 127.2 percent and 161.8 percent of the first move. From a 100 to 200 move and a pullback to 150, the 161.8 percent extension from the pullback low is about 150 + 161.8 = **311.8**.

Confluence. A Fibonacci level is far more useful when it overlaps with support, a moving average or a trendline. Alone it is just a number.

Pivot points. Intraday traders also use daily pivots calculated from the previous day's high, low and close: Pivot = (H + L + C)/3.

Honest view. Evidence for Fibonacci levels is mixed. Use them as one input for locating stops and targets, never as the sole reason to trade.

COMMON MISTAKES

- Drawing Fibonacci from random swings so levels fit the chart afterwards.
- Trading a 61.8 percent level alone without confirmation.
- Expecting price to reverse exactly at the number.

KEY POINTS

- Fibonacci levels are places where many traders watch, not laws of nature.
- Confluence (two or more reasons at one level) increases importance.
- Pivot points are mainly for intraday use.
- Wait for price reaction rather than buying a level blindly.

TEST YOURSELF

Q. Price rises from 80 to 120. Where is the 50 percent retracement?

A. 120 minus 20 = **100**.

Q. Why does confluence matter?

A. Several independent reasons pointing to the same price make the zone more significant than one tool alone.

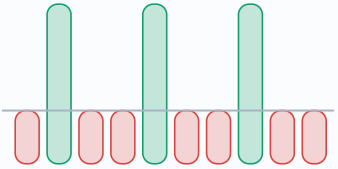
LESSON 29 OF 48

Backtesting and keeping a trading journal

Backtesting means applying your rules to past data to see how they would have performed. It gives you a first idea of win rate, average win and loss, and maximum drawdown. Do it by hand on charts or with software. Be honest about costs and slippage, test across different market conditions and avoid **overfitting**, which means tuning rules until they fit the past perfectly but fail in the future. Test on one period and verify on another unseen period.

After backtesting, **paper trade** or trade very small size to see how you behave with real emotions. Then keep a **trading journal**: for each trade record the date, instrument, setup, entry, stop, target, size, result, screenshot and a note on your emotions and whether you followed the plan. Review weekly. The journal shows patterns you cannot see in the moment, such as always losing on Fridays or breaking your stop after two wins.

What improves a trader is not the next indicator but honest feedback from their own data.



40% win rate

+3R winners · −1R losers

0.4×3 − 0.6×1

= +0.6R per trade

Expectancy is the average result per trade. A lower win rate can still win if winners are bigger.

WORKED EXAMPLE

Your journal shows 40 trades. When you followed your plan the average result was +0.4R per trade. When you broke your rules (moved a stop or took an unplanned trade) the average was minus 1.3R. The data tells you that your strategy is fine, but your discipline is the leak, so fixing discipline is worth more than finding a new strategy.

Go deeper

Backtesting properly. Write exact rules (entry, exit, stop, position size, filters) before testing. Test on at least 100 trades across different market phases (bull, bear, sideways). Include costs and slippage. Use **out-of-sample** data: build on one period, then test unseen data. Beware **overfitting**, tuning parameters until history looks perfect while the future fails, and **survivorship bias**, testing only on stocks that still exist.

Metrics. Win rate, average win and loss, **expectancy** = (win% x average win) minus (loss% x average loss), maximum drawdown, profit

factor (gross profit/gross loss). Example: win rate 40 percent, average win 3R, average loss 1R gives expectancy = 0.4×3 minus 0.6×1 = **+0.6R per trade**.

Forward testing. After backtesting, paper-trade or trade tiny size for 2 to 3 months to see if live results match.

The journal. Record date, setup, entry, stop, target, size, result in R, screenshot, emotion and mistakes. Review weekly: which setups pay, which mistakes repeat. The journal is how you turn experience into skill.

COMMON MISTAKES

- Testing without costs and trusting the curve.
- Optimising parameters until the past looks perfect.
- Keeping no journal, so mistakes repeat unnoticed.

KEY POINTS

- Backtest with realistic costs and avoid overfitting.
- Paper trade or use tiny size before going full size.
- A journal turns experience into data.
- Review weekly and look for patterns in behaviour, not only in charts.

TEST YOURSELF

Q. Win rate 35 percent, average win 3R, average loss 1R. Expectancy?
A. 0.35×3 minus 0.65×1 = 1.05 minus 0.65 = **+0.4R per trade**.

Q. What is overfitting?

A. Tuning a strategy to past data so closely that it captures noise and fails on new data.

LEVEL 3 · ADVANCED

Module 5: Futures and options (derivatives)

Derivatives are powerful and risky. Learn them slowly, and only after you can manage risk on plain shares. Rules, lot sizes and charges for index derivatives have changed several times in recent years, so always check the exchange and your broker for current details.

LESSON 30 OF 48

Futures: lot size, margin, MTM and expiry

A **futures contract** is an agreement to buy or sell an asset at a fixed price on a fixed future date. You do not pay the full value; you pay a **margin**, a fraction of the contract value, which gives you **leverage**. Leverage magnifies profit and loss equally.

Futures trade in **lots** (a fixed quantity set by the exchange), so one lot of a stock future may control lakhs of rupees. Positions are **marked to market (MTM)** every day: profits and losses are credited or debited daily to your account. If losses eat your margin, you receive a margin call and must add funds, or the broker will close your position. Contracts expire on a fixed date; before that you either close the position or **roll over** to the next month.

Futures price usually trades a little above the spot price, because of the cost of carrying. Futures are used by traders to speculate with leverage and by investors to hedge a portfolio.

WORKED EXAMPLE

A stock trades at 1,000 and one lot is 500 shares, so the contract value is 5,00,000 rupees. Suppose margin needed is about 20 percent, which is 1,00,000. You buy one lot. If the stock falls 5 percent to 950, you lose 25,000 rupees, which is 25 percent of your margin. A 5 percent move in the stock became a 25 percent move in your capital.

Go deeper

Contract mechanics. A futures contract is an agreement to buy or sell at a set price on a set date. Index and stock futures in India are cash-settled or physically settled per current exchange rules, with a fixed **lot size** set by the exchange. Example: Nifty at 24,000 and lot size 75 means contract value = 24,000 × 75 = 18,00,000 rupees, but you post only a **margin** (a fraction, say 1.5 to 2 lakh).

Profit and loss. A 100-point rise gives 100 × 75 = 7,500 profit; a 100-point fall gives 7,500 loss. Leverage means a 1 percent move in the index (240 points = 18,000) is about 10 percent of a 1.8 lakh margin.

Mark-to-market. Gains and losses are settled daily; if your account falls below required margin you get a **margin call** and positions may be squared off.

Futures price vs spot. Futures trade at a premium reflecting interest cost (cost of carry). The premium shrinks toward zero by expiry. **Rollover** means closing the near-month and opening the next-month contract; check cost and open-interest build-up.

Uses. Hedging a portfolio, directional trading, and arbitrage between spot and futures.

COMMON MISTAKES

- Using all available margin, leaving no buffer for adverse moves.
- Ignoring lot size when calculating risk.
- Holding through expiry without a plan for settlement.

KEY POINTS

- Futures give leverage: small margin controls a big contract.
- Profit and loss settle daily (MTM).
- Leverage can wipe out your margin quickly.
- Contracts expire. Close or roll over before expiry.

TEST YOURSELF

Q. Nifty 24,000, lot 75. What is the notional value?
A. 24,000 × 75 = **18,00,000 rupees**.

Q. A 50-point fall with lot size 75 on a long position. Loss?
A. 50 × 75 = **3,750 rupees**.

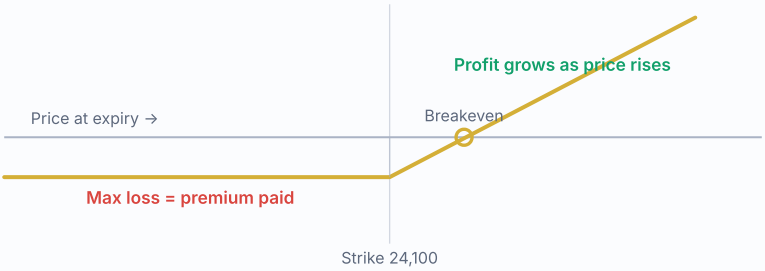
LESSON 31 OF 48

Options basics: calls, puts, strike, premium

An **option** gives the buyer a right, not an obligation, to buy or sell an asset at a set price (the **strike price**) before or on a set date (the **expiry**). The price paid for that right is the **premium**.

A **call option** gives the right to buy. You buy a call when you expect the price to rise. A **put option** gives the right to sell. You buy a put when you expect the price to fall or to protect shares you own. The buyer's maximum loss is the premium paid. The seller (writer) receives the premium but takes on large, potentially unlimited, risk and must keep margin.

Options are described by their position against the current price. A call is **ITM** (in the money) if the strike is below the price, **ATM** (at the money) if equal and **OTM** (out of the money) if above. Premium has two parts: **intrinsic value**, the amount it is already in the money, and **time value**, the extra you pay for the chance of more movement, which fades to zero by expiry.



A call buyer risks only the premium, but needs price to rise beyond strike plus premium to profit.

WORKED EXAMPLE

An index trades at 24,000. You buy a 24,200 call for a premium of 100 points. For you to make money at expiry the index must be above 24,300 (strike plus premium). If it ends at 24,150 the option expires worthless and you lose the 100 points premium. Your loss is limited to what you paid, but being right on direction is not enough: you also need to be right on size and timing.

Go deeper

The contract. A **call option** gives the right (not the obligation) to buy at the **strike price**; a **put** gives the right to sell. The buyer pays a **premium**; the seller (writer) receives it and takes on the obligation. Options expire on set dates.

Worked example. Nifty at 24,000. You buy a 24,100 call for premium 120, lot 75, so you pay 120 × 75 = 9,000. At expiry: if Nifty is at 24,100 or below the call is worthless and you lose 9,000. Breakeven = 24,100 +

120 = **24,220**. At 24,400 the call is worth 300, profit = (300 minus 120) x 75 = **13,500**. Maximum loss for a buyer is the premium paid.

Moneyness. ITM (in the money) has intrinsic value; ATM is near the strike; OTM has only time value. Premium = intrinsic value + time value.

Seller's side. A seller of that call keeps 120 per unit if Nifty stays below 24,100 but faces theoretically unlimited loss if the market rallies hard, so margins are large.

Settlement. Index options are cash-settled; check current rules for stock options.

COMMON MISTAKES

- Buying far OTM options hoping for a lottery win.
- Forgetting breakeven includes the premium paid.
- Selling options without understanding unlimited-risk scenarios.

KEY POINTS

- Call = right to buy. Put = right to sell. Buyer's loss is limited to the premium.
- Sellers collect premium but carry large risk.
- Premium = intrinsic value + time value. Time value decays.
- Direction alone is not enough. Size and timing both matter.

TEST YOURSELF

Q. Buy a 500 call at premium 15. What is the breakeven at expiry?
A. 500 + 15 = **515**.

Q. What is the maximum loss for an option buyer?

A. The premium paid.

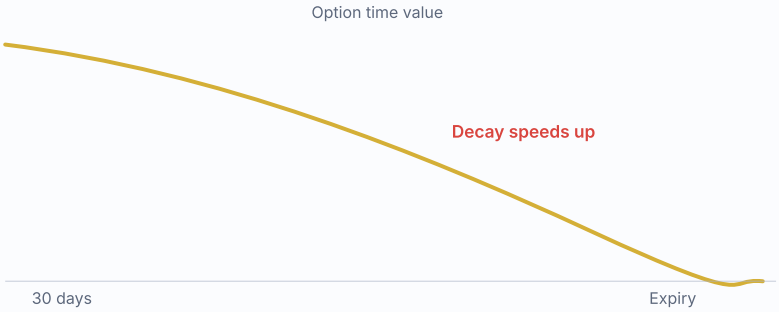
LESSON 32 OF 48

The option Greeks: delta, gamma, theta, vega

The Greeks measure how an option's price changes as things change.

Delta shows how much the option price moves for a one-rupee move in the underlying. A delta of 0.5 means about 0.5 rupees. Call deltas are between 0 and 1 and put deltas between 0 and minus 1. Delta is also a rough probability that the option ends in the money. **Gamma** shows how fast delta changes; it is highest for at-the-money options near expiry, which is why those options can swing wildly. **Theta** is time decay: how much value the option loses each day, and it accelerates close to expiry. **Vega** shows sensitivity to **implied volatility**: higher volatility raises option prices.

For an option buyer, theta works against you every day. For a seller, theta is the income but gamma is the danger. Understanding Greeks explains why an option can lose value even when the underlying moves in your direction: if volatility falls or time passes, the loss can outweigh the gain.



An option loses time value every day, and the loss speeds up as expiry gets close.

WORKED EXAMPLE

You buy an option with delta 0.40 and theta of minus 5 rupees per day. If the underlying rises 10 points, you gain about 4 points. If nothing happens for a day you lose about 5 rupees of time value. Over a week of sideways movement the decay alone is about 35 rupees, so you need the market to move soon.

Go deeper

Delta is the change in option price for a 1-point move in the underlying. A call with delta 0.5 gains about 0.5 for a 1-point rise. ATM options have delta near 0.5; deep ITM near 1; far OTM near 0. Delta also approximates the probability of finishing in the money.

Gamma is how fast delta changes; it is highest ATM near expiry, which makes expiry-day options move violently.

Theta is time decay per day. Example: an option worth 100 with theta of minus 5 loses about 5 per day if nothing else changes, and decay speeds up near expiry. Buyers fight theta; sellers collect it.

Vega is sensitivity to implied volatility: vega of 8 means premium rises about 8 for a 1-point increase in IV.

Combined example. You buy an ATM call. Nifty rises 50 points (delta 0.5 gives +25) but a day passes (theta minus 8) and IV falls (vega minus 6): net about +11, not +25. This is why correct direction can still lose money.

Rho (interest rates) matters little for short-dated options.

COMMON MISTAKES

- Looking only at direction and ignoring theta and vega.
- Buying options on event days after IV has already spiked.
- Misjudging expiry-day gamma risk.

KEY POINTS

- Delta = price sensitivity. Gamma = how fast delta changes.
- Theta = time decay. Vega = volatility sensitivity.
- Time decay hurts buyers and pays sellers, speeding up near expiry.
- An option can lose money even if you are right on direction.

TEST YOURSELF

Q. Delta 0.4, underlying rises 10 points. Approximate option gain?
A. About **4 points**.

Q. Why can a correct directional call still lose money?
A. Time decay and falling implied volatility may exceed the gain from the price move.

LESSON 33 OF 48

Implied volatility, IV rank and event risk

Implied volatility (IV) is the market's expectation of how much the underlying will move, baked into the option price. High IV means expensive options and low IV means cheap ones. **Historical volatility** is how much the price actually moved in the past. **IV rank** or **IV percentile** compares today's IV with its own range over the past year to show whether it is high or low for that instrument.

IV usually rises before known events like earnings, budgets or elections, then collapses after the event; this is **IV crush**. A buyer who buys a call before results, is correct on direction but still loses because IV fell sharply. That is why experienced traders think about volatility as much as direction. Sellers like high IV because they collect fatter premiums, but they also face the risk of a big surprise move.

A simple guide: buying options when IV is low gives you cheaper premium, and selling spreads when IV is high gives a better credit, but neither gives guaranteed results.

> **WORKED EXAMPLE**
>
> Before results, a stock's at-the-money option costs 40 rupees with IV at 60 percent. After a good result the stock rises 2 percent, but IV drops to 30 percent and the same option is now worth 30 rupees. The buyer was right on direction and still lost 10 rupees, because volatility fell.

Go deeper

What IV is. Implied volatility is the market's expectation of future price swings, backed out from option prices. Higher IV means more expensive options. It is quoted as an annualised percentage. India VIX, derived from Nifty options, is the market's "fear gauge".

Expected move. Rough one-day move = Spot x IV / sqrt(252) approx IV/16 as a percent. With Nifty at 24,000 and IV 16 percent, a one-standard-deviation daily move is about 16/16 = 1 percent = **240 points**; roughly 68 percent of days should fall within that range.

IV crush. Before results or events IV rises; after the event it collapses even if the price moves, hurting option buyers. A stock moves 3 percent after earnings, but IV falls from 60 to 30 and the option still loses.

IV rank and percentile compare current IV to its past year to judge if options are cheap or expensive.

Implied vs realised volatility. If IV persistently exceeds realised moves, sellers have an edge on average, but occasional large moves can erase many small wins.

COMMON MISTAKES

- Buying options right before events at inflated IV.
- Ignoring the VIX level when choosing between buying and selling.
- Assuming high IV always means "sell" without defined risk.

KEY POINTS

- IV is the market's expected movement, priced into options.
- IV is high before big events and collapses after (IV crush).
- Think about volatility, not only direction.
- High IV favours sellers of spreads, low IV favours buyers. Neither is certain.

TEST YOURSELF

Q. Spot 20,000, IV 20 percent. Approximate one-day standard move?

A. About 20/16 = 1.25 percent = **250 points**.

Q. What is IV crush?

A. A sharp fall in implied volatility after an event, reducing option premiums even if direction was right.

LESSON 34 OF 48

Option buying vs selling: the real risks

Option **buyers** pay a premium for a small chance of a large gain. Their loss is capped, but they lose to time decay and often lose the whole premium. Studies of retail derivatives traders in India by SEBI have found that the large majority of individual traders lost money. Be especially careful with cheap far out-of-the-money options and expiry-day trades that feel like lottery tickets.

Option **sellers** collect premium and win most of the time, but occasionally face large losses that can wipe out many small wins. **Naked selling** (selling an option without a hedge) can have unlimited risk on the call side and very large risk on the put side. Defined-risk strategies, which combine a sold and a bought option, cap the worst case.

Neither side is "safe". Buying has a low win rate and capped loss; selling has a high win rate and uncapped or large loss. What matters is position size, a hedge and a rule for exiting.

WORKED EXAMPLE

A seller of index options collects a total premium of 750 rupees per lot every week for 20 weeks and earns 15,000 rupees. Then one sharp event moves the index so that the position loses 40,000 rupees. Twenty small wins were erased by one big loss. A hedge that capped the loss at 5,000 rupees would have kept the result positive.

Go deeper

Buyers. Limited loss (premium), unlimited or large gain, but time works against them and the probability of profit is usually lower. Most OTM options expire worthless.

Sellers. Collect premium with a higher probability of profit, but losses can be very large and sudden. A seller earning 5,000 per week for months can lose 3 lakh in a single gap or crash week. Many sellers' accounts blow up exactly this way, with leverage and no stop.

Comparison. Buyer: probability of profit 30 percent, average win 3R, loss 1R. Seller: probability 80 percent, win 1R, loss 4R. Expectancy buyer = 0.3×3 minus 0.7 = +0.2R; seller = 0.8×1 minus 0.2×4 = 0.0R. Neither is automatically better; it depends on actual numbers and execution.

Defined-risk selling. Spreads (selling one option and buying a further OTM one) cap the loss and reduce margin.

Selection rule. Use buying for directional or event views with defined premium at risk; use spreads for range views. Never sell naked options without the capital, margin buffer and a hard exit rule.

COMMON MISTAKES

- Believing "high win rate" means safe.
- Selling naked options with oversized lots.
- Not having a stop or hedge for the seller side.

KEY POINTS

- Most individual F&O traders lose money in SEBI studies.
- Buyers risk the premium. Sellers risk large losses.
- Naked selling can have unlimited risk. Use defined-risk structures.
- Position size and exit rules decide survival.

TEST YOURSELF

Q. Why can option selling blow up an account despite a high win rate?

A. Many small wins can be erased by one large loss, especially with leverage and no hedge.

Q. How do spreads change the risk of selling?

A. They add a bought option that caps the maximum loss and reduces margin required.

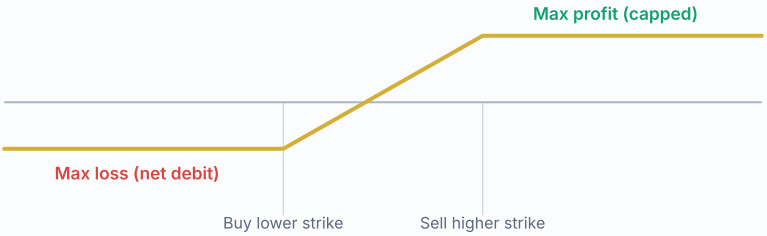
LESSON 35 OF 48

Option strategies: covered call, protective put, spreads, straddle, condor

Combining options lets you shape risk and reward.

A **covered call** means holding shares and selling a call against them to earn premium; it caps your upside but pays you while you wait. A **protective put** means buying a put on shares you own, like insurance against a fall; the premium is the cost. A **bull call spread** buys a lower-strike call and sells a higher-strike call: cheaper than a plain call, with limited profit and limited loss. A **bear put spread** is the mirror image for a fall. A **long straddle** buys a call and a put at the same strike to profit from a big move in either direction; a **strangle** uses different strikes and is cheaper. An **iron condor** sells an out-of-the-money call spread and put spread to profit if the market stays in a range, with a defined maximum loss.

Before any strategy, write down the maximum profit, maximum loss, break-even points and the market view it needs.



A bull call spread caps both profit and loss. It costs less than a plain call.

WORKED EXAMPLE

Bull call spread: index at 24,000. Buy a 24,000 call for 150 and sell a 24,300 call for 60. Net cost is 90 points. Maximum loss is 90 (if the index ends below 24,000). Maximum profit is 300 minus 90, which is 210 (if it ends above 24,300). Break-even is 24,090. Risk and reward are both fixed from the start.

Go deeper

Bull call spread. Buy 24,000 call at 200, sell 24,200 call at 100: net debit 100. Maximum profit = 200 minus 100 = 100 per unit (at or above 24,200); maximum loss = 100; breakeven = 24,100. Cheaper than a plain call, with capped gains.

Bear put spread mirrors it for downside views.

Iron condor. Sell a 23,800 put and a 24,200 call, buy a 23,600 put and a 24,400 call for net credit 60: profit if Nifty stays between roughly 23,740 and 24,260; maximum loss = 200 minus 60 = 140 per unit. Best in low-movement, high-IV conditions.

Long straddle. Buy ATM call and put (cost 300): profits if the move exceeds 300 points either way before expiry; used before events, but IV crush can hurt.

Covered call. Hold shares and sell a call against them to earn premium; caps upside.

Choosing. Match strategy to your view on direction, volatility and time. Always compute max loss, max profit and breakeven before placing the order.

COMMON MISTAKES

- Placing multi-leg strategies without computing max loss.
- Legging in one side at a time and getting caught by a fast move.
- Ignoring liquidity in far strikes, causing wide bid-ask spreads.

KEY POINTS

- Covered call and protective put combine options with shares.
- Spreads cap both risk and reward and reduce cost.
- Straddles and strangles bet on a big move, condors on a quiet market.
- Know max loss, max profit and break-even before entering.

TEST YOURSELF

Q. Bull call spread: buy at 100, sell at 40. Net debit and max loss?
A. Net debit 60, so maximum loss is **60 per unit**.

Q. When does an iron condor make its maximum profit?

A. When the underlying stays between the two sold strikes at expiry.

LESSON 36 OF 48

Hedging with derivatives and the recent SEBI F&O rules

Hedging means taking a position that offsets the risk of another. A long-term investor with a large share portfolio can buy index put options to protect against a sharp fall, or sell index futures against it. Hedging costs money (premium or opportunity cost) and does not remove risk completely, but it can let you stay invested through scary periods.

SEBI has tightened the rules for index derivatives in recent years to protect retail traders. The changes have included a higher minimum contract value (which raised lot sizes), a limit on weekly expiries to one benchmark index per exchange, upfront collection of option premium from buyers, additional margin rules on expiry day, and later higher STT on futures and options. Lot sizes are revised periodically, and the details can change again.

Because rules change, never rely on memory or old videos. Check the current lot size, expiry day, margin and charges on the exchange website and your broker before you trade.

WORKED EXAMPLE

You hold a 10 lakh rupee share portfolio that behaves roughly like the Nifty. You buy a Nifty put option costing about 15,000 rupees as insurance. If the market falls 10 percent, your portfolio loses around 1,00,000 but the put gains perhaps 60,000, so your net loss is smaller. If the market rises, you lose only the 15,000 premium, like an insurance fee.

Go deeper

Hedging basics. A hedge is a position that offsets another risk. Example: you hold a 10 lakh Nifty-linked portfolio and fear a fall. Buying a protective put costs, say, 15,000 and limits losses below the strike; it is insurance, and the premium is the cost. Futures hedge: short Nifty futures worth about 10 lakh neutralises market moves, but also caps gains.

Beta-weighted hedging. If your portfolio has beta 1.2, hedge 12 lakh of index exposure for 10 lakh of stocks.

Regulatory framework. SEBI has introduced measures over the years: higher contract sizes, upfront collection of option premium, peak-margin reporting, limits on intraday position sizes near expiry, and changes in weekly expiries. Rules change, so always read the **current exchange and SEBI circulars** and your broker's notices.

Margin and risk. Know SPAN plus exposure margin, extreme-loss margin, and the penalty for shortfall. Understand your broker's policy on auto square-off.

Habit. Before every F&O trade, check lot size, margin required, expiry date and current rules.

COMMON MISTAKES

- Treating a hedge as free instead of an insurance cost.
- Using outdated rules from old videos or posts.
- Ignoring margin shortfall penalties.

KEY POINTS

- Hedging reduces risk at a cost. It does not eliminate risk.
- SEBI has changed lot sizes, expiries, margins and upfront premium rules.
- Rules and lot sizes change, so check current details every time.
- Hedge to stay invested, not to speculate.

TEST YOURSELF

Q. Portfolio 20 lakh, beta 1.1. Index value to hedge?
A. 20 lakh x 1.1 = **22 lakh**.

Q. Where should you check current F&O rules?
A. SEBI and exchange circulars, and your broker's official notices.

LEVEL 4 · PRO

Module 6: Risk management and trading psychology

This is the module that separates survivors from the rest. You can have an average strategy and survive with great risk control, but a great strategy with poor risk control will blow up.

LESSON 37 OF 48

Risk per trade and position sizing

Most beginners decide how many shares to buy by how much money they have. Professionals decide it by how much they are willing to lose. This one change protects your capital.

The common rule is to risk a small fixed percentage of your trading capital per trade, often **1 percent or less**. The formula: **quantity = amount you risk divided by (entry price minus stop-loss price)**. The stop-loss is decided by the chart (where the idea is wrong), not by how much you want to risk; if the quantity comes out too small, you skip the trade or find a tighter setup.

Also limit **total open risk** across all positions, for example 4 to 5 percent of capital, and set a **maximum daily and weekly loss** after which you stop trading. Never add to a losing position to "average down" without a plan, because that increases risk exactly when you are wrong.



Wider stop → smaller size. Same rupee risk.

Size the position from the money you accept to lose, not from how confident you feel.

WORKED EXAMPLE

Capital 2,00,000 rupees, risk 1 percent per trade = 2,000 rupees. Entry 500, stop 490, so risk per share is 10. Quantity = 2,000 / 10 = 200 shares. The position value is 1,00,000 rupees, half of your capital, but your real risk is only 2,000 rupees. If the stop hits, you lose 1 percent, and you can lose ten trades in a row and still have about 90 percent of your money.

Go deeper

Fixed-fractional method. Risk a fixed percent of capital per trade, commonly 0.5 to 2 percent. Formula: quantity = (capital x risk%) / (entry minus stop). Example: capital 3,00,000, risk 1 percent = 3,000; entry 400, stop 380, risk per share 20, quantity = 3,000/20 = **150 shares** (position 60,000 rupees, 20 percent of capital).

Why it matters. With 1 percent risk per trade, ten straight losses cost about 9.6 percent. With 10 percent risk per trade, ten losses cost about 65 percent. Position size, not entry skill, decides survival.

Volatility adjustment. Wider stops need smaller positions: if the stop is 40 instead of 20, quantity halves for the same rupee risk.

Portfolio heat. Total open risk across all trades (say a maximum of 5 percent) and correlation: five bank stocks are close to one big trade.

Scaling. Add to winners only with a defined stop; never add to losers to "average down" without a plan.

COMMON MISTAKES

- Choosing quantity by feel or by "I can afford it".
- Putting every trade at maximum size.
- Ignoring correlation between open positions.

KEY POINTS

- Quantity = risk amount / (entry minus stop).
- Risk about 1 percent or less per trade.
- Cap total open risk and set daily and weekly loss limits.
- Do not average down without a plan.

TEST YOURSELF

Q. Capital 5,00,000, risk 1 percent, entry 120, stop 112. Quantity?
A. Risk amount 5,000; risk per share 8; quantity = **625 shares**.

Q. Why do wider stops require smaller size?
A. To keep the rupee loss at the planned amount if the stop is hit.

LESSON 38 OF 48

Risk-reward ratio, win rate and expectancy

The **risk-reward ratio** compares what you can lose with what you hope to gain. If you risk 100 to make 300, the ratio is 1:3. The **win rate** is the percentage of trades that make money. The two work together: you can be profitable with a 40 percent win rate if your winners are bigger than your losers, and you can lose money with a 70 percent win rate if your winners are small and losers are huge.

Expectancy combines them: (win rate times average win) minus (loss rate times average loss). A positive expectancy means that over many trades you make money. Measure results in **R multiples**, where 1R is your initial risk on a trade, so a gain of 2R means twice the risk. It lets you compare trades of different sizes.

Even a positive expectancy produces losing streaks. With a 40 percent win rate, ten losses in a row is uncommon but possible over hundreds of trades. Your position sizing must be small enough to survive the streak.

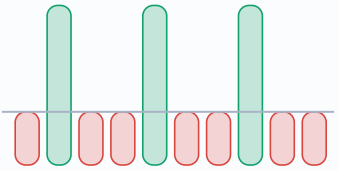


1 : 3

reward-to-risk

You can win only 30% of trades and still be profitable at 1:3.

Reward-to-risk compares how much you can make with how much you can lose on a trade.



40% win rate

+3R winners · −1R losers

0.4×3 − 0.6×1

= +0.6R per trade

Expectancy is the average result per trade. A lower win rate can still win if winners are bigger.

WORKED EXAMPLE

Strategy A: win rate 40 percent, average win 3R, average loss 1R. Expectancy = (0.4 × 3) minus (0.6 × 1) = 1.2 minus 0.6 = +0.6R per trade. Strategy B: win rate 70 percent, average win 0.5R, average loss 1.5R. Expectancy = (0.7 × 0.5) minus (0.3 × 1.5) = 0.35 minus 0.45 = minus 0.1R. A loses more often but makes money. B wins often but loses money overall.

Go deeper

R-multiples. Define 1R as your initial risk per trade. A trade that makes twice the risk is +2R. Measuring in R makes results comparable regardless of size.

Expectancy formula. E = (win rate x average win) minus (loss rate x average loss). Example: 45 percent winners at +2R, 55 percent losers at minus 1R gives 0.9 minus 0.55 = **+0.35R**. Over 100 trades that is +35R; at 1,000 rupees per R, that is 35,000 before costs.

Break-even win rate. At 1:2 reward-risk you need only 33.3 percent winners; at 1:1 you need 50 percent plus costs; at 1:3, 25 percent.

Reality check. Expectancy is an average over many trades; short streaks of losses are normal. At 40 percent win rate, five losses in a row happens fairly often (about 8 percent per sequence).

Costs. Subtract brokerage, taxes and slippage from each trade's R.

COMMON MISTAKES

- Judging a strategy from 10 trades.
- Taking trades with reward below risk without a high win rate.
- Ignoring costs when computing expectancy.

KEY POINTS

- Win rate alone means nothing. Combine it with reward and risk.
- Expectancy = (win% x avg win) minus (loss% x avg loss).
- Measure in R multiples.
- Losing streaks are normal even for good systems.

TEST YOURSELF

Q. Win rate 30 percent, average win +3R, average loss -1R. Expectancy?
A. 0.9 minus 0.7 = **+0.2R**.

Q. Break-even win rate at 1:2 reward-risk?
A. About **33 percent** before costs.

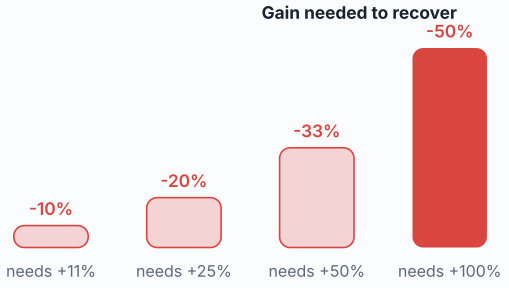
LESSON 39 OF 48

Drawdown and the maths of recovery

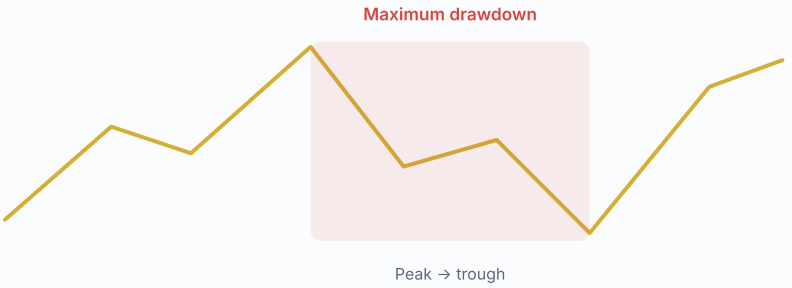
Drawdown is the fall from your account's peak to a later low. Maximum drawdown is the worst such fall and is the number that tells you whether a strategy is survivable.

Losses are harder to recover than they look, because you recover from a smaller base. A 10 percent loss needs an 11 percent gain to break even. A 20 percent loss needs 25 percent. A 50 percent loss needs a 100 percent gain. A 90 percent loss needs a 900 percent gain, which almost nobody achieves. The deeper the hole, the less likely you climb out.

Therefore the first job is **not losing big**. Set a drawdown limit, for example reduce position size by half after a 10 percent drawdown and stop trading for a review at 15 or 20 percent. Do not increase size to "make it back", since that is how small drawdowns become account blow-ups.



The deeper the loss, the harder the climb back. A 50% loss needs a 100% gain.



Drawdown is the fall from a peak to the next low. Plan for it before it happens.

WORKED EXAMPLE

Account 1,00,000 rupees. After a bad run it drops to 70,000, a 30 percent drawdown. To get back to 1,00,000 you need a gain of 30,000 on 70,000, which is about 43 percent. If instead you had cut size and limited the drawdown to 10 percent (90,000), you would need only 11 percent to recover.

Go deeper

The maths of loss. Recovery needed = loss/(1 minus loss). A 10 percent loss needs 11.1 percent to recover; 20 percent needs 25; 33 percent needs 50; 50 percent needs **100**. Deep drawdowns become nearly impossible to recover, so avoiding them is more important than chasing returns.

Maximum drawdown is the largest peak-to-trough fall in your equity curve. Know your system's historic maximum and expect a worse one live.

Circuit breakers. Rules like: reduce size by half after a 5 percent monthly drawdown; stop trading for the week after 8 percent; review

before resuming. This protects both capital and psychology.

Example. Account 10 lakh. After a 12 percent drawdown (balance 8.8 lakh), cut risk per trade from 1 percent to 0.5 percent until you recover half the loss.

Recovery mindset. Do not try to win back quickly with bigger positions; that is how small drawdowns become large ones.

COMMON MISTAKES

- Increasing size after losses to "get even".
- Ignoring the drawdown a strategy had in testing.
- Having no rule for when to stop trading.

KEY POINTS

- Drawdown = fall from peak. Know your maximum acceptable drawdown.
- Recovery needs bigger gains than the loss: 50 percent loss needs 100 percent gain.
- Reduce size during drawdowns and never try to win it back with bigger bets.
- Protect capital first.

TEST YOURSELF

Q. How much gain recovers a 25 percent loss?
A. 0.25/0.75 = **33.3 percent**.

Q. Why use a drawdown circuit breaker?

A. It limits damage and forces a review before emotional decisions compound losses.

LESSON 40 OF 48

Trading psychology: fear, greed, FOMO and revenge trading

Markets are an emotional business, and emotion causes most beginners' losses. The common traps: **FOMO** (fear of missing out) makes you chase a stock after it has already moved. **Greed** makes you hold winners until they turn into losers or increase position size after a lucky streak. **Fear** makes you exit good trades early or skip valid setups after losses. **Revenge trading** is placing impulsive larger trades to win back a loss. **Overconfidence** after a few wins and **hope** (refusing to take a stop-loss) are also common.

Practical defences: trade a written plan, risk a small amount so no single trade hurts, take a break after consecutive losses, and never trade when angry, tired or distracted. Use a pre-trade checklist: Is it in my plan? Where is my stop? What is my risk in rupees? Do not check the profit and loss every minute.

Accept that losses are a cost of doing business, like a shop paying rent. Judge yourself on whether you followed your rules, not on whether a single trade made money.



Emotions peak at the wrong time: euphoria near the top, panic near the bottom. Rules protect you from both.

WORKED EXAMPLE

A trader loses 3,000 rupees on a stopped trade, feels angry and immediately buys a larger quantity of a different stock without a setup. That trade loses 6,000 rupees. Afterwards he adds a rule: after two consecutive losses or a loss of 2 percent in a day he closes the platform until the next day. The rule costs him nothing and saves him from his worst hour.

Go deeper

Common biases. Loss aversion: a loss hurts about twice as much as an equal gain pleases, so traders hold losers and cut winners. **FOMO**: chasing moves after they are already extended. **Confirmation bias**: seeking only information that supports your position. **Overconfidence** after a winning streak, **revenge trading** after a loss, **anchoring** to your purchase price.

Process over outcome. A good trade is one that followed your plan, even if it lost. A bad trade broke the plan, even if it won. Judge yourself

on execution.

Tools. Pre-trade checklist, fixed risk per trade, journal with emotion tags, a daily loss limit, and a break after two consecutive losses. Physical habits matter: sleep, exercise and not trading when angry or stressed.

Example. After three losses a trader doubles size to recover, takes a lower-quality setup and loses 6 percent in one trade. The rule "stop after two losses" would have limited the day to about 2 percent.

Support. If trading affects your mental health, finances or relationships, take a break and talk to someone you trust or a professional.

COMMON MISTAKES

- Moving the stop to avoid taking the loss.
- Trading to feel something or to recover money quickly.
- Judging decisions by outcome rather than process.

KEY POINTS

- FOMO, greed, fear and revenge are the main enemies.
- Use a written plan and a pre-trade checklist.
- Stop trading after a set number of losses or a daily loss limit.
- Judge process (did I follow my rules?) rather than single outcomes.

TEST YOURSELF

Q. What is revenge trading?
A. Taking impulsive, oversized trades after a loss to win the money back immediately.

Q. Why judge process rather than outcome?

A. Single outcomes include luck; consistent rule-following is what produces results over many trades.

LESSON 41 OF 48

Writing your trading plan

A **trading plan** is a short document that removes decisions from the moment of stress. Write it when the market is closed and follow it when it is open.

Include: your **goal** and realistic expectations; the **markets and instruments** you trade; your **timeframes** and trading hours; the **setup** rules (exactly what must be true to enter); **entry, stop-loss and target** rules; **position sizing** and the maximum risk per trade and per day; **conditions to stay out** (major news, low volume, being tired); a **review routine** (daily, weekly and monthly); and **rules for scaling up** (for example, increase size only after three profitable months following the plan).

Keep it to one or two pages. If a rule cannot be checked as yes or no, it is too vague. "Buy when the stock looks strong" is vague. "Buy when the daily close is above the 20-day high with volume above the 20-day average" is testable.

WORKED EXAMPLE

A short plan: "Instrument: Nifty 100 stocks only. Timeframe: daily. Setup: close above 50-day high, volume above 20-day average, sector index above its 50-day average. Entry: next day above that day's high. Stop: below the last swing low. Risk: 1 percent. Max 5 positions. No trades in the two days before results. Review every Sunday."

Go deeper

What a plan contains. (1) Markets and instruments traded. (2) Timeframes. (3) Setups with exact entry rules. (4) Stop and target rules. (5) Position-sizing formula. (6) Maximum daily, weekly and monthly loss. (7) Trading hours and routine. (8) What you will not trade (news events, illiquid stocks). (9) Review schedule.

Sample setup entry. "Daily uptrend above the 50 EMA; pullback to 20 EMA; hourly close above previous candle's high; stop under swing low; first target 2R; trail the rest."

Daily routine. Pre-market: check news, levels, watchlist. During: trade only plan setups. Post-market: journal each trade and screenshot. Weekly: compute win rate, average R, mistakes. Monthly: decide to continue, adjust or pause.

Changing the plan. Change only after a review of at least 30 to 50 trades, never in the middle of a drawdown day. Write why you changed it.

Checklist before each trade. Does it match a setup? Is risk within limit? Is the stop defined? Is the reward at least 2R?

> **COMMON MISTAKES**
>
> - Having a vague plan like "buy dips".
> - Changing the plan after two bad trades.
> - Skipping the journal on losing days.

KEY POINTS

- Write the plan when calm and follow it when emotional.
- Every rule must be testable as yes or no.
- Include risk limits and conditions to stay out.
- Scale up only after proof, not after hope.

TEST YOURSELF

Q. Name four items every trading plan must have.
A. For example setup rules, stop and target rules, position sizing, and maximum loss limits.

Q. When should you modify the plan?
A. After reviewing enough trades (30 to 50), outside of emotional moments, and writing down the reason.

LEVEL 4 · PRO

Module 7: Taxes, regulation and staying safe

Know the rules before the profits arrive. Tax laws change often. The information here is educational and is not tax advice; confirm current rules with a chartered accountant.

Taxation of share trading in India

How your profit is taxed depends on what kind of activity it is.

Delivery-based investing (buying and holding shares) gives **capital gains**. If sold within 12 months it is a **short-term gain** taxed at 20 percent on listed shares and equity funds where STT is paid. If held for more than 12 months it is a **long-term gain**, and gains above 1.25 lakh rupees in a financial year are taxed at 12.5 percent. These rates have been in place since the 2024 changes and were unchanged in the 2026 Budget, but always confirm the current figures.

Intraday trading profits and losses are treated as **speculative business income**, taxed at your slab rate. **Futures and options** are treated as **non-speculative business income**, also at slab rate. Because it is business income you can claim genuine expenses, you must maintain books and, depending on turnover, may need a tax audit; you usually file ITR-3. F&O losses can be carried forward for 8 years against future business income if you file your return on time.

Remember **STT** is not the same as income tax, and paying it does not remove your tax on profits. Keep contract notes and the broker's tax P&L report.

WORKED EXAMPLE

You sell shares after 8 months for a gain of 50,000 rupees: short-term, taxed at 20 percent, so the tax is 10,000. Another investor sells shares held for 3 years for a gain of 2,25,000 rupees. The first 1,25,000 is exempt in that year and tax at 12.5 percent applies on the remaining 1,00,000, so the tax is 12,500. An F&O trader with a net profit of 3,00,000 adds it to income and pays tax at their slab rate.

Go deeper

Heads of income. Gains from investing are usually treated as **capital gains** (short-term or long-term depending on holding period and asset type), while frequent trading and F&O can be treated as **business income**. Intraday equity trades are treated as **speculative business income**, and F&O as **non-speculative business income**. Holding periods and rates for equity, mutual funds, debt and gold have been changed by recent Budgets, so check the **current rates**.

Illustration (method only). Suppose you have short-term capital gains of 50,000 and long-term gains of 2,00,000 in a year. The tax is computed separately for each at the rate and exemption limit in force; losses of one type can be set off against others per rules. Use the actual rates for the year when computing.

F&O and intraday. Need a profit-and-loss statement, turnover calculation, and often **ITR-3**. Losses can be carried forward for years if the return is filed on time. Tax audit thresholds depend on turnover and profit percentage.

Other costs. STT, GST on brokerage, stamp duty, exchange charges: deductible as business expenses for traders. Dividends are taxable. **Advance tax** may apply.

Action. Keep contract notes and the broker's tax P&L; consult a qualified CA for filing, since rules change often.

COMMON MISTAKES

- Not filing a return in a loss year and losing carry-forward.
- Using old tax rates from videos or posts.
- Treating F&O profits as capital gains.

KEY POINTS

- Delivery trading: short-term (up to 12 months) 20 percent, long-term 12.5 percent above 1.25 lakh.
- Intraday is speculative business income. F&O is non-speculative business income.
- F&O losses can be carried forward if the return is filed on time.
- Rates can change, so confirm with a chartered accountant.

TEST YOURSELF

Q. How is F&O income generally classified?
A. As non-speculative business income, reported usually in ITR-3.

Q. Why file the return even when you have a loss?
A. Filing on time allows eligible losses to be carried forward and set off against future gains.

LESSON 43 OF 48

Regulation, investor rights and complaints

You have protections as an investor, but you have to use them. Only deal with **SEBI-registered** intermediaries: check a broker, investment adviser or research analyst in SEBI's public register. SEBI-registered advisers must follow rules on disclosure, risk profiling and fees, and are not allowed to promise guaranteed returns.

Keep records: contract notes, ledger statements and screenshots of orders. If something goes wrong, first complain to your broker in writing. If it is not resolved, you can raise the complaint on **SCORES** (SEBI's complaint portal) or use the exchange's investor grievance process and the **online dispute resolution (ODR)** mechanism. Do not give anyone a power of attorney over your demat account unless you fully understand and trust it, and never share your passwords.

Also use your broker's nomination facility to name a nominee for your accounts, so your family can claim your holdings.

> **WORKED EXAMPLE**
>
> A broker executes a trade you did not place. You note the time, take a screenshot, email your broker and ask for the order log. If the broker does not respond within the stated period, you file the complaint on the SEBI SCORES portal with your documents attached.

Go deeper

Who regulates. SEBI regulates the securities market; **exchanges** (NSE, BSE) enforce trading rules; **depositories** (NSDL, CDSL) hold your

shares; **RBI** handles currency and banking; **AMFI** oversees mutual fund distributors.

Your rights. Receive a contract note for every trade; get funds and securities within settlement timelines; get a clear statement of accounts; refuse unsolicited tips; complain.

Investor protection. Only deal with **SEBI-registered** brokers, advisers (RIA) and research analysts (RA); verify registration on SEBI's website. Use the broker's grievance channel first, then **SCORES** (SEBI's complaint portal) and **SMART ODR** (online dispute resolution). Exchanges also run investor protection funds for broker defaults, within limits.

Safe practices. Link your own bank and phone to your demat; never share OTPs; use two-factor authentication; check your holdings statement monthly; give **power of attorney** only in the form allowed by current rules.

Advice vs education. Only registered advisers may give personalised recommendations for a fee. Educational content, including this site's, is not a recommendation.

> **COMMON MISTAKES**
>
> - Following unregistered "advisers" on social media.
> - Sharing OTPs or login details.
> - Not checking monthly holdings and contract notes.

KEY POINTS

- Verify advisers and brokers in SEBI's register.
- Keep contract notes, ledgers and screenshots.
- Escalate: broker first, then SCORES and the ODR process.
- Add a nominee to your accounts.

TEST YOURSELF

Q. Where can you verify whether an adviser is registered?
A. On SEBI's official website intermediary search.

Q. What is the escalation path for a broker complaint?
A. First the broker's grievance channel, then SEBI SCORES and SMART ODR.

LESSON 44 OF 48

Scams and red flags to avoid

Many people lose money not in the market but to fraud. Learn the patterns.

Red flags: **guaranteed returns** or "sure-shot" tips; WhatsApp or Telegram groups offering paid tips by unregistered people; "operators" who claim they can move a stock; **pump-and-dump** schemes pushing a low-volume stock so insiders can sell to you; fake trading apps or "institutional" IPO allotment schemes asking you to deposit money into a personal bank account; requests to share OTPs or screen-share; and unregistered advisers who show screenshots of profits (which are easily faked).

Rules that protect you: no one can guarantee returns in markets; legitimate intermediaries take money only through official channels and never ask you to pay a personal account; verify registration numbers on the SEBI website; be suspicious of urgency ("only today"); and if a deal sounds too good, assume it is a scam. If you are a victim, report it quickly to the cyber crime helpline 1930 or cybercrime.gov.in, and to SEBI and your bank.

WORKED EXAMPLE

A stranger adds you to a "VIP group" where members post huge profits and an "analyst" offers a special pre-IPO allotment if you transfer 50,000 rupees to a personal account. Every claim is a red flag: unregistered adviser, profit screenshots, payment to a personal account and an exclusive deal. The correct move is to leave the group and report it.

Go deeper

Common scams. Guaranteed-return schemes, "operator" tips and pump-and-dump Telegram groups, fake trading apps showing fake profits, IPO or block-deal "allotment" scams, impersonation of brokers or SEBI officials, **digital arrest** style calls, loan or "AI trading bot" schemes, and "send money for VIP group" sellers.

Red-flag checklist. (1) Promise of fixed or guaranteed returns. (2) Pressure to act now. (3) Request to pay into a personal account or UPI. (4) App not from official stores or broker not on the exchange list. (5) Withdrawal needs more "fees" or "tax" first. (6) Unknown people adding you to groups with fake testimonials.

Pump and dump. Group members buy a thin small-cap, then the organisers sell into their buying; latecomers are left holding falling shares.

If you are scammed. Stop paying, save evidence (chats, screenshots, transaction IDs), call the national cyber-crime helpline 1930 or report at the cybercrime portal quickly, tell your bank, and complain to SEBI if a market intermediary was involved.

Verification. Check the entity's registration and use official apps and websites only.

COMMON MISTAKES

- Believing screenshots of profits.
- Paying "fees" to withdraw your money.
- Acting on tips from unknown groups without checking.

KEY POINTS

- Guaranteed returns are always a lie.
- Never pay a personal bank account for shares or tips.
- Verify registration on the official SEBI site.
- Report frauds quickly to 1930 and cybercrime.gov.in.

TEST YOURSELF

Q. A group promises 20 percent monthly returns guaranteed. What does this indicate?
A. A major red flag; legitimate markets cannot guarantee returns.

Q. First steps after losing money to a scam?
A. Stop further payments, preserve evidence, inform your bank and report on 1930 or the cybercrime portal quickly.

LEVEL 4 · PRO

Module 8: Becoming a professional-level trader

Professional means process: clear rules, risk control, records and continuous improvement. These lessons show what the next level looks like.

LESSON 45 OF 48

Liquidity, slippage and market microstructure

Liquidity is how easily you can buy or sell without moving the price. Liquid stocks have high volume, tight spreads and deep order books. In illiquid stocks even a small order can push the price against you, which is **slippage**. Slippage is a real cost that backtests often ignore.

Understanding **order flow** helps: the exchange matches orders by price and time priority. Large institutions split big orders into many small ones over hours to avoid moving the market. Times of day matter: the open and close often have higher volatility, mid-day tends to be quieter and news can cause spikes anywhere.

Practical rules: trade within the stock's normal volume (your order should be a tiny part of the daily volume), prefer limit orders in thin stocks, avoid trading in the first minutes if your edge does not depend on it, and be careful with stocks in circuit limits where exits can disappear.

> **WORKED EXAMPLE**
>
> A stock has an average daily volume of 20,000 shares. You try to sell 5,000 shares at market. That is a quarter of the day's volume, so your own selling pushes the price down several percent before you finish. A stock with 20 lakh shares of daily volume would absorb the same order with almost no impact.

Go deeper

Order book. Bids (buy orders) and asks (sell orders) are matched by **price-time priority**: best price first, then earliest order. The **bid-ask**

spread is the cost of immediacy: if bid is 100.00 and ask 100.10, a market buyer pays 10 paise more than a seller receives.

Slippage. For a large market order, you consume several levels: buying 5,000 shares with 1,000 at 100.10, 2,000 at 100.15 and 2,000 at 100.20 costs an average of about 100.16, not 100.10. Illiquid stocks have wider spreads and more slippage.

Order types. Limit orders give price control but may not fill; market orders fill but at uncertain prices; stop-loss market (SL-M) vs stop-loss limit has gap risk in both.

Participants. Retail, institutions (FII/DII), proprietary and algo traders, market makers. Institutions split big orders (VWAP, TWAP) to avoid moving price.

Auctions and circuits. Opening and closing sessions, price bands and circuit limits can freeze trading, so exits may be impossible in limit-hit stocks.

Implication. Trade liquid instruments, use limit orders in thin markets, and include spreads in your cost model.

COMMON MISTAKES

- Using market orders in illiquid stocks.
- Ignoring that circuit-hit stocks may not allow exits.
- Backtesting without spread and slippage.

KEY POINTS

- Prefer liquid stocks with tight spreads.
- Slippage is a hidden cost, especially with market orders in thin stocks.
- Keep your order small compared with daily volume.
- Circuit-locked stocks can trap you.

TEST YOURSELF

Q. Bid 250.00, ask 250.20. Cost of an immediate round trip per share?

A. About **0.20 rupees** (the spread), before brokerage.

Q. Why do institutions split large orders?

A. To avoid moving the price against themselves and reduce market impact.

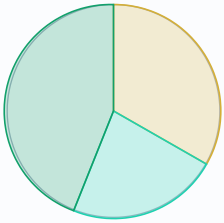
LESSON 46 OF 48

Advanced portfolio construction and rebalancing

Beyond picking stocks, professionals think about how positions behave **together**. **Correlation** measures whether two assets move together. Holding five bank stocks is not diversification, because they tend to move as one. Real diversification mixes assets that respond differently, such as equity, debt, gold and, for those who choose, international exposure.

Ideas used by professionals: **position limits** (no single stock above, say, 10 percent of portfolio), **sector limits**, **core-satellite** structure (a core of index funds with a smaller satellite of active picks), **factor** tilts such as quality, value and momentum, and **volatility-based sizing** where more volatile holdings get smaller weights. **Rebalancing** rules can be time-based (yearly) or threshold-based (when a weight drifts 5 percentage points).

Measure the portfolio, not only the winners: track total return against a simple benchmark like a Nifty index fund. If you cannot beat the index after costs and taxes over several years, the index fund is a reasonable core.



Spreading money across different assets reduces the damage when one of them falls.

WORKED EXAMPLE

A portfolio is 60 percent core Nifty index fund and 40 percent satellite in 8 individual stocks, each limited to 5 percent. No sector exceeds 20 percent. Each January the weights are reset. If a satellite stock doubles and becomes 9 percent, the rule says trim it back to 5 percent.

Go deeper

Core-satellite. Keep a low-cost **core** (index funds, 60 to 80 percent) and a smaller **satellite** (stocks or themes, 20 to 40 percent) where you apply research. This limits the damage from stock-picking errors.

Correlation and diversification. Two assets with correlation 1 move together; with 0 they are independent; with minus 1 they offset. Ten stocks in one sector are not diversified. Combine equity, debt, gold and possibly international exposure.

Risk budgeting. Instead of equal rupees, allocate equal risk: a stock with twice the volatility gets about half the weight. Cap any single stock

at, say, 5 to 10 percent at cost.

Position sizing for investors. Build in tranches: one third now, one third on dips, one third after confirmation, to reduce timing risk.

Rebalancing and tax. Rebalancing can trigger taxes, so use fresh money first. Review at least yearly against your goals and update the investment policy statement.

Metrics. Track portfolio return vs a benchmark (Nifty 50 TRI), volatility, drawdown, and **XIRR** for irregular cashflows.

COMMON MISTAKES

- Holding many names in the same sector and calling it diversified.
- Comparing returns to a benchmark without including dividends (use TRI).
- Letting one winner grow to a dominant share unreviewed.

KEY POINTS

- Correlated holdings are not diversified.
- Use position and sector limits.
- A core-satellite structure combines simplicity with active ideas.
- Compare yourself with a simple index fund after costs and taxes.

TEST YOURSELF

Q. Why is XIRR used instead of simple return?
A. It accounts for the timing of each cash inflow and outflow, giving an annualised return for irregular investments.

Q. What is the core-satellite approach?

A. A low-cost index core with a smaller satellite of active picks to limit stock-selection risk.

Algorithmic and systematic trading

Systematic trading means rules that are fully defined, so a computer can follow them. **Algorithmic trading** automates the execution. The advantages are discipline, speed and testability, and the removal of emotion. The risks are bugs, overfitting, data errors and a strategy that stops working when the market changes.

A sound process: form a hypothesis (why should this edge exist?), define precise rules, **backtest** on past data with realistic costs and slippage, use **out-of-sample** testing (data not used for building), try a **walk-forward** test, then run small live size and compare with backtest results. Watch for look-ahead bias (using information that was not available at the time) and survivorship bias (testing only on companies that still exist today).

In India, retail algo use through brokers is regulated by SEBI and exchanges, with requirements on broker approval, registration of algos and risk checks, and these rules have been evolving. Use only broker-approved APIs, never share API keys and ensure there are kill switches and daily loss limits in your code.

WORKED EXAMPLE

You test a breakout strategy over 8 years and see great results. But you tuned the lookback period 40 times until the curve looked perfect. On the next 2 unseen years it fails. That is overfitting. A better approach: fix the idea first, test a few settings, and verify on a separate unseen period before trusting it.

Go deeper

Pipeline. Idea, data, rules, backtest, robustness checks, paper trade, small live, scale. Each stage can disprove the idea; that is its job.

Data hygiene. Use adjusted prices (splits, bonus, dividends), correct timestamps, and avoid **look-ahead bias** (using information not available at that moment, like today's close to decide at today's open). Handle **survivorship bias** with delisted names.

Robustness. Walk-forward testing, Monte Carlo reshuffling of trades, parameter sensitivity (if results collapse with a small change, it is overfit), and testing across regimes. Add realistic costs.

Metrics. CAGR, Sharpe (return per unit of volatility), maximum drawdown, profit factor, trade count. Few trades give unreliable stats.

Execution. Broker APIs allow automated orders; build in kill switches, position limits, duplicate-order guards, logging and alerts. Check broker and SEBI rules for algo trading, since retail algo regulation is evolving.

Mindset. Most ideas fail. Automation removes emotion but not market risk or bugs.

COMMON MISTAKES

- Using future data by accident in the backtest.
- Deploying with no kill switch or daily loss cap.
- Trusting a great backtest with only 30 trades.

KEY POINTS

- Define precise rules, test with costs, then verify on unseen data.
- Beware overfitting, look-ahead bias and survivorship bias.
- Start live with tiny size and compare with backtests.
- Follow SEBI and broker rules, protect API keys and use kill switches.

TEST YOURSELF

Q. What is look-ahead bias?

A. Using information in a backtest that would not have been available at the decision time.

Q. Why test parameter sensitivity?

A. If small changes break the results, the strategy is probably overfit to the past.

LESSON 48 OF 48

Your roadmap from beginner to consistent trader

Becoming consistent is a long road and most people never complete it. Treat it like learning a profession, not a lottery ticket.

A sensible path: **Stage 1** learn the basics and open a small account while you study. **Stage 2** learn fundamentals and invest regularly through index funds, so your long-term wealth does not depend on trading. **Stage 3** learn technical analysis and choose one style and one simple strategy. **Stage 4** backtest and paper trade it for at least a few months. **Stage 5** trade with very small real size, keep a journal and focus on following rules. **Stage 6** review monthly; scale up slowly only if you have positive expectancy over a meaningful number of trades and your drawdowns are within your limits. **Stage 7** learn derivatives only after stage 6, with defined-risk strategies first.

Treat trading income as uncertain. Keep your job or other income, maintain an emergency fund, pay your taxes and never trade with borrowed money or money you need for living costs.

WORKED EXAMPLE

Priya studies for 3 months while investing 5,000 rupees a month in an index fund. She then paper trades one swing strategy for 3 months, trades with 25,000 rupees at 0.5 percent risk for 6 months with a journal, and only after a positive, rule-following record does she raise her capital and risk. She never touches her emergency fund or index investments.

Go deeper

Stages. (1) **Foundation** (0 to 6 months): basics, demat, tiny capital, paper trades, a journal. (2) **Competence** (6 to 18 months): one strategy, risk rules, 100+ journaled trades, positive expectancy after costs. (3) **Consistency** (1.5 to 3 years): stable process across market conditions, controlled drawdowns, tax and compliance in order. (4) **Professional**: scalable process, possibly managing others' money (which needs the right SEBI registration) or building a business around education or research.

Milestones with numbers. 100 trades logged; maximum risk 1 percent per trade; maximum monthly drawdown under 8 percent; expectancy above +0.2R after costs; a written plan reviewed monthly.

Habits of professionals. Specialise in one or two setups, keep size small while learning, treat trading as a business with expenses and taxes, keep other income so no money is "needed" from trading, review mistakes weekly, keep learning.

Honest outlook. Many retail traders lose money. Treat the first years as paid education: keep losses small, learn, and let the process, not income need, decide when to scale.

Next step. Pick one path (investor, swing trader, intraday, options) and master it before adding another.

COMMON MISTAKES

- Scaling capital before proving consistency.
- Learning five strategies at once.
- Depending on trading profits for monthly living costs too early.

KEY POINTS

- Build long-term wealth first and treat trading as a skill to earn.
- One style, one strategy, one journal.
- Scale up only after a meaningful record of following the rules.
- Never trade with borrowed money or money you need.

TEST YOURSELF

Q. Give two milestones before increasing capital.
A. For example 100+ journaled trades with positive expectancy after costs and drawdown held within your set limit.

Q. Why keep other income while learning?
A. So you are not forced to take poor trades to pay bills, which protects discipline.

Final notes

You have reached the end of this guide. Knowledge only helps when it becomes habit: keep risk small, keep records and keep learning.

Next steps: take the quiz for this market and use the glossary on learnwithkrisu.com when a term is unclear. Revisit lessons whenever a topic feels weak.

Education only. Not investment advice. Past examples do not predict future results.