

A Study on the Calculated Risk Technique on Indexes

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ABSTRACT

In this research we would be developing a technique to earn profit every month by trading minimum number of days and maximize profit with zero losses or to be more precise with no losses. Also, the profit earned through this technique has been shown. On an average basis the amount invested in market every month gives back the double of the amount invested. This means that by this technique a person can earn to 1 crore in a year. By putting adequate stop loss and trailing stop loss a trader can easily without any technical indicators earn profits with the help of the correction movement in the market. This technique stands proven in any months or any time of the years because its based of few facts which will be disclosed in the paper. Those facts are the basis of derivate market and the equity markets. So until the market functions on the same way as this date, this technique will behold its existence and ability to give profits.

1. Introduction

All small traders in the market of cash or equity or futures or options realise after a point of time that high leverage in the intraday or futures or options leads to huge losses and lesser profits as they try to survive with their capital in the markets. Every trader who must have recognised the potentials of this markets have always given a try to learn technical indicators from various sources which might internet, or any senior in the market. In the real intraday market profits are dependent on two things which is logic and emotion. The trader who has losses accumulated always trades with emotions and the sweet fruit is harvested by the traders who use logic. Technical indicators are price and volume driven and hence these do not help a trader for his intraday trade. Technical indicators do not help to determine or determines a trend very lately and keeps on giving confusing signals to the trader which might lead him to losses or he might miss the opportunity of investing. A good intraday trader needs to know the trend of the stock to invest and earn good profits with some patience. With the help of end of the month effect when the market gets heavily volatile, we would try to analyse how to determine correct spots of entry in market with accurate stop loss and even compute the profits earned by minimization of the losses.

This research is very important for the small traders because in every month a trend is to known and hence good profits can be made of high leverage and high returns in the market. If we talk about the accuracy of the CRT then it is accurate for the market in any time of the day of any working day of the calendar. Rather than getting confused by so many technical indicators and losing the correct spot of entry and choice of trade, this technique solves all the problems.

2. Review of Literature

a) Impact of International Financial flows on Indian stock market (2013)

Mr. K.S. Venkateshwara Kumar

The author Mr.K. S Venkateshwara Kumar in his research paper, which is based on the fact that foreign capital helps every nation's economy observed that after the New Economic

Policy of our country. The need of FDI and FII is clearly shown in this research. Developing countries like India suffer from scarcity of funds in highly capital-intensive areas.

Huge foreign capital is circulated in the market and the FIIs are always on the lookout of profits. Foreign capital increases the depth of a market and plays an important role in expanding the securities business. The trend of FIIs is so powerful that when FII withdraws, domestic investors tend to withdraw money out of fear.

The objectives of the research were to study the flow of FDI and FII with relation to growth of the nation's markets. The data procured for the research is secondary data and tools like correlation, multi-regression and OLS model is used. The research concludes that flow of FII and CNX is dependant. (K.S.Venkateswara Kumar, 2013)

b) Simple technical trading rules and the stochastic properties of stock returns (by Mr. William Brock, Joseph L):

This research contains the test of two technical indications which are MA (Moving Average) and trading range break. This research has been utilising the Dow Jones Index and is extended through the use of bootstrap techniques. The data utilised in the research is secondary data. The returns of the stock are measured by four models. E.g. A random walk method, Exponential GARCH. The conclusion of the research was that buy signals generated higher returns than sell signals. The drawback of the research was that the limitations of sell signals are not explained by the above models used. (WILLIAM BROCK, December 1992)

c) Effects of futures trading on spot price volatility (by Mr. Sathya Swaroop Debasis):

The purpose of the study is to study the impact of Nifty index futures on the volatility of the Indian spot markets by use of econometric model. This research confirmed no structural change after introduction of futures trading on Nifty. Spot returns volatility is found to be important in explaining spot returns.

The results imply that the futures market serve their prescribed role of improving price efficiency and improving the quality of information of the spot market to structure investing strategies.

d) Futures Trading and spot market volatility: A case of S&P CNX Nifty Index (by Mr. P. Sakthivel, B. Kamaiah):

An attempt is made here to investigate the relationship between stock market volatility and trading activity (trading volume open interest) in the Nifty futures market using the GARCH framework. The study uses daily closing prices, trading volume and open interest for Nifty index futures for the period July 1, 2000 to February 28, 2008. The study considers only near month end contract data since most trading activities take place in this contract. Open interest and volume are used as measures of futures. The study decomposes series of futures trading volume and open interest into expected and unexpected components by an appropriate ARMA procedure. Then the study introduces future trading variables such as expected and unexpected volume and open interest in GARCH and GJR GARCH models to examine their effects on spot volatility. (Sakthivel, Jan 2009)

e) Effects of Market Sentiment in Index Option Pricing: A study of CNX Nifty Index Option (by Mr. Thirukumaran Nagarajan, Koteswararao Malipeddi):

This paper provides evidence of the role of sentiments in pricing Indian CNX Nifty index call option pricing model using the implied volatility of previous day, is the pricing index closer to actual price compared to Black Scholes pricing model incorporating non-normal skewness and kurtosis suggested by Corrado & Sue 1996. The market's pricing call option is higher than Black Scholes pricing during bullish period even though sentiments are incorporated in the underlying asset which in this case is the Nifty index. The index call options are priced about 1.5% more than Black Scholes model during bullish period compared to that of bearish period during period of observation. (Koteswararao Malipeddi, 2007)

f) Intraday return dynamics and volatility spill over between NSE S&P CNX Nifty stock index futures (by Mr. Pratap Chandrapati, Probina Rajib)

Using five-minute intraday candle, the study investigates the relationship between the NSE and S&P CNX Nifty futures and its underlying spot index in terms of both return and volatility. By applying Johansen Juselius (J-J) cointegration analysis, we find evidence of single stochastic trend, to which spot and future prices move together in a long-term equilibrium path. The Vector Error Correction Model (VECM) and Granger casualty test finds that there is unidirectional casualty running from futures to spot market. To examine the volatility spill overs between the markets this study has used GARCH (1,1) model with Baba Engle, Kraft and Kroner (BEKK)

parameterisation and finds evidence of bidirectional volatility spill overs between spot and future markets. (Prabina Rajib, 1995)

3. Research Design

1. Objective of the study:

- In this research we will try to determine the trend of nifty and bank-nifty every month on the basis of its spot settlement price of its respective futures every month.
- The research is all about is there any trend around the spot settlement price? If yes why is that so?

2. Scope:

- To compute the amount of earnings from the past 18 months with this research technique.
- To determine the exact spot of entry and exit in the market.
- To evaluate the performance of the technique made with the help of this research.

3. Type of Data:

Secondary Data obtained from the reliable source of NSE India.

4. Methodology:

CALCULATED RISK TECHNIQUE(CRT)

The steps are: -

- On every month's last Thursday at 5:30pm go to nseindia.com website and search for nifty50 or bank-nifty in equity derivatives.
- Check for the close of that day with contract of the next month. The close of that day is to be referred as spot price.
- This had to be noted and two variables are to be computed. One is the lower variable and the other is upper variable.
- For nifty the lower variable is spot price-20 and upper variable is spot price +20 and for bank-nifty the lower variable is spot price-40 and upper variable is spot price +40. Now buy 1 lot at upper variable and 2 lots at the lower variable so that we never encounter loss.

The exit shall be made as per your comfort and expected return. The next day which is Friday same as above has to be repeated i.e. at 5:30pm Friday's close is to be made spot price and lower variable and upper variable are to be computed and Monday's position will be based on variables formed on Friday.

NIFTY 28 th JUNE TO JULY 2018										
DATE	EXPIRY	OPEN	HIGH	LOW	CLOSE	LOWER VARIABLE	UPPER VARIABLE	PROFIT PER UNIT	PROFIT PER LOT	CUMULATIVE PROFIT
28-Jun-18	26-Jul-18	□ 10,674.10	□ 10,674.10	□ 10,550.75	□ 10,571.10	□ 10,551.10	□ 10,591.10			
29-Jun-18	26-Jul-18	□ 10,591.05	□ 10,706.75	□ 10,591.05	□ 10,694.80	□ 10,674.80	□ 10,714.80	□ 115.65	□ 8,673.75	□ 8,673.75
02-Jul-18	26-Jul-18	□ 10,698.75	□ 10,705.00	□ 10,595.00	□ 10,658.25	□ 10,638.25	□ 10,678.25	□ 79.80	□ 5,985.00	□ 14,658.75
03-Jul-18	26-Jul-18	□ 10,645.00	□ 10,733.10	□ 10,630.40	□ 10,723.95	□ 10,703.95	□ 10,743.95	□ 62.70	□ 4,702.50	□ 19,361.25
04-Jul-18	26-Jul-18	□ 10,716.10	□ 10,776.90	□ 10,671.00	□ 10,771.35	□ 10,751.35	□ 10,791.35	□ 65.90	□ 4,942.50	□ 24,303.75
05-Jul-18	26-Jul-18	□ 10,759.95	□ 10,791.00	□ 10,731.20	□ 10,751.75	□ 10,731.75	□ 10,771.75	□ 19.80	□ 1,485.00	□ 25,788.75
06-Jul-18	26-Jul-18	□ 10,728.00	□ 10,816.70	□ 10,718.25	□ 10,778.40	□ 10,758.40	□ 10,798.40	□ 58.45	□ 4,383.75	□ 30,172.50

Analysis paragraph

- At 5:30pm on the last Thursday of 28 June the close of nifty future for July is to make it to the spot price.
- Upper variable and lower variable are to be computed by adding 20 and reducing 20 from the spot.
- These are the benchmarks for taking position in the intraday market at 9:15am. 1 lot of futures is to be bought at upper variable and 2 lots are to be sold at the lower variable.
- So, we can see that on Friday market opens at 10591.05 which is also the day low which also gives a strong buy.
- As we can see that over buy order gets executed at 10591.1 and then profit starts railing up. Exit position is at your own comfort. That day profit can be made of □8673.75 on 1 lot.
- Similarly, the next day our upper variable is 10714.8, where we had to place buy order and the profit starts railing up from this point to profit of 5985 in a lot. This is to be continued till 6-7th day of the market till the corrections are made and end of the month effect continues.

In this month we saw that the maximum profit made through this technique is □30172 which is more than 3 times the capital invested.

BANK NIFTY 28 th JUNE TO JULY 2018										
DATE	EXPIRY	OPEN	HIGH	LOW	CLOSE	UPPER VARIABLE	LOWER VARIABLE	PROFIT/SHARE	PROFIT PER LOT	CUMULATIVE PROFIT
28-Jun-18	26-Jul-18	□ 26,316.05	□ 26,439.85	□ 26,136.65	□ 26,237.50	□ 26,277.50	□ 26,197.50	□ 3.00	□ 120.00	
29-Jun-18	26-Jul-18	□ 26,255.60	□ 26,437.00	□ 26,255.60	□ 26,349.65	□ 26,389.65	□ 26,309.65	□ 159.50	□ 6,380.00	□ 6,380.00
02-Jul-18	26-Jul-18	□ 26,349.95	□ 26,349.95	□ 26,065.35	□ 26,237.25	□ 26,277.25	□ 26,197.25	□ 131.90	□ 5,276.00	□ 11,656.00
03-Jul-18	26-Jul-18	□ 26,181.00	□ 26,344.50	□ 26,165.20	□ 26,254.95	□ 26,294.95	□ 26,214.95	□ 67.50	□ 2,700.00	□ 14,356.00
04-Jul-18	26-Jul-18	□ 26,244.95	□ 26,467.00	□ 26,121.00	□ 26,437.50	□ 26,477.50	□ 26,397.50	□ 266.00	□ 10,640.00	□ 24,996.00
05-Jul-18	26-Jul-18	□ 26,436.55	□ 26,596.00	□ 26,403.00	□ 26,484.50	□ 26,524.50	□ 26,444.50	□ 118.50	□ 4,740.00	□ 29,736.00

Analysis paragraph

- At 5:30pm on the last Thursday of 28 June the close of bank-nifty future for July is to made to be the spot price.

- Upper variable and lower variable are to be computed by adding 40 and reducing 40 from the spot. These are the benchmarks for taking position in the intra-day market at 9:15am. 1 lot of futures is to be bought above upper variable and 2 lots are to be sold below the lower variable.
- So, we can see that on Friday market opens at 26255.6 which is also the day low which also gives a strong buy. As we can see that over buy order gets executed at 26277.5 and then profit starts riling up. Exit position is at your own comfort. That day profit can be made of 6380 on 1 lot.
- Similarly, the next day our lower variable is 26309.65, we had to place sell order and the profit starts riling up from this point to profit of 5276 in a lot. This is to be continued till 6-7th day of the market till the corrections are made and end of the month effect continues. In this month we saw that the maximum profit made through technique is 29736 which is even more than the capital invested.

BANK NIFTY 30th JULY TO AUGUST 2018										
<u>DATE</u>	<u>EXPIRY</u>	<u>OPEN</u>	<u>HIGH</u>	<u>LOW</u>	<u>CLOSE</u>	<u>UPPER VARIABLE</u>	<u>LOWER VARIABLE</u>	<u>PROFIT</u>	<u>PROFIT /LOT</u>	<u>CUMMULATIVE PROFIT</u>
25-Jul-18	30-Aug-18	27,077.90	27,152.65	27,013.10	27,102.40	27,142.40	27,062.40			
26-Jul-18	30-Aug-18	27,149.70	27,476.80	27,107.45	27,436.65	27,476.65	27,396.65	334.40	13,376.00	13,376.00
27-Jul-18	30-Aug-18	27,503.30	27,660.00	27,475.00	27,639.45	27,679.45	27,599.45	183.35	7,334.00	20,710.00
30-Jul-18	30-Aug-18	27,724.80	27,872.05	27,615.25	27,854.80	27,894.80	27,814.80	192.60	7,704.00	28,414.00
31-Jul-18	30-Aug-18	27,814.85	27,839.75	27,725.00	27,811.65	27,851.65	27,771.65	89.80	3,592.00	32,006.00
01-Aug-18	30-Aug-18	27,778.70	27,843.05	27,552.40	27,672.20	27,712.20	27,632.20	219.25	8,770.00	40,776.00
02-Aug-18	30-Aug-18	27,510.15	27,550.00	27,415.30	27,450.10	27,490.10	27,410.10	216.90	8,676.00	49,452.00
03-Aug-18	30-Aug-18	27,510.00	27,800.00	27,475.25	27,776.85	27,816.85	27,736.85	309.90	12,396.00	61,848.00

NIFTY 30th JULY TO AUGUST 2018										
<u>DATE</u>	<u>EXPIRY</u>	<u>OPEN</u>	<u>HIGH</u>	<u>LOW</u>	<u>CLOSE</u>	<u>UPPER VARIABLE</u>	<u>LOWER VARIABLE</u>	<u>PROFIT/SHARE</u>	<u>PROFIT/LOT</u>	<u>CUMMULATIVE PROFIT</u>
26-Jul-18	30-Aug-18	11,153.25	11,215.15	11,153.25	11,201.35	11,221.35	11,181.35			
27-Jul-18	30-Aug-18	11,234.30	11,312.85	11,225.25	11,306.70	11,326.70	11,286.70	87.60	6,570.00	6,570.00
30-Jul-18	30-Aug-18	11,325.15	11,345.20	11,285.00	11,338.50	11,358.50	11,318.50	18.50	1,387.50	7,957.50
31-Jul-18	30-Aug-18	11,330.00	11,379.50	11,290.60	11,371.60	11,391.60	11,351.60	48.90	3,667.50	11,625.00
01-Aug-18	30-Aug-18	11,379.95	11,402.75	11,341.00	11,374.30	11,394.30	11,354.30	21.75	1,631.25	13,256.25

18	18									
02-Aug-18	30-Aug-18	11,343.90	11,343.90	11,274.00	11,282.30	11,302.30	11,262.30	69.90	5,242.50	18,498.75
03-Aug-18	30-Aug-18	11,306.00	11,406.90	11,302.20	11,395.75	11,415.75	11,375.75	104.60	7,845.00	26,343.75

NIFTY 27th AUGUST TO SEPTEMBER 2018

<u>DATE</u>	<u>EXPIRY</u>	<u>OPEN</u>	<u>HIGH</u>	<u>LOW</u>	<u>CLOSE</u>	<u>UPPER VARIABLE</u>	<u>LOWER VARIABLE</u>	<u>PROFIT/UNIT</u>	<u>PROFIT/LOT</u>	<u>CUMMULATIVE PROFIT</u>
23-Aug-18	27-Sep-18	11,634.35	11,652.50	11,593.00	11,634.80	11,654.80	11,614.80			
24-Aug-18	27-Sep-18	11,610.00	11,646.45	11,583.00	11,610.85	11,630.85	11,590.85	31.80	2,385.00	2,385.00
27-Aug-18	27-Sep-18	11,649.95	11,750.00	11,465.00	11,741.95	11,761.95	11,721.95	245.00	18,375.00	20,760.00
28-Aug-18	27-Sep-18	11,770.00	11,799.80	11,753.25	11,789.30	11,809.30	11,769.30	37.85	2,838.75	23,598.75
29-Aug-18	27-Sep-18	11,792.25	11,803.00	11,736.50	11,749.85	11,769.85	11,729.85	32.80	2,460.00	26,058.75
30-Aug-18	27-Sep-18	11,755.05	11,757.80	11,694.05	11,733.15	11,753.15	11,713.15	35.80	2,685.00	28,743.75
31-Aug-18	27-Sep-18	11,709.00	11,793.00	11,686.35	11,735.30	11,755.30	11,715.30	66.65	4,998.75	33,742.50
03-Sep-18	27-Sep-18	11,755.15	11,775.05	11,620.00	11,641.75	11,661.75	11,621.75	115.05	8,628.75	42,371.25
04-Sep-18	27-Sep-18	11,633.15	11,649.60	11,550.00	11,573.10	11,593.10	11,553.10	71.75	5,381.25	47,752.50

BANK NIFTY 27th AUGUST TO SEPTEMBER 2018

<u>DATE</u>	<u>EXPIRY</u>	<u>OPEN</u>	<u>HIGH</u>	<u>LOW</u>	<u>CLOSE</u>	<u>UPPER VARIABLE</u>	<u>LOWER VARIABLE</u>	<u>PROFIT/UNIT</u>	<u>PROFIT/LOT</u>	<u>CUMMULATIVE PROFIT</u>
23-Aug-18	27-Sep-18	28,390.00	28,401.10	28,113.45	28,191.60	28,231.60	28,151.60			
24-Aug-18	27-Sep-18	28,125.50	28,270.00	27,962.75	28,011.40	28,051.40	27,971.40	227.25	9,090.00	9,090.00
27-Aug-18	27-Sep-18	28,117.35	28,380.00	28,117.35	28,359.75	28,399.75	28,319.75	328.60	13,144.00	22,234.00
28-Aug-18	27-Sep-18	28,431.05	28,490.00	28,245.35	28,387.70	28,427.70	28,347.70	90.25	3,610.00	25,844.00
29-Aug-18	27-Sep-18	28,342.25	28,478.70	28,286.25	28,343.55	28,383.55	28,303.55	112.45	4,498.00	30,342.00
30-Aug-18	27-Sep-18	28,343.20	28,343.20	28,124.10	28,221.85	28,261.85	28,181.85	139.10	5,564.00	35,906.00
31-Aug-18	27-Sep-18	28,160.00	28,309.15	28,107.95	28,216.70	28,256.70	28,176.70	121.20	4,848.00	40,754.00
03-Sep-18	27-Sep-18	28,285.15	28,299.95	27,961.55	28,014.55	28,054.55	27,974.55	258.40	10,336.00	51,090.00
04-Sep-18	27-Sep-18	27,969.00	28,039.00	27,550.10	27,615.45	27,655.45	27,575.45	408.90	□ 16,356.00	□ 67,446.00

4. Conclusion

Through this research we have shown that with the help of identifiable momentum and volume in the market called the of the end of the month effect because of the correction given by the market. By determining correct position of entry for buying or short selling the futures we can earn a huge and sufficient

profit and the exit point is on the investors which will be as per their own comforts. This technique has to be repeated for 6-7 days till the market corrections get over and our money every month grows by 2-3 times.

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