

For more information:
Call: 022 - 3089 6680 | **SMS:** MOSL INFO to 575753
Email: info@motilaloswal.com | **Visit us at:** www.motilaloswal.com



Motilal Oswal Securities Ltd.

Member of NSE and BSE

Registered Office: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai 400 064.
NSE (Cash): INB231041238, NSE(F&O): INF231041238, BSE (Cash): INB011041257, BSE(F&O): INF011041257, PMS: INP000000670,
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INVESTMENT VIS TRADING

BACK TO BASICS





***INVESTMENT
VIS
TRADING***



Can you play a Test Match like a 20-20?

When it comes to creating wealth we need to play to a plan. Sometimes we get waylaid by our emotions and do not play the way we have planned. That's the reason for loss and many heartburns. The following pages will teach you the different approaches to creating wealth. And the importance of sticking to your strategy.



**Before going for a transaction
ask this very basic question**

**WHAT TYPE OF
TRANSACTION IS THIS?**



Decide Before Ordering

Investments or Positional Trade or Intra-day

There are three basic strategies in the stock market. It is important to know the right strategy that suits you.



Investments are like a Test Match

- Duration ranges from few months to few years
- They are based on Fundamental factors
- Strategy is to BUY & HOLD till the theme & under valuation persists
- Let long term remain long term and do not book short term profits. As they say, Rome was not built in a day



Positional Trades are like a One Day Match

- Duration could be overnight to a few days
- They are based on Technical factors
- May not be in sync with Fundamental factors
- Always make use of STOP-LOSS levels - Use Trailing Stop Losses
- Should not be converted into Long-term Investments



Trailing Stop Loss

Trailing Stop Loss lets you continue to increase the stop to take advantage of any profitable trade. Here till the stock is below purchase price the original stop remains. As the price increases the stop increases. Why book ₹10 profit when you can make more?

Price	Stop Loss	Target
100	95	110
96	95	110
100	95	110
105	100	110
110	105	115
115	110	120
120	110	125
125	115	130
130	120	140

This is an hypothetical example



Intra-day Trades are like 20-20

- Same day square-off
- They are based on Technical factors
- May not be in sync with Fundamental factors :
Remember 17th May, 2004
- Always make use of STOP-LOSS levels
- Should not be converted to Positional Trades
or Investments



Intra-day Assumptions

- Success Ratio of not more than 60-65%
- Reward - Risk Ratio of 2:1
For an expected profit of ₹2, you are accepting a risk of losing ₹1



Intra-day Assumptions

With a reward risk ratio of 2:1, money can be made even if one is right 40% of the time.

Success Ratio	No. of times Stop Loss (₹1) is hit	Total Loss (in ₹)	No. of times (₹2) is earned	Profit Earned (in ₹)	Net Position (in ₹)
40%	6	$6 \times 1 = 6$	4	$4 \times 2 = 8$	+2
50%	5	$5 \times 1 = 5$	5	$5 \times 2 = 10$	+5
60%	4	$4 \times 1 = 4$	6	$6 \times 2 = 12$	+8
70%	3	$3 \times 1 = 3$	7	$7 \times 2 = 14$	+11

This is an hypothetical example



INVESTING v/s TRADING

- Buy and hold. Wait for the markets to rebound
- Average if the theme or under-valuation persists during the fall
- Never use a stop loss
- Never short the market
- Focus on the Fundamentals
- Never wait for the markets to rebound
- Never Average
- Never trade without a stop loss. Use trailing stop-losses
- Going short is a integral part of trading
- Focus on Technical Parameters



THE GOLDEN RULE

**Do not
trade like an Investor
or
invest like a Trader**

Trading and Investment are as different as TEST MATCH & ONE DAY. One does not play a TEST MATCH like ONE DAY or ONE DAY like a TEST MATCH. If one does, the team may lose. The same is the case in Stock Markets. The rules of trading are different from that of Investment. Hence, if one trades like an Investor or Invests like a Trader it would result in loss.



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