

Indbankonline

MARKETS FOR YOU

Private Circulation only

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Issue - 81

From the President's Desk

Warren Buffet reportedly said "There are two rules of investing. Rule 1 – Don't lose money. Rule 2 – Never forget Rule 1. But, notwithstanding Buffet's stature in the world of investment, there is no reason to accept it as a gospel. Unlike Savings products, it is certain that the value of any investment in stocks will change over time. It may lead to gain or loss. So how to manage the risk associated with investment by following some strategy. Risk is best managed when no risk is taken. Loss Control strategy tells us to limit loss within bearable range by selling the securities whose holding entails further loss. Diversification strategy is one of the widely followed rules to manage risk.



Every investor is aware that diversification is good for his/her investment portfolio. But the way it's done leaves a lot to be desired and sometimes it becomes ineffective too. What is diversification? I had seen a portfolio containing 50 stocks, which is supposed to be diversified not actually diversified. Similarly there are number of portfolios, where a number of similar types of funds make a big chunk. These are Cluttered Portfolios and not Diversified Portfolios.

Mr. BANABIHARI PANDA
President & Whole time Director
Indbank Merchant Banking Services Ltd

The main aim of diversification is in saving the investor from market volatilities. If there is a problem in a particular sector/geography, having limited exposure to them helps. An ideal diversification should be across company sizes, sectors and even geographies.

However, there is no point in adding stocks to one portfolio beyond a point, as it is very difficult to manage a portfolio with large number of stocks. Investors should understand that diversification should not be goal unto itself. What one needs is a little diversification across asset classes encompassing equities, mutual funds and debts, which help the investors to better encounter the market vagaries. It does have its own downside. Hence one should do only the minimum required and nothing in excess.

We have continued our series on Options Strategies in our "Beginners Corner" and have listed out two of the advanced option strategies like Straddles and Strangles which we trust you to find informative. In our next issue we will dwell upon some of the other option strategies like Collar, Butterfly etc.

Till next issue, HAPPY & DILIGENT INVESTING!!!

Banabihari Panda

President and Whole Time Director
Indbank Merchant Banking Services Ltd

03/02/2014



Our website : www.indbankonline.com

IMPORTANT HAPPENINGS

- Mr. Raghuram Rajan surprised the markets again. The key highlights of the 3rd Quarter Review of Monetary Policy 2013-2014 are:
 - Repo Rate hike by 25 bps. Increased to 8.00% from the current 7.75%.
 - Reverse Repo rate adjusted by 25 bps. Increased to 9.00% from 8.75%.
 - Marginal Standing Rate up by 25 bps to 9.00% from the present 8.75%.
 - No change in Cash Reserve Ratio. Stands at 4% of Net Demand and Time Liabilities (NDTL).
 - Focus on restricting CPI Inflation to 8.00% by January 2015 and below 6% by January 2016.
- The Government of India has hiked the interest on Provident Fund deposits to 8.75% for the year 2013-14 from the current 8.50% given in the year 2012-2013.
- The SEBI Chairman has called for strong information sharing mechanism with foreign regulators to nab manipulators and fraudsters operating across boundaries in the globalized world.
- The Government has extended the benefits of the National Manufacturing Policy throughout the country wherever industry can organize itself into clusters and adopt a self regulatory model to boost the manufacturing sector.
- Insurance Regulatory and Development Authority (IRDA) is planning a proposal for providing life insurance cover to people with disability.
- RBI allowed Indian companies to issue non-convertible, redeemable bonus preference shares and debentures to non-residents from its reserves. It however added that the permission was not applicable for non-convertible preference shares.
- RBI has relaxed the Foreign Direct Investment regulations by allowing optionality clauses in Foreign Direct Investment. This would enable investors to exit, subject to the conditions of minimum lock-in period and without any assured return.
- SEBI said that a non-promoter entity can't be asked to reduce stake in a listed company if its purchase of shares, without acquiring control of the firm, leads to non-compliance with the minimum public shareholding norms.
- SEBI notified new Foreign Portfolio Investor (FPI) norms, to put in place an easier registration process and operating framework for overseas entities looking to invest in Indian capital markets.
- An expert panel set up by the Reserve Bank of India (RBI) said that the RBI should adopt the new Consumer Price Index to revise and strengthen its monetary policy. The committee also set the inflation target at 4% with a band of plus or minus 2% around it.
- RBI proposed that unclaimed bank deposits, estimated at over Rs. 3,500 crore, be utilized for education and awareness of depositors.
- RBI has permitted the Asset Reconstruction Companies to convert debt of crisis ridden companies into equities as part of restructuring process.
- The Finance Minister said that reform measures and speedy decision making processes have yielded results and added that India would certainly return to 8% growth rate if past mistakes are not repeated.
- The Government of India is looking at Alternative Capital Infusion options for PSU banks so that there is no dilution of Government Stakes. Some options include differential voting rights (DVR) shares & warrants.

Snap Shots

Inflation (%)	6.16 (Dec. 2013)	7.52 (Nov. 2013)	7.52 (Nov. 2013)	7.00 (Oct. 2013)	7.00 (Oct. 2013)
Particulars	24 th Jan. 2014	17 th Jan. 2014	10 th Jan. 2014	03 rd Jan. 2014	27 th Dec. 2013
91-Day Cut-off (%)	8.6875	8.7293	8.7293	8.7293	8.6875
10-yr G-Sec yield (%)	8.9143	8.8053	8.9656	9.0682	9.1182
1-10 yr spread (bps)	35	27	27	39	23
USD/INR (Rs)	62.1770	61.3518	61.9360	62.4075	62.0595
USD 6m LIBOR	0.33	0.33	0.34	0.35	0.35
10 Y US Treasury	2.73	2.83	2.86	2.99	3.01
USD/Euro Spot	0.731116	0.737783	0.731872	0.735033	0.726333

Global Indices

Indices	Country	Index as on 27 th Dec. 2013	Index as on 27 th Jan. 2014	Variation (%) (Inc/ Dec)
NASDAQ	United States	4,156.59	4,083.61	(1.76)
DJIA	United States	16,478.41	15,837.88	(3.89)
S&P 500	United States	1,841.40	1,781.56	(3.25)
Hang Seng	Hong Kong	23,243.24	21,976.10	(5.45)
Nikkei 225	Japan	16,178.94	15,005.73	(7.25)
Shanghai Composite	China	2,101.25	2,033.30	(3.23)
Straits Times	Singapore	3,149.76	3,042.43	(3.41)
FTSE 100	United Kingdom	6,750.90	6,550.70	(2.97)
CAC 40	France	4,277.65	4,144.56	(3.11)
DAX	Germany	9,589.39	9,349.22	(2.50)
SENSEX	India	21,193.58	20,707.45	(2.29)
NIFTY	India	6,313.80	6,135.85	(2.82)

Institutional Investments

Category	Debt / Equity	Gross Purchases (Rs Crores)	Gross Sales (Rs Crores)	Net Investment (Rs Crores)
FII Investments (in January up to 28.01.14)	Equity	54495.70	52522.80	1972.70
	Debt	31356.60	17333.50	14023.20
Mutual Fund (in January up to 27.01.14)	Equity	6775.90	9191.70	(2415.60)
	Debt	117812.60	78824.60	38988.10
FII Derivative Trades (in January up to 28.01.14)	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
- Buy	32252.11	201252.55	46134.08	25635.80
- Sell	36581.76	198242.94	47304.67	26367.71

Editorial Team

Banabihari Panda
President and Whole-time Director

S. Rajalakshmi
SSO

IPO and NFO Review

IPO NEWS

- Kolkata based super-market operator Spencer's Retail is planning to go for a public issue as it is close to hitting break even. Spencer's Chairman Mr. Sanjiv Goenka has stated that the Company has doubled per square foot of retail space in span of 3 years and the moment the Company turns profitable, they will start the process of listing.
- SEBI has slapped a fine of Rs. 53.50 Cr. on 25 entities for alleged irregularities in IPO of Brooks Laboratories. SEBI found that these entities had siphoned off funds from IPO proceeds of Brooks in alliance with Company Promoters.
- The year 2014 is expected to see heavy IPO issuance with some big ticket IPO's of Alibaba Group, cloud file storage companies Box Inc, Dropbox Inc and payments startup Square.
- Indian Companies mopped up Rs. 1619 Cr. through the IPO during the year 2013, which is lowest in 12 years. This is due to a variety of factors like overall poor sentiment, volatile secondary market, promoters not getting right valuations, apprehensions on regulator's views on valuations, lack of appetite for equity of big-time issuers etc.

CORPORATE ACTIONS

FORTH COMING CORPORATE ACTIONS

Company Name	Symbol	Ex Date	Record Date	Purpose
R. S. Software (India) Limited	RSSOFTWARE	30-Jan-14	29-Jan-14	Interim Dividend Re 1/- Per Share
Bharat Electronics Limited	BEL	30-Jan-14	29-Jan-14	Interim Dividend - Rs 6/- Per Share (Purpose Revised)
Credit Analysis And Research Limited	CARERATING	31-Jan-14	30-Jan-14	Third Interim Dividend - Rs 6/- Per Share
Zensar Technologies Limited	ZENSARTECH	31-Jan-14	30-Jan-14	Interim Dividend - Rs 4/- Per Share
MOIL Limited	MOIL	31-Jan-14	30-Jan-14	Interim Dividend - Rs 4/- Per Share (Purpose Revised)
Persistent Systems Limited	PERSISTENT	01-Feb-14	30-Jan-14	Interim Dividend - Rs 8/- Per Share (Purpose Revised)
PC Jeweller Limited	PCJEWELLER	31-Jan-14	30-Jan-14	Interim Dividend - Rs 1.50/- Per Share
Indiabulls Housing Finance Limited	IBULHSGFIN	01-Feb-14	30-Jan-14	Third Interim Dividend - Rs 7/- Per Share
D.B. Corp Limited	DBCORP	31-Jan-14	30-Jan-14	Interim Dividend Rs 3/- Per Share
NTPC Limited	NTPC	03-Feb-14	31-Jan-14	Interim Dividend
Transport Corporation of India Limited	TCI	03-Feb-14	31-Jan-14	Interim Dividend
Dewan Housing Finance Corporation Limited	DHFL	03-Feb-14	31-Jan-14	Interim Dividend Rs 3/- Per Share
Shree Cements Limited	SHREECEM	03-Feb-14	31-Jan-14	Interim Dividend - Rs 10/- Per Share (Purpose Revised)
Gandhi Special Tubes Limited	GANDHITUBE	04-Feb-14	03-Feb-14	Interim Dividend
India Infoline Limited	INDIAINFO	04-Feb-14	03-Feb-14	Interim Dividend
Oil India Limited	OIL	04-Feb-14	03-Feb-14	Interim Dividend
Swan Energy Limited	SWANENERGY	04-Feb-14	03-Feb-14	Face Value Split From Rs 2/- To Re 1/-
Wendt (India) Limited	WENDT	04-Feb-14	03-Feb-14	Interim Dividend - Rs 10/- Per Share
Indiabulls Securities Limited	IBSEC	04-Feb-14	03-Feb-14	Third Interim Dividend - Re 1/- Per Share
Crompton Greaves Limited	CROMPGREAV	05-Feb-14	04-Feb-14	Interim Dividend
Muthoot Finance Limited	MUTHOOTFIN	05-Feb-14	04-Feb-14	Interim Dividend
Aarti Drugs Limited	AARTIDRUGS	06-Feb-14	05-Feb-14	Second Interim Dividend
Edelweiss Financial Services Limited	EDELWEISS	06-Feb-14	05-Feb-14	Interim Dividend - Re 0.55/- Per Share
IRB Infrastructure Developers Limited	IRB	06-Feb-14	05-Feb-14	Second Interim Dividend
IRB Infrastructure Developers Limited	IRB	06-Feb-14	05-Feb-14	Second Interim Dividend
Aarti Industries Limited	AARTIIND	08-Feb-14	06-Feb-14	Interim Dividend
Bank of Maharashtra	MAHABANK	07-Feb-14	06-Feb-14	Interim Dividend
Marico Limited	MARICO	07-Feb-14	06-Feb-14	Interim Dividend
Power Finance Corporation Limited	PFC	10-Feb-14	07-Feb-14	Interim Dividend
Bharat Heavy Electricals Limited	BHEL	10-Feb-14	07-Feb-14	Interim Dividend
Godrej Consumer Products Limited	GODREJCP	10-Feb-14	07-Feb-14	Third Interim Dividend
Cummins India Limited	CUMMINSIND	15-Feb-14	13-Feb-14	Interim Dividend
Sun TV Network Limited	SUNTV	14-Feb-14	13-Feb-14	Third Interim Dividend
Page Industries Limited	PAGEIND	19-Feb-14	17-Feb-14	Third Interim Dividend
Greaves Cotton Limited	GREAVESCOT	18-Feb-14	17-Feb-14	Second Interim Dividend
R Systems International Limited	RSYSTEMS	28-Feb-14	26-Feb-14	Face Value Split From Rs 10/- To Re 1/- Per Share

NEW LISTINGS

Company Name	Offer Price (Rs.)	Exchange	Listing Date	List Price (Rs.)	Latest Traded Price	% Change to List Price (Rs.)
Tentival Wire Products Ltd.	13.00	BSE – SME	31.12.2013	12.50	10.55	(15.60)
Sree Leathers Ltd.	10.00	NSE – SME	01.01.2014	297.00	299	0.67
RCI Industries Ltd.	40.00	BSE – SME	21.01.2014	41.00	34.35	(16.22)
Suyog Telematics Ltd.	25.00	BSE – SME	22.01.2014	25.20	25.10	(0.40)

FORTHCOMING ISSUES

Company Name	Offer Price (Rs.)	Exchange	Issue Type	Issue Opening Date	Issue Closing Date
Agrimony Commodities Ltd.	10.00	BSE – SME	Public Issue	31.01.2014	04.02.2014

NEW FUND OFFERS

Scheme	Type	Class	Open Date	Close Date	Offer Price	Min. Inv. Amount
DSPBR FMP S144 12M	Close	Debt – FMP	24.01.2014	03.02.2014	10	5000
TATA FMP S46 Scheme J	Close	Debt – FMP	20.01.2014	03.02.2014	10	5000
SBI DFS A2	Close	Debt – Income	24.01.2014	03.02.2014	10	5000
TATA FMP S46 Scheme K	Close	Debt – FMP	27.01.2014	03.02.2014	10	5000
BirlaSL FTP S JY	Close	Debt – FMP	30.01.2014	03.02.2014	10	5000
DWS FMP S45	Close	Debt – FMP	30.01.2014	03.02.2014	10	5000
HDFC FMP1175D Jan14	Close	Debt – FMP	24.01.2014	04.02.2014	10	5000
ICICI Pru FMPS72 366K	Close	Debt – FMP	29.01.2014	04.02.2014	10	5000
Axis Hybrid S9	Close	Debt – FMP	24.01.2014	06.02.2014	10	5000
ICICI Pru Eq. Savings S1	Close	Equity – Diversified	20.01.2014	07.02.2014	10	5000
Sundaram Sel MCap III	Close	Equity – Diversified	28.01.2014	11.02.2014	10	5000
BirlaSL Foc EQ S1	Close	Equity – Diversified	15.01.2014	13.02.2014	10	5000
SBI Tax Advantage SIII	Close	Equity – ELSS	28.12.2013	27.03.2014	10	500

OUR PICKS

STEEL AUTHORITY OF INDIA LTD (SAIL)

SAIL is the leading steel making company in India that operates through its five integrated plants and three special steel plants located in the eastern and central regions in India. The company also has the largest captive iron ore operations in India, which takes care of its entire requirement. With plans to expand mining operations, the Company will continue to be self-sufficient in iron ore after completion of the on-going phase of expansion.

Investment Rationale

- ✦ Continuous endeavor to strengthen its position. Is investing Rs. 618.70 billion on modernization and expansion of existing capacities.
- ✦ In talks with Oil and Natural Gas Corporation (ONGC) to jointly explore coal-bed methane in captive coal blocks.
- ✦ Expansion spree, commissioning projects worth Rs. 55 bn.
- ✦ Robust financials. Posted 117% YoY growth in net profit.
- ✦ Strategic plan to achieve hot metal production of 50 mtpa.
- ✦ Consistent Production and sales growth.

KEY RISK:

- ✦ Dependent on market purchase for Coking Coal.
- ✦ Demand not growing as per expectation.
- ✦ Intensification of competition from domestic as well as foreign steel producers.
- ✦ EPS: 5.60.
- ✦ PE Ratio: 12.20.
- ✦ Book Value: Rs. 100.80.

BUY – Long Term

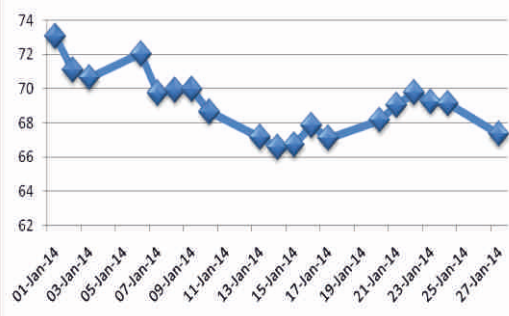
CMP :Rs. 67.85*

Target :Rs. 88.00

52W H/L:Rs. 101.75/37.60

Potential Upside – 27.50%

STEEL AUTHORITY OF INDIA LIMITED



BSE Code: 500113

NSE Code: SAIL

THERMAX LIMITED

Thermax Ltd. founded in 1980 is engaged in providing engineering solutions to the energy and environment sectors. The company operates primarily in two segments, namely, Energy and Environment. Energy segment includes boilers and heaters, absorption chillers/heat pumps and power plants. Environment segment includes air pollution control equipments / systems, water and waste recycle plants, ion exchange resins and performance chemicals. The Company is having presence in 75 countries across Asia Pacific, Africa, the Middle east, Europe, the United States and South America.

Investment Rationale

- ✦ Witnessed weak performance in Q2FY14 with 13% YoY de-growth.
- ✦ Increasing market share.
- ✦ Strong Management Pedigree.
- ✦ Subsidiary has started process of commissioning at its manufacturing facility.
- ✦ Excepted Pick-Up in order execution.
- ✦ Oversees business to support growth in near term.

KEY RISK:

- ✦ Adverse Capital Goods Sector.
- ✦ Delay in execution of big projects.
- ✦ Poor operating conditions and tight liquidity.
- ✦ Slowdown in Indian energy sector.
- ✦ EPS: 26.90.
- ✦ PE Ratio: 24.00.
- ✦ Book Value: Rs. 156.80.

BUY – Long Term

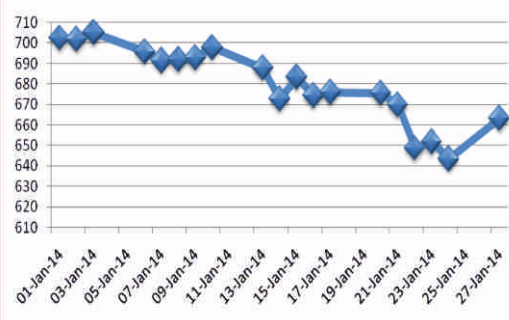
CMP :Rs. 652.00*

Target :Rs. 720.00

52W H/L:Rs.719.8/530

Potential Upside – 11.70%

THERMAX LIMITED



BSE Code: 500411

NSE Code: THERMAX

OUR PICKS FOR MEDIUM TERM BUYING

BIOCON LIMITED

India's largest and Asia's leading biotechnology company, established in 1978.

Stock Return

- 3 Months – 43.60
- 6 Months – 70.20
- 1 Year – 66.10

↗ Beta: 0.45

↗ Market Cap: Rs. 96.63 Billion

BSE Code : 532523

NSE Code : BIOCON

CMP : Rs. 424.35*

Target : Rs. 560.00

Stop Loss : Rs. 400.00

52W H/L : Rs. 489/253

BERGER PAINTS INDIA LIMITED

India's 2nd largest decorative paint player headquartered in Kolkata with 11 manufacturing units and about 170 sales offices across India. Has international presence in 3 countries.

Stock Return

- 3 Months – (2.10)
- 6 Months – (11.30)
- 1 Year – 42.90

↗ Beta: 0.45

↗ Market Cap: Rs. 74.61 Billion

BSE Code : 509480

NSE Code : BERGEPAIN

CMP : Rs. 208.60*

Target : Rs. 256.00

Stop Loss : 196.00

52W H/L : Rs.256.4/158.4

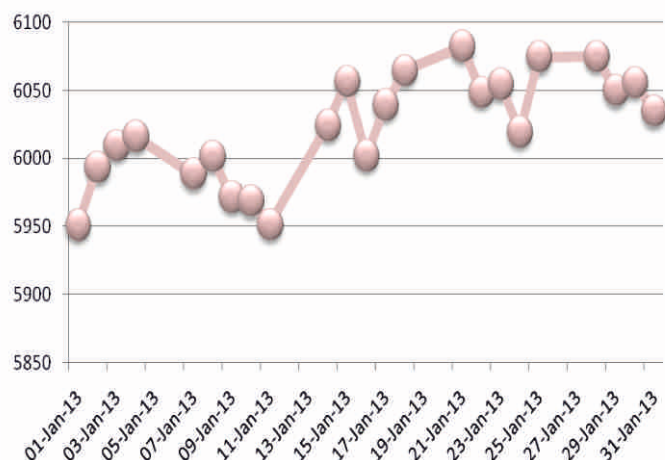
For detailed analyst reports, please visit: www.indbankonline.com

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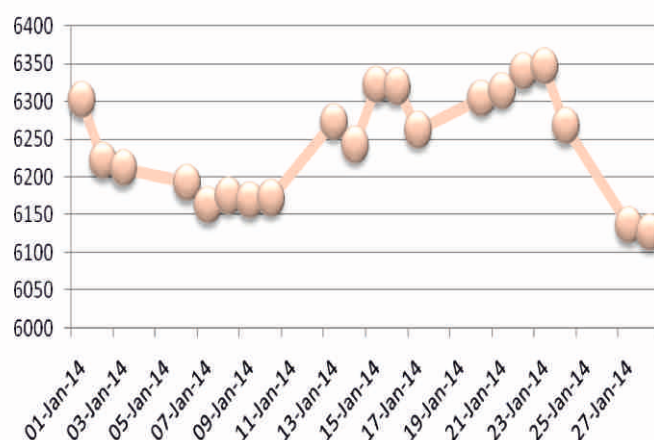
*Closing price as on 28.01.2014 on NSE

MARKET COMPARISON

JANUARY 2013



JANUARY 2014



Mutual Fund Corner

Scheme of the Month

IDFC TAX ADVANTAGE (ELSS)

LEVEL OF RISK: BROWN (HIGH RISK)

Fund Manager: Mr. Aniruddha Naha

Investment Objective: The scheme seeks to build a diversified portfolio comprising of stocks of companies with strong fundamentals that are available at reasonable valuations. The scheme can be fully into equities (and equity related securities) and upto 20% in debt & money market instruments.

Current Statistics & Profile	
Latest NAV	24.1072 (27.01.2014)
52-Week Range	19.7949 – 25.5147
52-Week High	22.75 (10.01.2014)
52-Week Low	17.03 (16.01.2012)
Fund Category	Equity – Tax Planning
Type	Open End
Launch Date	December 26 2008
Net Assets (Cr)	Rs. 162 (31.12.2013)
Benchmark	S&P BSE 200

Trailing Returns

As on 27.01.2014	Fund Return	S & P BSE 200 Return	Category Return
Year to Date	(5.27)	(3.74)	(3.68)
1-Month	(5.15)	(3.75)	(3.57)
3-Month	4.00	0.08	2.61
1-Year	6.99	(1.43)	1.72
3-Year	6.96	1.70	3.70
5-Year	19.62	18.06	18.79
Return Since Launch 18.87			

Note: Return up to 1 year are absolute and over 1 year are annualized.

Top Sector Weightings – As on 31/12/2013

Sector	% Net Assets
Financial	18.64
Health Care	15.07
Technology	14.79
FMCG	11.63
Automobile	7.27

Asset Allocation	
As on 31/12/2013	% Net Assets
Equity	97.58
Cash & Cash Equivalents	2.91

Investment Details	
Minimum Investment Amount	Rs.500
Additional Investment	In multiples of Rs.500
SIP	Yes; Min Rs.500; Min Months:30
Options	Dividend
Expense Ratio (%)	2.93 (Regular); 0.00 (Direct)
Exit Load	Nil

Fund Style	Portfolio Characteristic - As on 31.12.2013															
<table><tr><th colspan="3">Investment Style</th></tr><tr><th>Growth</th><th>Blend</th><th>Value</th></tr><tr><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td></tr></table>	Investment Style			Growth	Blend	Value										<p>Avg. Mkt. Cap – 18684.20 Cr</p> <p>Market Capitalization</p> <p>Giant – 27.60%</p> <p>Large – 24.98%</p> <p>Mid – 31.64%</p> <p>Small –15.78%</p> <p>Portfolio P/B Ratio: 4.81</p> <p>Portfolio P/E Ratio: 35.76</p>
Investment Style																
Growth	Blend	Value														

PORTFOLIO – Top 10 Holdings as on 31/12/2013

Sl. No.	Name of Holding	Instrument	% Net Assets
1.	Infosys	Equity	5.28
2.	Biocon	Equity	5.03
3.	Tech Mahindra	Equity	4.61
4.	Larsen & Turbo	Equity	4.29
5.	HCL Technologies	Equity	4.03
6.	HDFC Bank	Equity	3.98
7.	McLeod Russell (India)	Equity	3.92
8.	Lupin	Equity	3.61
9.	Bajaj Finance	Equity	3.55
10.	CESC	Equity	3.52

DERIVATIVES –PART 3 – OPTION STRATEGIES - II

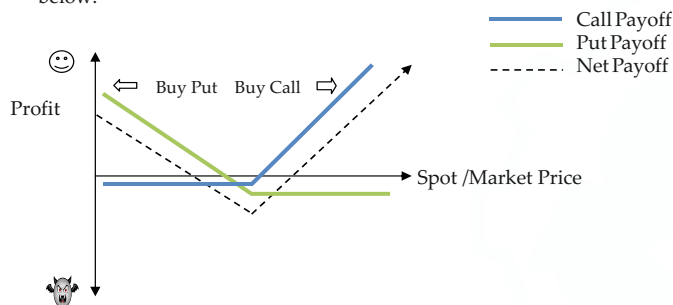
In our series on Derivatives, we have progressed to discuss the Strategies for trading in options. In the January 2014 issue, we detailed a few Option Strategies. This issue we discuss two more advanced option strategies. If you have missed our earlier issues, please visit our website www.indbankonline.com → Research & Downloads → Newsletter and go through the required month's issue.

STRADDLE

Straddle option strategy involves simultaneous Purchase or Sale of both Call and Put Options with the same Strike Price and same Expiration Date. It could be a Long Straddle or a Short Straddle.

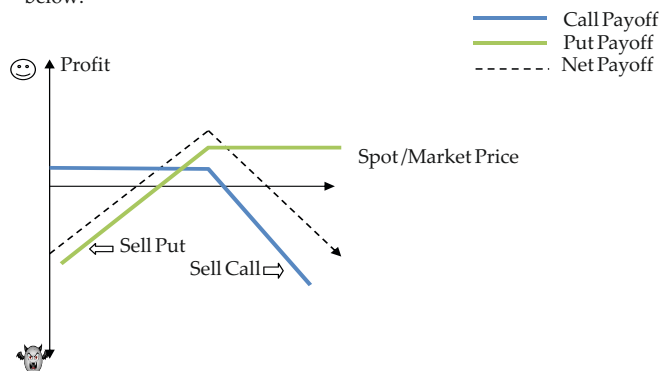
A. LONG STRADDLE - It is created by buying both Call and Put Options with the same strike price and expiration date.

- Market Outlook – Speculators use this strategy when they expect large movement, either downward or upward, in the underlying asset price but they are not certain of the direction of the price movement. Long Straddle is used when there is Large Move in either direction.
- This is high risk strategy, where the risk is limited to the premium paid and the reward is based on the price movement of the underlying securities regardless of the direction of price movement.
- Profit is booked when one of the option is exercised, while Maximum loss is incurred when both the options are not exercised
- Long Straddle is the right strategy for the share of a company which is subject to a takeover bid. If the takeover is successful, the price of the share is likely to move up sharply. If it is unsuccessful, the price is likely to move down sharply.
- The Pay off Matrix for this strategy is indicated by the broken line shown below:



B. SHORT STRADDLE - It is created by selling both Call and Put Options with the same strike price and expiration date.

- Market Outlook here is neutral with less volatility. Risk taking speculators use this strategy when they have the strong view that the underlying asset price movement is expected to be in narrow range or will not move either upward or downward.
- This is high risk strategy, where the risk is unlimited and the reward is limited to the premium received in sale of both call and put options.
- Maximum Profit is booked when both the options are not exercised because the asset price on the expiration date remains close to the strike price, while Maximum loss is incurred when one of the options is exercised due to large movement of prices in either direction.
- The Pay off Matrix for this strategy is indicated by the broken line shown below:

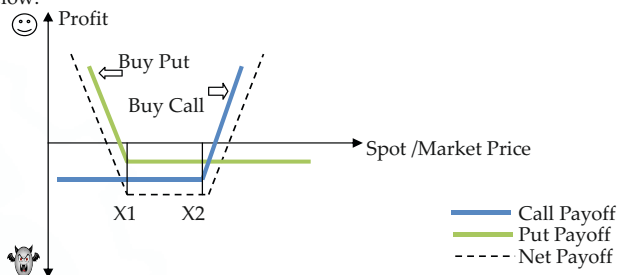


STRANGLE

Strangle Strategy involves simultaneous buying or selling a Call and Put Option with different Strike Prices but with same Expiration Date. Thus it is similar to Straddle Strategy except that the Strike Price is same in Straddle and in Strangle the Strike Prices are different.

C. LONG STRANGLE - It involves going long (buying) both put and call options with different strike price but with same expiration date. The call should be slightly On the Money (OTM) This strategy is used when the risk averse speculator expects the underlying asset price to either go up or down substantially. Here the profit potential is unlimited in case of large movement of price - either upward or downward. Maximum loss potential is limited to the premium paid for buying both the options. Strangle strategy is preferred over Straddle strategy because of low premium outflow. Importers use this strategy when large upward or downward movement is expected in currency prices. The Call Strike Price should be greater than Put Strike Price. Buy Put at strike price greater than or equal to spot/market price. Buy Call at strike price less than spot/market price.

- Market Outlook – Neutral
- In this strategy the risk is limited to the premium paid but the reward is unlimited and is an ideal strategy for Volatile Markets.
- Profit is when one of the options is exercised, while maximum loss is incurred when both the options are not exercised
- The Pay off Matrix for this strategy is indicated by the broken line shown below:

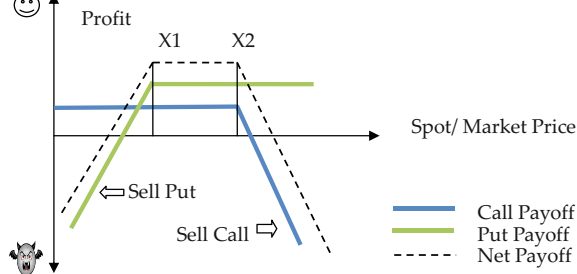


X1: Strike Price for Buy Put

X2: Strike Price for Buy Call

D. SHORT STRANGLE - This strategy is selling both put and call options with different strike prices but with the same expiration date. Speculators who expect that the underlying asset price movement will be in narrow range, opt for this strategy. The maximum profit potential is limited to the premium received but the maximum risk potential is unlimited, in case the underlying asset price moves upward or downward too much. Risk taking speculators use this strategy. In currency market, exporters use this by selling put options with a strike price less than the spot rate of the currency and by selling call options at a strike price greater than the spot rate of the currency.

- Market Outlook – Neutral with slightly less volatility
- Maximum Profit is when both of the options are not exercised, while loss is incurred when one of the options is exercised.
- The Pay off Matrix for this strategy is indicated by the broken line shown below:



X1: Strike Price for Sell Put

X2: Strike Price for Sell Call

By using these strategies, the risks involved are greatly reduced. We hope that our series on Option and Option Strategies was informative and helpful in your investment decisions.

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