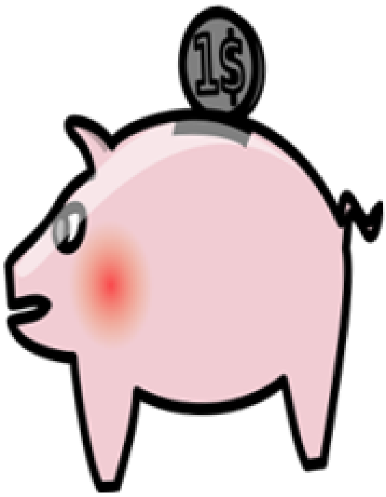
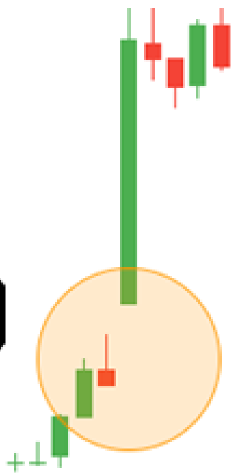
WisBees

Investment Journal

May 1st Week





WisBees Investment Journal

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Editorial

Welcome to the first edition of Wisbees e-investment journal weekly. In this issue, we will be discussing a range of investment themes, including opportunities in the BFSI sector, the growing trend of ESG thematic investing, Nifty trend analysis, trading strategies, and the importance of personal finance. We have identified a few NBFCs that offer good value in the stable Indian BFSI sector. ESG investing has shown to outperform the broader market, making it a compelling option for socially conscious investors. Nifty trend analysis and trading strategies can help traders achieve profitable trades. We will also be covering the importance of emergency funds in personal finance, and how they can help protect individuals from disastrous financial situations. Lastly, don't miss our adorable and informative infographics designed by our talented team. As always, we recommend seeking professional financial advice before making any investment decisions.

- **Gouri Sankar Dash**

Contents

IPO of the Week

India's first retail-focused REIT initial public offering (IPO) is set to launch on May 9th by Nexus Select Trust with a total size of Rs. 3,200 crore. Nexus is the owner of the country's largest portfolio of consumption centres and is backed by Blackstone. The IPO includes a fresh issue of units worth Rs. 1,400 crores and an offer for sale of units aggregating up to Rs. 1,800 crores. The objectives of the issue include repayment or prepayment and redemption of the certain financial indebtedness of the Asset SPVs and the Investment Entity, acquisition of stake and redemption of debt securities in certain Asset SPVs, and general purposes.

IPO Details

Issue Period | 9th May - 11th May 2023
Price Band | ₹ 95 - 100
Minimum Bid Quantity | 150 and multiples thereof
Number of Shares | 319,999,950 units
Issue size | ₹ 3,200 Cr
Date of Allotment | 16th May 2023
Initiation of Refund | 17th May 2023
Credit of shares | 18th May 2023
Date of Listing | 19th May 2023
Mandate end date | 26th May 2023
Anchor Investors Lock-in End Date | 10th June 2023

DRHP link: - click here

Note: -

You can apply through your broker's terminal or through the ASBA process via your bank.

You can check the allotment status for the Nexus Select Trust REIT IPO on the website of the Registrar and Transfer agent. Alternatively, you can also check the allotment status on the NSE website.

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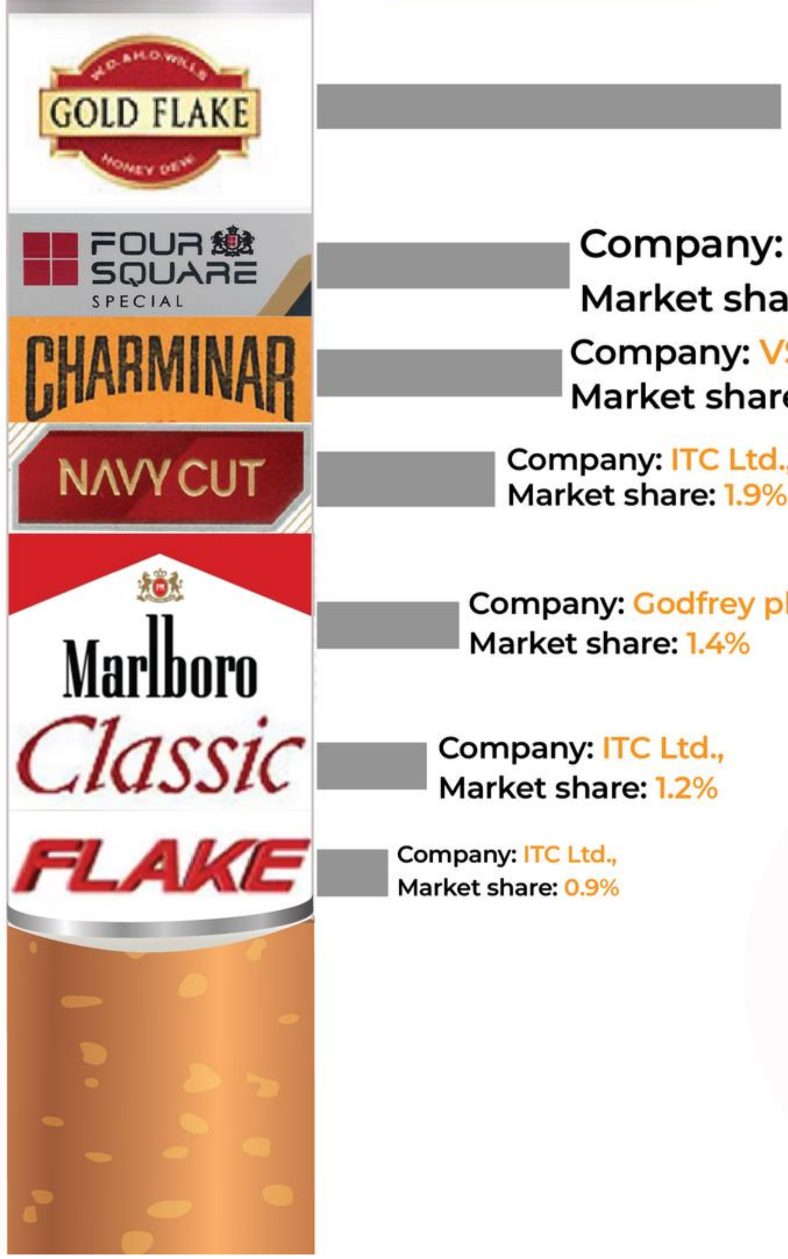
Infographics

WisBees

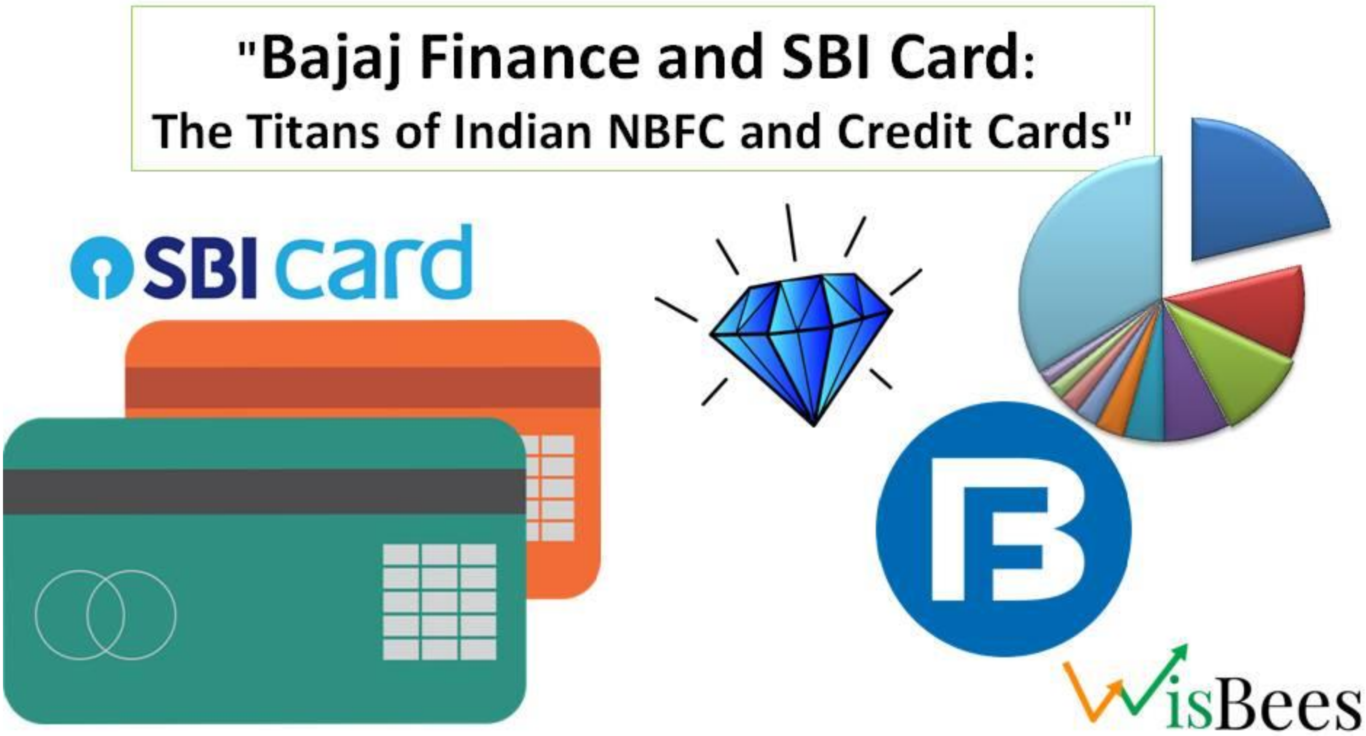
"STOP SMOKING, START INVESTING"

Do you know?

Company name	Before 10 years	After 10 years
ITC	10 Lakh	33.8 Lakh
Godfrey Philips	10 Lakh	43.3 Lakh
VST Industries	10 Lakh	39.8 Lakh



Stock Report of the Week



Despite the recent turmoil and uncertainty in the global banking and finance sector, particularly due to shutdown of SVB bank and the collapse of Credit Suisse, the Indian banking and finance system has demonstrated strength in its numbers. The government and RBI have taken several cautious measures to stabilize the balance sheets of Indian banks, such as encouraging fixed deposits by removing LTCG benefits from debt funds and tightening monetary policies. As a result, the Indian banking system has remained resilient and unaffected by the recent sparks of financial instability seen in some advanced economies.

The Non-Performing Assets (NPAs) have been decreasing every year, and some banks and NBFCs have not even had to use their entire COVID bad loan provisions. This report focuses solely on investment picks and the relative valuation of companies.

Bajaj Finance Ltd

The company has a diversified lending portfolio, including consumer loans, personal loans, and business loans.

This is a Weekly chart of Bajaj Finance. The chart indicates that the stock is trading above its 200-day exponential moving average and has found support at its previous support zone. Furthermore, the stock has broken out of an inclined trend line, adding to its appeal. What's noteworthy is that historically, whenever the stock has reached its 200 EMA on the weekly chart, it has bounced back strongly.

Except for the time during the pandemic, the stock has not gone below its 200-day exponential moving average since 2009.A potential scenario is that the stock could revisit its breakout level around 6000 before continuing its upward momentum.

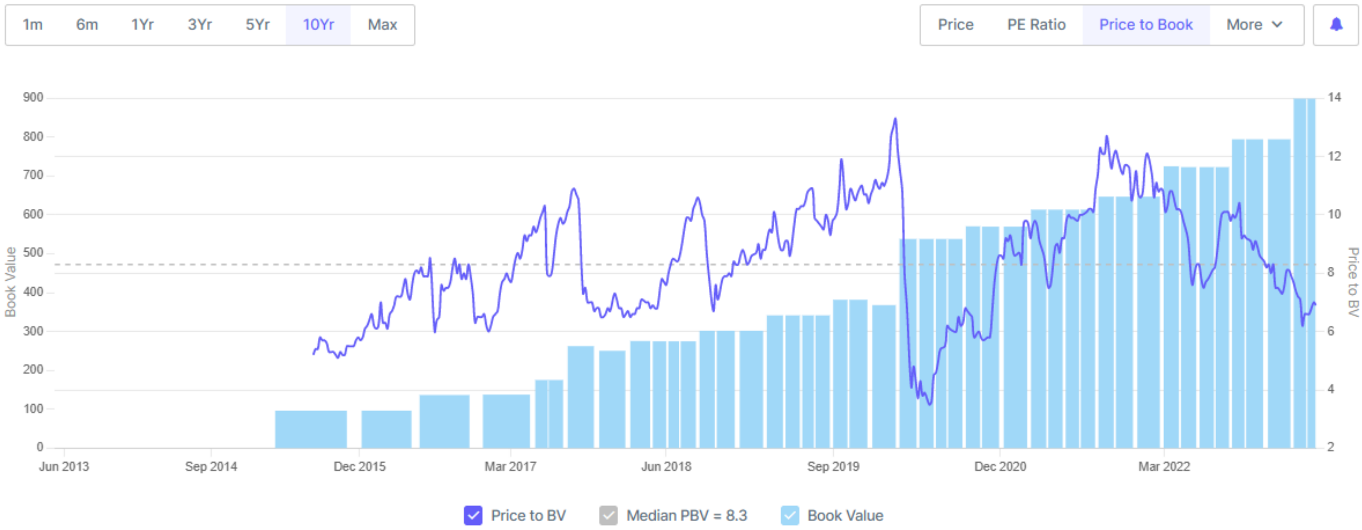
Technical: -

Now, let's take a look at the fundamentals.

Fundamentals: -

Fundamentally, this company can be considered the strongest among the NBFCs. Here are a few supporting points as to why it may be a good time to enter the stock now.

Valuation: - We found the valuation attractive as compared to the robust growth the company has shown.



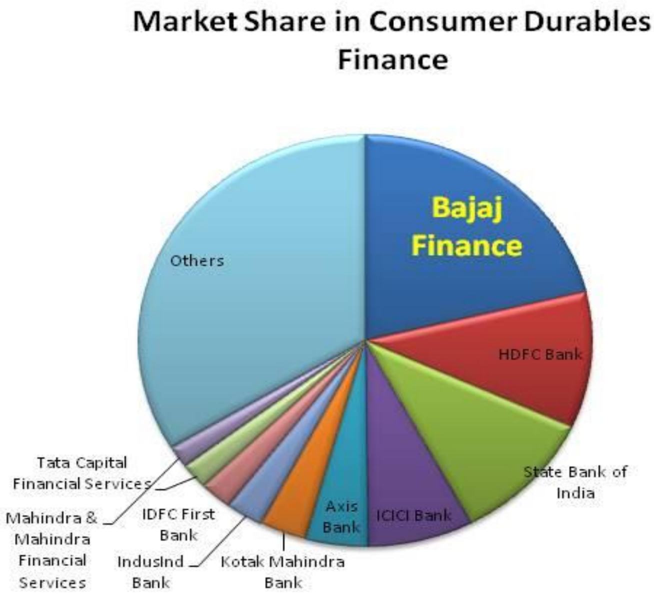
Source: Screener.in

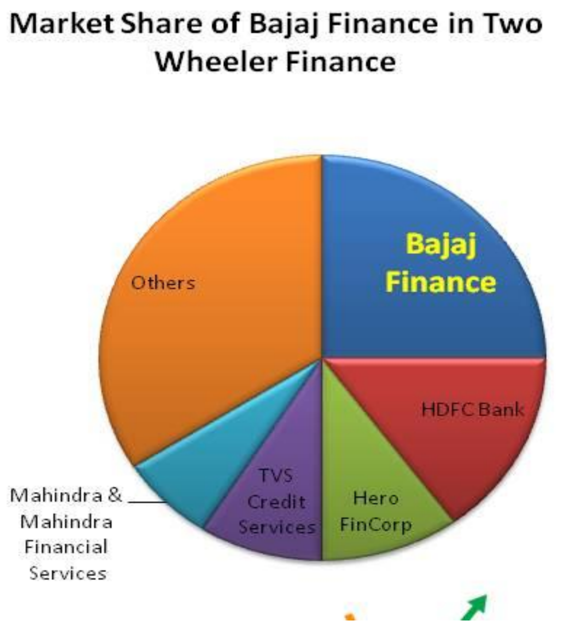
The current Price to Book Value of the company is trading at 7x, which is one of the lowest in the last 10 years. This can be attributed to a significant price correction in the stock.

Lowest NPA (Non-Performing Assets) in NBFCs: - The gross NPA and net NPA of Bajaj Finance as of December 31, 2022, stood at 1.14% and 0.41% with increased asset quality. Whereas the industry Net NPA average is above 3%.

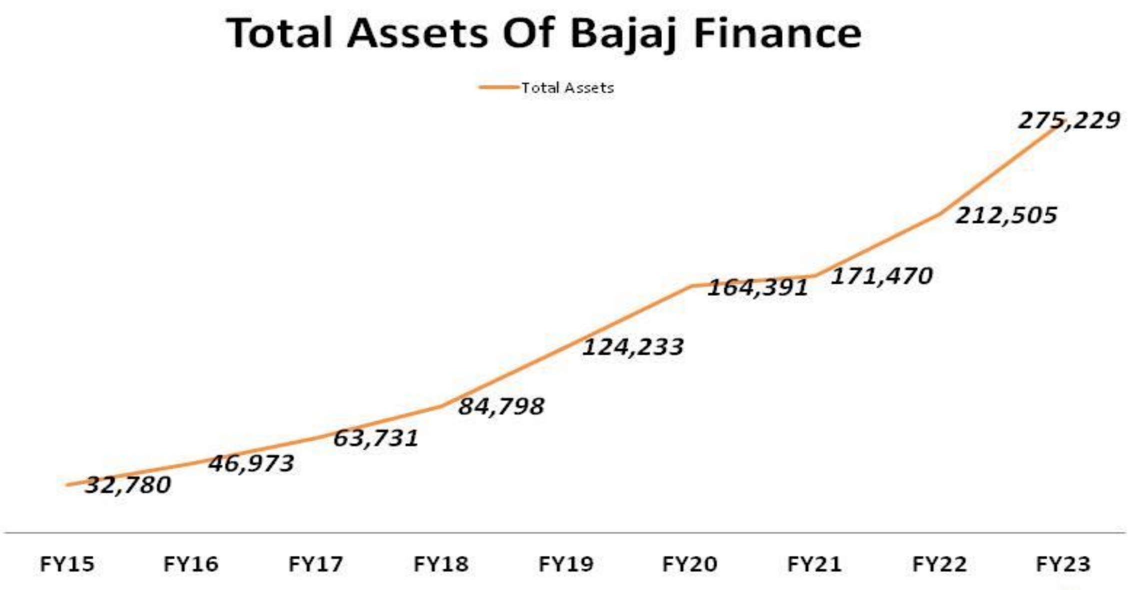
The stock is highly appealing due to its strong Net Interest Income and Capital Adequacy Ratio. A strong capital adequacy ratio (CAR) of 28.4% reflects the company's ability to withstand unexpected losses and its readiness to take on new business opportunities. Moreover, it has demonstrated a remarkable compounded profit growth of 36% over the past five years. The Return on equity is impressively 23.5% with Return on capital employed 11.70%.

The company is a leader in its diversified lending business. Here we have prepared an infographic of its dominance in two specific lending business consumer lending and Two-wheeler vehicle finance category.





Below we have represented the increasing total asset size of Bajaj Finance. As the total assets of the company are increasing year on year, it signifies that the company is able to generate more business and expand its lending activities.



Disclaimer: *Please note that the following information is intended for educational purposes only and should not be construed as a recommendation to buy or sell any securities.*

Current Market Price: - 6180
Stoploss: -5518
Target: -7500 above

SBI Card

SBI Cards is a credit card company owned by the State Bank Of India, that offers credit cards to customers. With a market share of nearly 19%, it is the second-largest credit card issuer in India, following HDFC bank.

Technicals: -

On the daily chart of SBI Card, the stock appears to have reversed its downtrend to an uptrend by finding support at the 50-day Exponential Moving Average. The stock has also formed a double-bottom pattern, which adds to the bullish outlook for the stock. Furthermore, the stock is currently finding support at its previous support zone, reinforcing the potential for an upward rally.

Fundamentals: -

The company benefits from the strong brand reputation of SBI and the growing demand for credit cards due to customers' increasing aspirations, making it an attractive investment opportunity.

It's the second-largest credit card issuer with a high Return on Equity of 25.7%, ROCE of 13.05% and Return on assets (ROA) of 5.63%, which are bigger numbers than its peers. The stock has not given rally as compared to its high Return on Equity, which makes it more attractive.

In the past 5 years, the company has exhibited a strong compound annual growth rate of 30% in profits, along with a sales growth of 30% over the last decade. Furthermore, the company has maintained a low net non-performing asset ratio of 0.80%, which is significantly below the industry average.

Disclaimer: *Please note that the following information is intended for educational purposes only and should not be construed as a recommendation to buy or sell any securities.*

Current Market Price: - 786.70
Stoploss: - 728.95
Target: -911.85

- Gouri Sankar Dash

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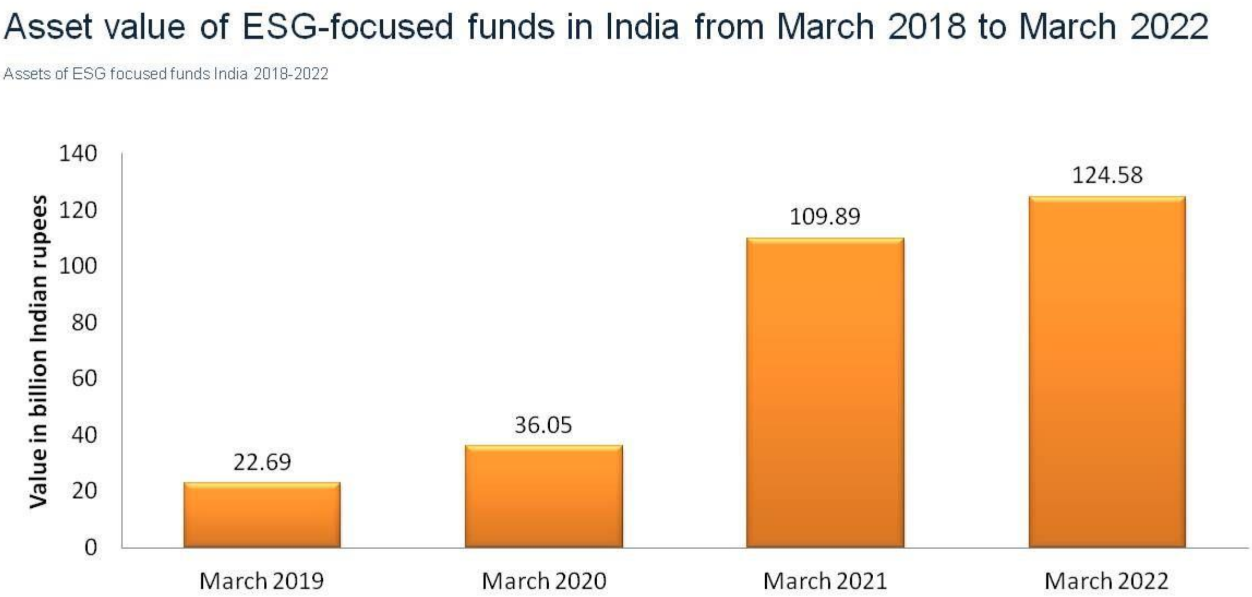
Newsletter

Have you heard about **ESG investing**? It's all the rage these days, and for good reason. Picture this: you have two options to invest your hard-earned money - one in a responsible business, and the other in an irresponsible one. Which would you choose? The responsible one, of course! That's what ESG investing is all about - investing in sustainable and responsible businesses where the "G" stands for good governance. Companies that prioritize ESG factors are not only better equipped to manage risks, but they also attract more investments and adapt to changing market conditions. As a result,



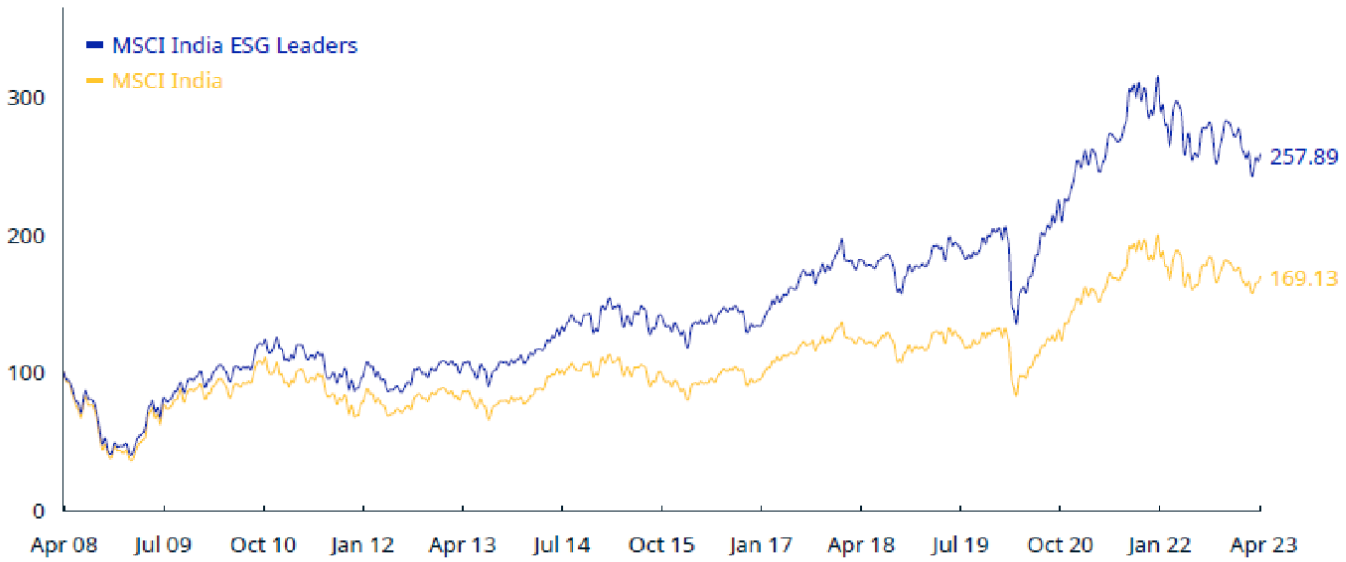
Source: Statista

these companies are outperforming their peers. In India, ESG investing is rapidly gaining popularity, with total assets focused on ESG skyrocketing from 22.69 billion to 124.58 billion.

Today, we bring to you such an investment technique backed by compelling facts and figures.

The MSCI ESG India Leaders Index and the MSCI India Index are two indices that track the performance of the Indian equity market, but the former has a focus on companies with strong ESG (Environmental, Social, and Governance) practices, while the latter includes a broader range of companies. The MSCI ESG India Leaders Index is designed to identify companies with strong ESG practices relative to their peers, using a range of ESG criteria such as carbon emissions, water usage, human rights, labor standards, and corporate governance. The index currently includes 74 companies from a range of sectors, and is reconstituted annually.

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (APR 2008 – APR 2023)



Source: MSCI ESG leaders Index (Factsheet)

One way to compare the performance of these two indices is to look at their historical returns. Over the past ten years, from 2012 to 2021, the index generated an annualized total return of 13.3%, compared to 9.9% for the broader MSCI India Index. This represents a significant outperformance of 3.4 percentage points per year, on average. Over the past five years (as of May 6, 2023), the MSCI ESG India Leaders Index has generated a total return of 87%, compared to a total return of 71% for the MSCI India Index. This represents a difference of 16 percentage points in favor of the ESG Leaders Index. As of May 6, 2023, the MSCI ESG India Leaders Index has outperformed the broader Indian equity market. The index has generated a total return of 27.6% over the past year, compared to a total return of 20.2% for the Nifty 50 Index, which is a broader benchmark of the Indian equity market. This outperformance can be attributed to the strong ESG performance of the companies included in the index.

INDEX PERFORMANCE — NET RETURNS (%) (APR 28, 2023) / FUNDAMENTALS (APR 28, 2023)

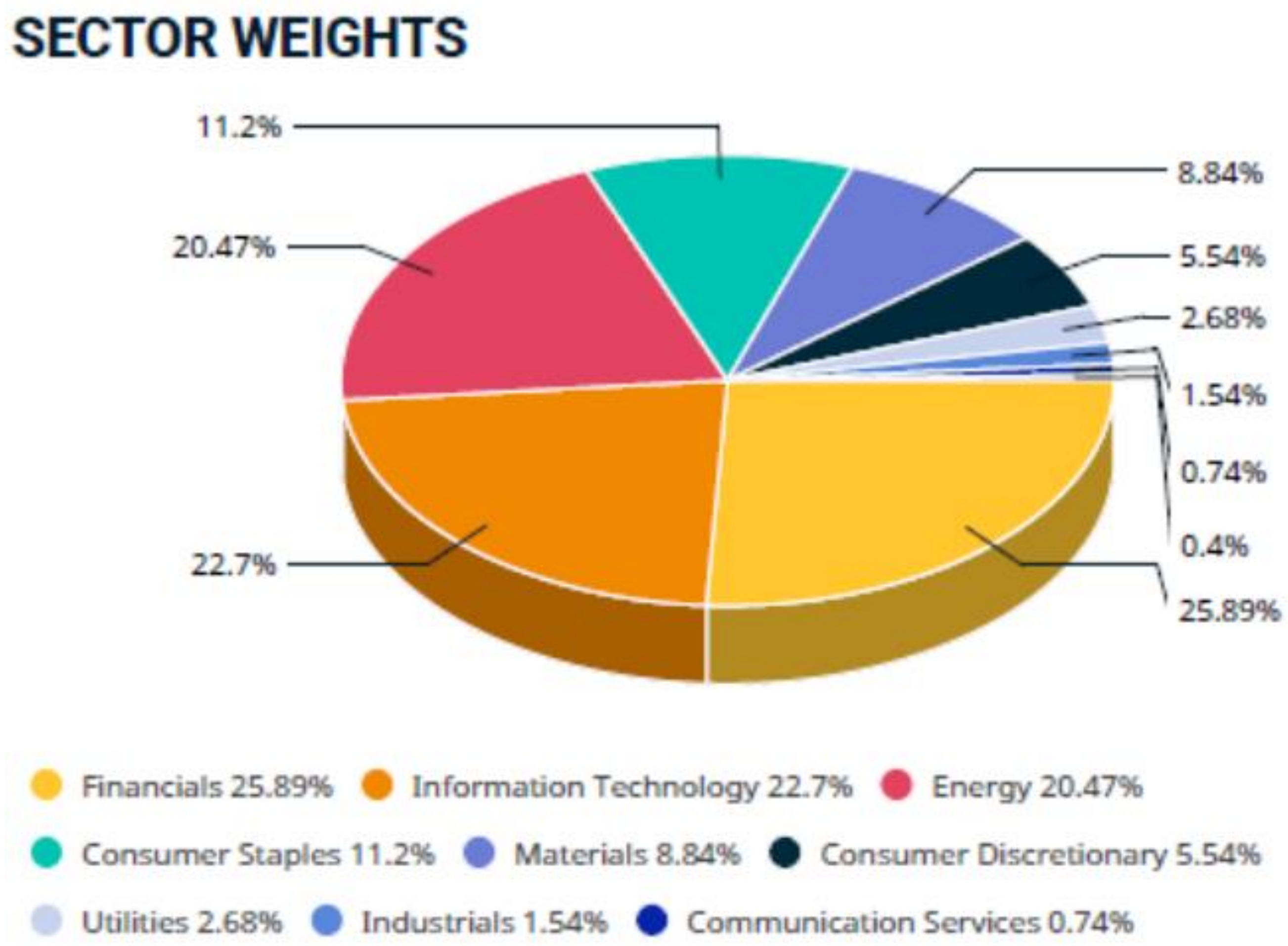
					ANNUALIZED							
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Sep 28, 2007	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI India ESG Leaders	2.21	-1.99	-10.12	-4.60	15.09	7.10	9.32	6.53	1.17	22.25	20.48	3.24
MSCI India	4.17	0.56	-6.95	-2.45	17.87	6.16	7.00	3.43	1.31	24.13	19.80	3.42

INDEX RISK AND RETURN CHARACTERISTICS (SEP 28, 2007 – APR 28, 2023)

				ANNUALIZED STD DEV (%) [2]			SHARPE RATIO [2,3]				MAXIMUM DRAWDOWN	
	Beta	Tracking Error (%)	Turnover (%) [1]	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since Sep 28, 2007	(%)	Period YYYY-MM-DD
MSCI India ESG Leaders	0.90	6.08	9.26	18.22	20.75	18.83	0.80	0.36	0.52	0.34	67.13	2008-01-14—2009-03-05
MSCI India	1.00	0.00	4.84	17.59	21.87	19.92	0.96	0.32	0.39	0.22	72.60	2008-01-07—2009-03-05

[1] Last 12 months [2] Based on monthly net returns data [3] Based on NY FED Overnight SOFR from Sep 1 2021 & on ICE LIBOR 1M prior that date

This outperformance can be attributed to the companies in the ESG Leaders Index having strong ESG practices, which can lead to better long-term financial performance, as well as a greater focus on sustainability and responsible business practices. Companies with strong ESG practices are better positioned to manage risks, attract investment, and adapt to changing market conditions.



Source: MSCI ESG leaders Index (Factsheet)

Another way to compare the performance of these two indices is to look at their sector exposures. As of the end of April 2023, the MSCI ESG India Leaders Index had a higher exposure to the information technology and healthcare sectors compared to the MSCI India Index. These two sectors have been strong performers in the Indian equity market in recent years, contributing to the outperformance of the ESG Leaders Index. The MSCI ESG India Leaders Index is skewed towards the information technology, healthcare, and consumer discretionary sectors. These three sectors have been among the strongest performers in the Indian equity market in recent years, contributing to the outperformance of the ESG index.

MSCI presents the list of Top 10 ESG leaders in Indian Market. Critically assessing individual ESG leader companies in the index, we can see that they have also performed well in the financial markets.

TOP 10 CONSTITUENTS

	Index Wt. (%)	Parent Index Wt. (%)	Sector
RELIANCE INDUSTRIES	20.47	10.16	Energy
HOUSING DEV FINANCE CORP	13.33	6.61	Financials
INFOSYS	11.71	5.81	Info Tech
TATA CONSULTANCY	8.18	4.06	Info Tech
HINDUSTAN UNILEVER	5.61	2.79	Cons Staples
AXIS BANK	5.43	2.70	Financials
ASIAN PAINTS	3.09	1.53	Materials
KOTAK MAHINDRA BANK	2.99	1.49	Financials
MAHINDRA & MAHINDRA	2.97	1.47	Cons Discr
STATE BANK OF INDIA	2.87	1.42	Financials
Total	76.65	38.05	

Source: MSCI ESG leaders Index (Factsheet)

For example, Reliance Industries, which operates in the energy sector, has seen its stock price increase by 40% over the past year, outpacing the broader market. Similarly, Infosys and Tata Consultancy, both operating in the information technology sector, have seen their stock prices increase by 32% and 29%, respectively, over the past year.

Hindustan Unilever, a consumer staples company, has seen its stock price increase by 24% over the past year, while Axis Bank and Kotak Mahindra Bank, both operating in the financial sector, have seen their stock prices increase by 22% and 21%, respectively.

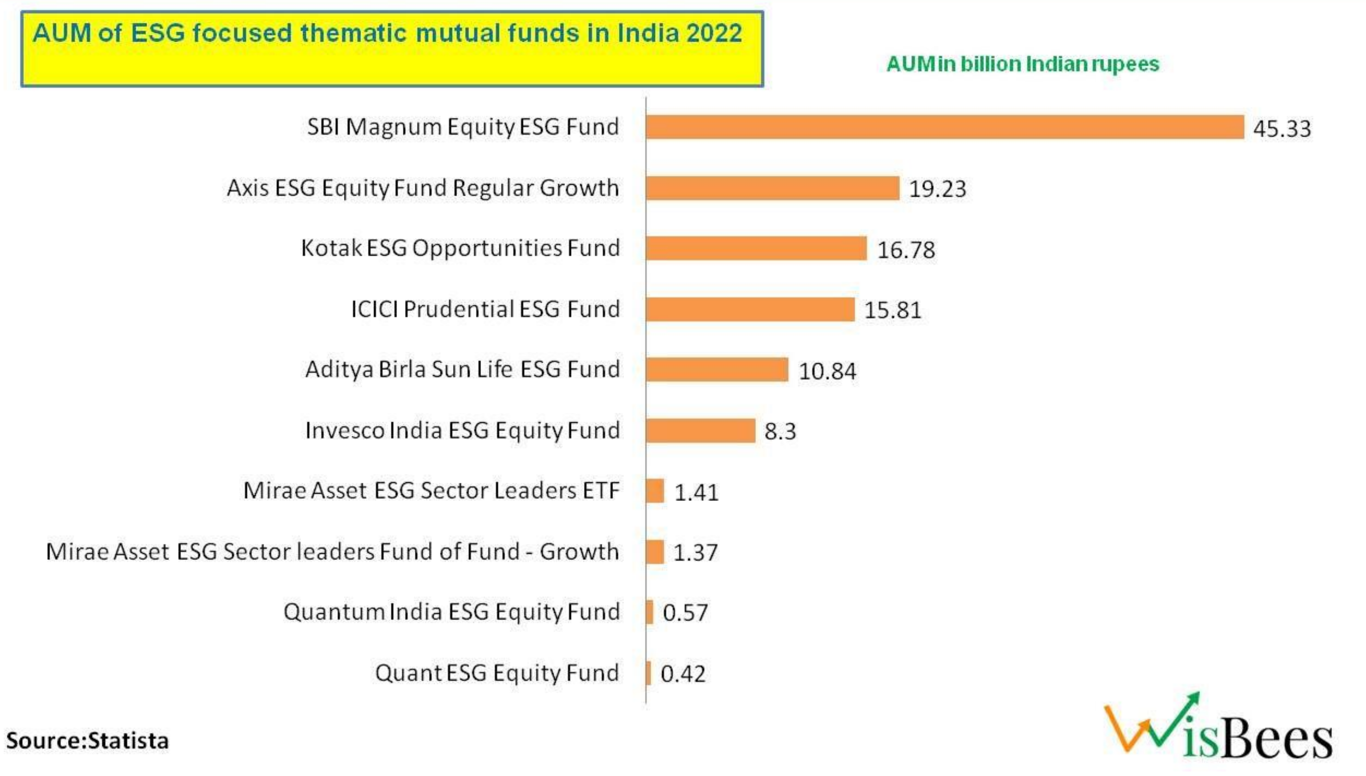
Asian Paints, a materials company, has seen its stock price increase by 20% over the past year, while Mahindra & Mahindra, a consumer discretionary company, has seen its stock price increase by 18%. State Bank of India, a financials company, has seen its stock price increase by 14% over the past year.

These strong performances can be attributed to the positive recognition these companies have received from investors for their strong ESG practices. Investors are increasingly focused on sustainability and ESG, and companies that are able to demonstrate their commitment to these issues are more likely to attract investment and support from the financial markets.

Overall, the market data shows that the companies included in the MSCI ESG India Leaders Index have performed well in the financial markets, outpacing the broader Indian equity market. This outperformance can be attributed to the companies' strong ESG practices and their ability to demonstrate their commitment to sustainability and responsible business practices.

An Alternate way

Alternatively, for market-beating returns, you could also consider investing in ESG-focused mutual funds in India. Check out the image below for a few examples, along with their Assets Under Management in billions of dollars.



- Purba Bhattacherjee

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Index Analysis

The Nifty 50 index closed in the red last week, forming a shooting star candlestick pattern on the weekly timeframe. This pattern is typically considered bearish and tends to form at the top of a chart. Is there a possibility of a downside retracement, or is this the end of the recent rally in the markets?

Before the last week of April, there was a large bullish candle that rejected the bearish engulfing pattern.

What can we anticipate from the markets going forward?

Upon analyzing the chart, it becomes evident that the 18100 level is a significant resistance point for the Nifty. Whenever the market reaches the 18100-18300 range, it experiences a significant downturn, making lower lows. If Nifty stays below 18100, it may lead to another fall towards the 17900 level, and closing below that may lead to the 16800 level again. However, if Nifty closes above 18200 in the upcoming week, it may move towards a new high, with a target of 18700 in the near future.

The daily Relative Strength Index (RSI) indicates that Nifty is currently in its overbought position. Therefore, Friday's closing could be viewed as a minor correction.

The Nifty has formed an inverted head and shoulder pattern, which is a strong bullish pattern that typically forms at the bottom of a chart. The inclined neckline of this pattern is at around the 17900 level, which could be the retest point for Nifty, and an important level for a potential bounce back. The high Open Interest on the Put side at 17900 further supports the significance of this level. It's worth noting that the Friday's

closing could be seen as a small correction, as the Daily Relative Strength Index (RSI) shows that Nifty is currently at an overbought position.

What does the data say about Nifty?

To begin with, Nifty is currently trading at its historical resistance level of 18100-18300, which has acted as a major resistance in the past resulting in significant corrections. Additionally, the maximum Open Interest (OI) has been accumulated at 18100 in both Calls and Puts, indicating that this level may serve as a make-or-break level.

The current Put to Call ratio (PCR) is 0.8, which is generally viewed as slightly bearish to neutral.

OI data: The maximum Open Interest (OI) for calls is at the 18200-resistance level with 2,34,381 contracts, while the maximum OI for puts is at the 18100-support level with 1,23,495 contracts, followed by the 17900 level with an OI of 1,02,313.

FII Option data

1. Net 50,000 calls have been bought
2. And Net 1,50,000 puts have been bought

So, net Bearish with -1,00,000 qty

FII futures data: The FIIs have sold net -800 Crores

Disclaimer

"The above analysis is solely based on technical data and chart patterns, and should not be considered as a recommendation for buying or selling any financial instrument."

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Personal Finance

More than 3 years from now, on one Sunday morning I was browsing through the World section in the newspaper, and a strange news caught my attention. A virus of unknown origin causing acute respiratory problems in hundreds of people in China. The same news article continued to appear every subsequent day only with an escalation in the number of affected people. In no time the virus made it to the front page of every newspaper and to every nukads and gullies (Lanes & Streets) of the World.

Yes!! It was the COVID-19 pandemic, which at first caused respiratory issues, then claimed a plentiful innocent lives, eventually entered into the economy, crushing the finances of almost everyone.

During the lockdown, the days were full of chaos. The risk of getting infected, difficulty in acquiring essentials, constant fear of losing a job & the empty roads with zero economic activities used to send shivers down the spine.

The complete shutdown of the country's economy caused a bunch of individuals with no job, no money & sometimes not even a single grain of food. To counter such unprecedented streaks of events, many had to dissolve their assets like Inherited land, Gold ornaments, Provident fund & what not. Yet it was not enough for the treatments & daily expenditure forcing many to incur a large amount of credit card debt.

Now that we are almost out of its clutch, we should retrospect our past actions which caused this massive breakdown in Personal finance.

These financial emergencies are not new to us, they have been around since time immemorial. Name it the 2008 financial crisis, the recurring cycle of inflation &

recession, any natural disaster, the untimely death of a loved one & so on. As a matter of harsh truth these events will surely prevail in the future with different names & roles.

Although there is no magic solution to dodge these bizarre events, we can simply shield our personal finances from catastrophic failure with a specialized dedicated fund called the Emergency Fund.

Careful Curation of Emergency fund

1. Emergency fund aka contingency fund is the corpus one needs to save for the rainy day. This is a crucial step in financial planning which provides a safety net to personal finance in tough times.
2. One should start putting money into the emergency fund early in one's career to sustain the unprecedented financial issues.
3. Every financial institution and almost every googled personal finance expert advises to have 3 to 6 times the value of monthly expenditure in an emergency fund. Generally, the monthly expenditure includes house rent, utility bills, loan instalments & daily necessities.
4. This fund should be highly liquid, meaning one can easily get their hands on the money.
5. In addition to that, It's sensible to keep this fund invested. For which a low-risk and high liquidity scheme of investment should be opted.
6. The fund should only be utilised for financial emergencies. e.g., Buying your dream car, annual vacation does not come under emergency.

Hassle-free Creation of Emergency Fund

There are several methods of creating one emergency fund considering the financial aspect & risk appetite of an individual.However, two methods for people in their early careers has been mentioned here. But remember, it is not advisable to prioritise high returns with your emergency fund. This approach may lead to regrettable consequences.

It's important to choose instruments that offer high liquidity, as you never know when an emergency may arise. For this reason, it's not advisable to park your emergency fund in stocks, as they are subject to market volatility.

Liquid Mutual Funds

Liquid mutual funds invest in debt and money market instruments with a maturity period of up to 91 days, which makes them less volatile compared to equity funds. These mutual funds are highly liquid, which means you can easily withdraw your funds anytime without any lock-in period. This makes them an ideal option for an emergency fund, as you can access your funds quickly in case of any unexpected expenses or financial emergencies.

Some examples of liquid mutual funds in India are:

Fund Name	**Asset Under Management**	**5Yr CAGR**
Aditya Birla Sun Life Liquid Fund	₹47,139.10 Cr.	5.39%
ICICI Prudential Liquid Fund	₹51,579.79 Cr.	5.32%
HDFC Liquid Fund	₹57,357.96 Cr.	5.26%

All of these fund invests in high-quality debt securities and money market instruments, offering low volatility and high liquidity. It aims to provide stable returns with a maturity period of up to 91 days.

With minimal risk, you can start investing from as low as 100 Rs. These funds have all generated similar returns, averaging above 5.3% CAGR over a five-year period, as they are invested in the same types of instruments.

Laddering FD Technique

Years back, I came across an effortless technique called the Laddering FD for creating the emergency fund. This technique involves investment in a series of RDs (Recurring Deposits) & FDs (Fixed Deposits) to build an easily accessible and risk-free fund.

(Caution: It's not a mandatory recommendation to adhere to the shared methodology.)

The steps of this method have been enlisted below.

1. Invest one tenth of monthly salary in a RD (Tenure 1 year) every year.
2. Reinvest the matured RD in Fixed Deposit each subsequent year. (Tenure, Let's say 3 years)
3. Keep investing in this same manner of subsequent RD & FD. In the year when the first FD matures, club the amount with that year’s matured RD amount & invest in a new FD.
4. From that year onwards, you will have one matured FD & RD. Continue clubbing these and keep on investing in the FD ladder.

(The monthly amount & tenure of investment is purely your choice.)

The math behind the fund

Don't panic about complicated calculations, as there is a simple enough formula for calculating the fund amount

Let's consider

RD monthly = R / Interest rate RD

= i / Interest rate FD

= f / Years of Investment=n

Let R be the monthly contribution to your emergency fund.

Let i be the interest rate for your recurring deposit (RD).

Let f be the interest rate for your fixed deposit (FD).

Let n be the number of years of investment.

Amount in your Emergency fund after n years

$$= (R*12* (1+i)\%) * \{(1+ f \%)^{n-1}-1\} / \{(1+ f \%)-1\}$$

End of Year	Total Amount (Presume interest rate-7.0%, FD tenure-3 years)		
	RD investment 2000/month	RD investment 3000/month	RD investment 5000/month
1	25,680	38,520	64,200
2	53,157	79,736	1,32,894
3	82,558	1,23,837	2,06,396
4	1,14,017	1,71,026	2,85,044
5	1,47,679	2,21,518	3,69,197
10	3,54,806	5,32,209	8,87,015
15	6,45,313	9,67,969	16,13,283

The investment amount should be decided according to your personal finance. The sooner one starts to contribute, the bigger the Emergency Fund becomes. That's the magic of compound interest. Feels like Parents are always right that "Time is Money!!".

Don't get puzzled between Emergency Funds & Wealth generation

The above-explained financial instrument may seem like an illustrative wealth generation scheme, but this is a low-risk fund management idea with quite good liquidity for the goal of an emergency fund. For a generation of wealth, higher risk & lesser liquid schemes, like Equity Mutual Funds, Hybrid funds, can be opted. By the way, that is an entirely separate aspect of personal finance to be carefully studied & applied.

Once you have an emergency fund, it's prudent to use it only for emergency purposes rather than dissolving the whole fund to satisfy your unnecessary luxurious wants/desires.

PS: *One's biggest nemesis is equivalent to not having Disciplined Personal Finance.*

- Kabita Parida

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Trading Strategy

Warren Buffett is known for his contrarian approach to investing. In a dialogue, he once explained his strategy by saying, "***Be fearful when others are greedy and be greedy when others are fearful***."

Today in this article, we will discuss such a contrarian strategy but applied to trading instead of investing.

The short term or intraday trading is generally executed in two ways. 1) a Trend-following approach and 2) a Contrarian Approach.

A trend-following approach is one where we follow the more significant trend of the market to enter and exit the trade. Suppose the market is in a bullish trend or the prices are rising then the profits which you will be making are by entering into trades i.e., going long (or buying) in the stocks and exiting at a higher price.

The Contrarian approach is one in which we take trades against the trend of the overall market. This is basically done when the prices reach their peak they tend to revert back to the original position or may revert back to the nearest support level.

How to trade using Contrarian Approach

This gap-up or gap-down trading strategy is a contrarian approach that involves taking trades against the trend of the overall market. This is done when there is a significant overnight news or event that causes prices to rise or fall sharply in the opening minutes of the market, resulting in high volatility.

The strategy capitalizes on the tendency of the market to move in an expansionary or contractionary manner. In an expansionary phase, prices can move significantly in either direction, often resulting in gaps or long price movements due to high volatility, while in a contractionary phase, prices tend to move slowly and remain within a small range.

A minimum risk-reward ratio of 1:2 should be followed when using this strategy, which is particularly effective for short-selling. The trading approach is based on two theories.

1. Expansion or increasing or decreasing of the prices in the first few minutes.
2. And the prices revert back to their initial position (mean reversion).

Things to remember while using the Gap-up strategy

1. It is an intraday strategy.
2. The time frame should be 15 mins to capture the volatility during the initial time of the market.
3. This is a short-selling strategy because the prices fall faster and rise slower.

How to take Entry and Exit?

Entry: -

To implement this strategy, the first candle formed should either have a gap or be a long candle that breaks out of its previous zone. The low of the first candle formed between 9:15 and 9:30 am must be greater than the high of the previous day. If this is not the case, the second candle should have a low higher than the previous day's high. If neither of these criteria is met, then do not enter the trade.

The third candle will provide the target and stop loss (SL) levels. The target should be twice the size of the candle (measured from high to low), and the SL should be set equal to the same size.

The fourth candle is the entry candle.

Exit: -

As this is an intraday strategy, it is important to close the trade by the end of the trading day at 3:15 PM. This means that the trade will either hit the predetermined target or stop loss, or you will need to manually exit the trade, regardless of whether it has resulted in a profit or loss.

It is important to note that this strategy is intended for use in the cash market, and it is recommended to avoid stocks that have circuit limits, as it may be difficult to exit the trade at the desired price.

Example

On November 9th, 2022, we applied the strategy to Infosys. As previously discussed, the first candle had a gap opening with a close above the previous day's close, and the second candle had a low above the previous day’s close, satisfying both criteria for a trade entry.

Based on the given information, we entered the trade on Infosys on November 9th, 2022, using the strategy outlined earlier. Our entry point was the fourth candle, and we placed our stop-loss at the highest point of all three candles. Our target was set to be twice the risk we took with our stop-loss. As a result of this strategy, we were able to generate a significant return by the end of the trading day.

Remember that setting a stop-loss is an essential part of any trading strategy. Once it is triggered, it is crucial to exit the trade without hesitation.

- Sritam Prusty

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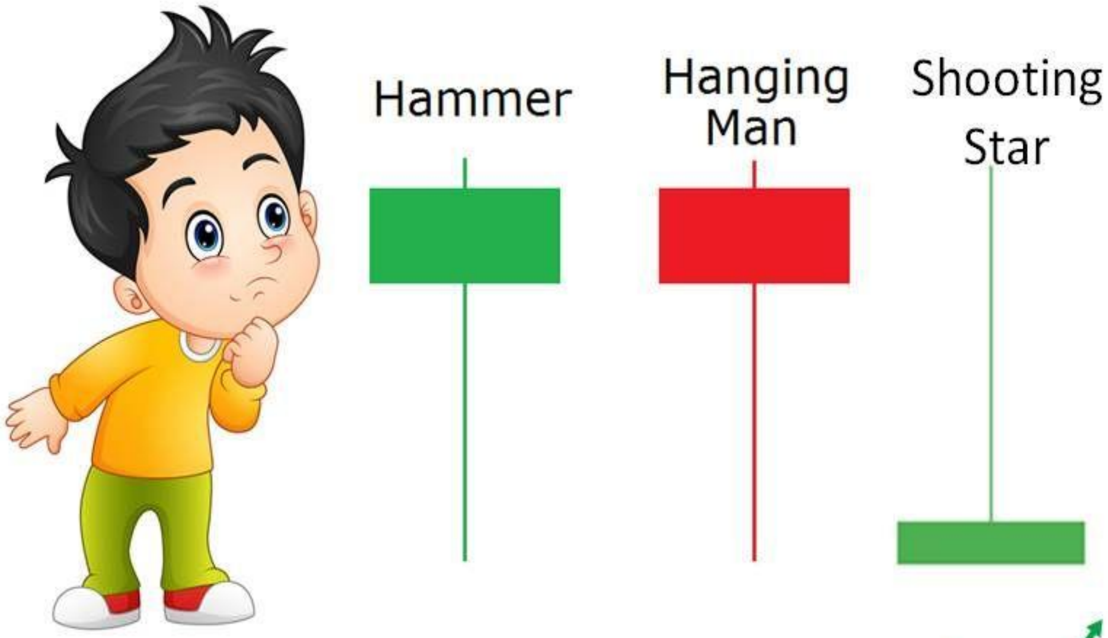
Word of the Week



Hammer or Hanging man

Hammer:

The “Hammer” candlestick pattern is a popular candlestick pattern used by traders to identify potential trend reversals in the market. It is characterized by a small real body (the difference between the opening and closing price) at the top of the candlestick, with a long lower shadow and little to no upper shadow.

The pattern is called a "Hammer" because it looks like a hammer, with the long lower shadow resembling the handle and the small real body resembling the head of the hammer.

The hammer pattern is considered bullish when it appears after a downtrend, as it indicates that the buyers have stepped in and are pushing prices higher. Traders will often look for confirmation of the bullish reversal by waiting for a follow-through day or other bullish signals.

It's important to note that like all technical indicators, the hammer pattern should not be used in isolation and should be used in combination with other technical and fundamental analysis tools to make informed trading decisions.

How to trade a hammer candlestick pattern?

We know that this pattern is generally found at the bottom or the end of the downtrend. If you remember the "Dragonfly Doji" formation there was a long lower wick formed due to the entry of bulls and exit of bears i.e. bears have a weaker hand and face difficulty in dominating the market. The same is the case here this candle is considered the bottom of the trend because the market opened at higher levels and also closed at higher levels but made a low twice as long as the real body.

Whenever you see a candle stick pattern

1. First, mark the high and low of the pattern and wait for the price to breach either side of the pattern.
2. If the next candle or the subsequent candles closes above the high of the previous candle you can enter into the trade.
3. If you are a risk-averse trader then wait for another confirmation by a green candle.
4. If you are a risk taker then you can take trade after the first breakout.

Hanging Man:

This looks similar to a "Hammer" pattern. It is a bearish reversal pattern that occurs at the top of an uptrend. It is a single candlestick pattern that is formed when the opening and closing prices are near the top of the candlestick, with a long lower shadow and little or no upper shadow.

The pattern suggests that the bulls (buyers) were in control during the trading session, but the bears (sellers) took over at some point, driving the price down and leaving a long lower shadow. This indicates that the bears have started to gain control and that the trend may be reversing.

Example

As we have discussed earlier, whenever, a hammer is formed at the bottom of a downtrend with all the satisfying conditions. So, you can see that on 3rd May 2021, a Hammer pattern was formed at the bottom soon after which the prices went to roofs creating its new life time high within the next 2-3 months.

Shooting Star

The "shooting star" candlestick pattern is a bearish reversal pattern also known as an inverted hammer and occurs at the top of an uptrend. It is formed when the opening and closing prices are near the bottom of the candlestick, with a long upper shadow and little or no lower shadow.

It is a very strong single candle stick pattern whenever it appears at the top of an uptrend the prices tend to fall. The pattern suggests that the bulls were in control during the trading session, pushing the price up, but the bears took over at some point, driving the price down and leaving a long upper shadow. This indicates that the bears have started to gain control and that the trend may be reversing.

Example

Here, we have taken the Manappuram Finance chart on a daily time frame. On 20th July 2021, a shooting star/inverted hammer appeared on a daily time frame and was also confirmed by the very next candle (a red candle). After which it gave a fall of about 25%.

Key Takeaways

1. The "Hammer" candlestick pattern is a bullish reversal pattern that can indicate a potential trend reversal in the market. It is characterized by a small real body at the top of the candlestick, with a long lower shadow and little to no upper shadow.

2. The "Hanging Man" candlestick pattern is a bearish reversal pattern that occurs at the top of an uptrend. It is characterized by a long lower shadow and little to no upper shadow, with the opening and closing prices near the top of the candlestick.

3. The "Shooting Star" candlestick pattern is a bearish reversal pattern that occurs at the top of an uptrend. It is characterized by a long upper shadow and little to no lower shadow, with the opening and closing prices near the bottom of the candlestick.

4. These candlestick patterns should not be used in isolation, but in combination with other technical and fundamental analysis tools to make informed trading decisions.

5. When trading a hammer candlestick pattern, traders should wait for the price to breach either side of the pattern and look for a follow-through day or other bullish signals as confirmation of the bullish reversal.

6. When trading a hanging man or shooting star candlestick pattern, traders should look for a follow-through day or other bearish signals as confirmation of the bearish reversal.

- Sritam Prusty

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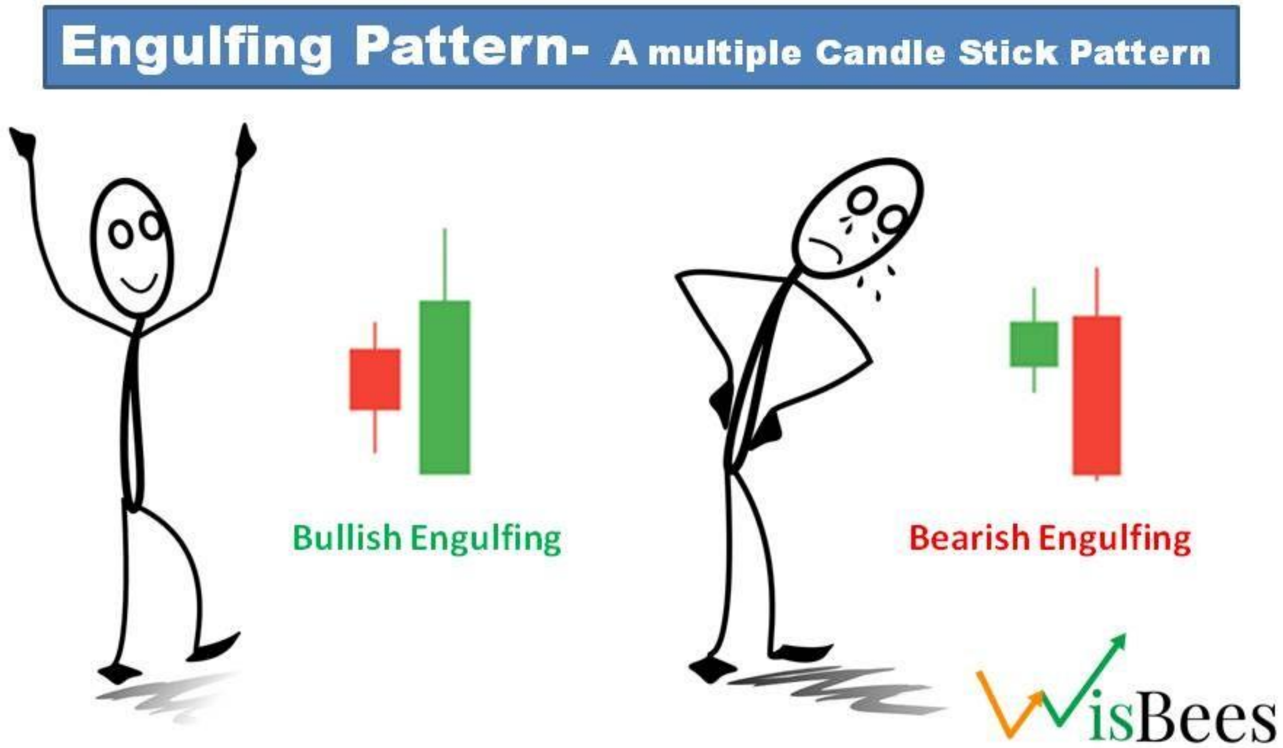

The hammer, hanging man, shooting star, marubozu, etc. As we have discussed previously are all single candlestick patterns. The engulfing patterns are the first patterns that consist of multiple candlesticks. This pattern consists of two candlesticks, with the second candlestick completely engulfing the first one.

This can be either a bullish engulfing pattern or a bearish engulfing pattern.

Bullish Engulfing

A "Bullish Engulfing" pattern is a candlestick pattern that occurs when a small red (or bearish) candlestick is followed by a large green (or bullish) candlestick that completely engulfs the previous candlestick. This shows that a new buying pressure has been developed in the market indicating that a bearish trend may be reversing and a bullish trend may be emerging.

Traders often use the bullish engulfing pattern as a signal to buy, as it indicates a potential reversal in the market. However, confirming the pattern with other technical analysis tools and indicators, such as volume, trendlines, and moving averages, is essential to ensure the signal is valid and not a false breakout.

Formation

A bullish Engulfing pattern is formed when a large green or bullish candle opens lower than the previous red or bearish candle's close and closes above the previous bearish candle's opening price.

Candle 1 (Red) -

Open = 335.10

High = 339.90

Low = 326.70

Close = 329.50

Candle 2 (Green) -

Open = 326.00

High = 337.35

Low = 323.30

Close = 336.65

The chart below is a daily chart of SBIN for a better understanding of what exactly happens when we say that the pattern is a bullish engulfing. So, we have to see two things first, what is the opening price of the green or second candle and what is the close of it? Second, whether the opening of the first red candle is below the closing of the second green candle and the closing of the red candle is above the opening of the second candle. If this condition is satisfied then the pattern is considered a **Bullish Engulfing** candle.

From the above information, we can see that the open (candle-2) i.e. 326.00 is lower than the close of the first red candle i.e. 329.50 and the close of the second candle is higher than the open of the first red candle.

Example

On 22nd April 2021, SBI on a daily time frame formed a engulfing bullish pattern confirmed by volumes, and the very next candle after the engulfing pattern was a bullish candle indicating a strong bullish sentiment. Thereafter, the stock shot up to 460 levels from 336 levels giving a staggering 39% return within a month.

Bearish Engulfing

A "Bearish Engulfing" pattern is a candlestick pattern in technical analysis that is considered a bearish reversal signal. It consists of two candlesticks: a bullish (or green) candlestick and a larger bearish (or red) candlestick that engulfs the first one. This pattern is formed when the second candlestick opens higher than the first candlestick's closing price and closes lower than the first candlestick's opening price.

The bearish engulfing pattern indicates that the bears (sellers) have taken control of the market and are overpowering the bulls (buyers). The pattern is typically seen as a sign of a potential trend reversal from an uptrend to a downtrend.

Traders who spot a bearish engulfing pattern may consider selling or shorting the security, as it suggests that the price may continue to move downward. However, traders should always use other technical analysis tools and indicators to confirm the pattern, such as trendlines, support, resistance levels, and volume indicators.

Here, just the opposite happens as compared to the Bullish Engulfing pattern. The first candle must be a bullish or green candle and the second a bearish or red candle.

Mark the OHLC for both candles and check whether the opening price of the second candle is compared to the closing of the first. Closing of the second as compared to the opening of the first.

How to trade such patterns?

Well, be it any pattern one should always wait for the price confirmation by the following candle and volumes. If the chart fails to do so then one may fall into a market trap by a false signal.

Example

In the same chart of SBI, you can see that on 5th August 2021, a large red candle engulfed a relatively smaller bullish candle. Had a trader taking a short position at that level would have ended up making a good profit of around 10-12%.

Key Takeaways

- Engulfing patterns are candlestick patterns that consist of two candlesticks, with the second candlestick completely engulfing the first one.
- A bullish engulfing pattern signals that a new buying pressure has developed in the market, indicating a potential reversal from a bearish trend to a bullish one.
- A bearish engulfing pattern is a signal that the bears (sellers) have taken control of the market and are overpowering the bulls (buyers), indicating a potential reversal from an uptrend to a downtrend.
- Traders should always use other technical analysis tools and indicators to confirm the engulfing pattern and should wait for price confirmation by the following candle and volumes.
- Engulfing patterns can be used as a basis for making trading decisions, but traders should also consider overall market conditions, news events, and other factors that may affect the security's price movement.
- The opening of the first red candle is below the closing of the second green candle and the closing of the red candle is above the opening of the second candle for a bullish engulfing pattern.
- The opening price of the second candle is compared to the closing of the first. Closing of the second as compared to the opening of the first.

- **Sritam Prusty**

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