

DEMYSTIFYING the 'Secret of Market' to make Money effortlessly....it's amazing!!

Dear Friends, thanks for the tremendous response for my very first article "**DEMYSTIFYING the Secret of the Market**" as it's all about for the normal Investor who plan to invest their money into the Equities Market in a systematic way. I have received a lot of calls from different locations and investors are very excited to know how one can take the "Insurance of STOCKS" as this is what very few peoples are aware of that.

NOW, here we are going to explain "How to insure your Shares" -

The principle of insuring your Shares is the same as Insuring your House or Car and that principle is to protect your capital against loss.

The process of insuring your Shares however does not involve ringing an insurance company and buying a policy. It involves using other stock market instrument to give you protection, and because it involves other stock market instruments it is much more flexible.

The insurance we buy for our shares is essentially buying a promise, that's what all insurance is right. In the stock market the promise that we buy is the promise that we will definitely be able to sell our shares at a pre-agreed price regardless of what the market does.

So if we insure our shares at Rs 100, then even if the stock price falls to 2, we'll be able to sell our shares at the agreed insured price of 100.

We pay a premium for this insurance and the higher the insured price, the higher the premium and the longer the term of the insurance the higher the premium.

So let's look at an example and then we can go into some of the detail.

Let's say we bought 300 shares of XYZ @ 1000 i.e amounting Rs 3Lacs (1000x300). We could decide that we wanted to insure our shares at our buy price and this might cost 2-3% of the investment.

If we did this then no matter what happened to the share price we could sell our shares for Rs 1000, even if the company collapsed and it's price went to zero. If the stock price didn't collapse and hit 1100-1200 levels then one can make a huge amount of profits.

So you can see that insurance in the stock market is much more flexible than house insurance or car insurance.

Big investors treat the cost of insurance as a cost of owning shares. They simply won't buy shares without it. These guys often use this insurance to lock in profits for stocks that have risen in price i.e. they move their insurance price up, as the stock price rises.

Let's now cover some of the detail. The 'insurance contract' that we've been talking about here is nothing but to buy a 'Put Option' roofed under the 'Derivatives' segment in the 'financial markets'. An option is simply a promise and in this case we are buying a promise that someone else has made. You don't need to worry about finding the person or setting the premiums because the stock exchange does all that for you.

The 'Put Option' we are buying has some terms to define exactly which option it is, because major stocks have heaps of option contracts available.

Thus the primary aim of the investors should be not only to protect their investments by using the combination of these products but also make a 'perfect hedge' against overall risk.

When using 'derivative products' you can "self design" a lot of strategies where you can able to not only protect your investments but also achieve huge returns. For learning these strategies please get in touch with me.

*Also to note that these are very 'sophisticated instruments' & 'high leveraged' product meant for professional brokers and hedge funds to safeguard their investments hence small investors should be very cautious while using these products and it's recommended to take professional advice in respect of the same before proceed further but on the same note it's an outstanding product to make a good amount of profits in the MARKET if used wisely.

Take the time to get educated about insuring your Shares as it's a valuable investing tool. But there's more to know before you start doing it.

Thanks & Regards

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