Service Offering:

HEDGING PLAN

for Stable Monthly Returns

Key Attractions:

- The strategy used by us can generate 2%-5% absolute return per month
- Returns are not dependent on market direction
- Highly liquid plan, monthly returns

Minimum investment: Rs 10 lakhs

Strategy: Market Neutral Options

WHY INVEST IN THIS PLAN:

1. **Higher Returns:** Long term equity returns are about 12-13% per year (see Annexure – 1), compared to that you get phenomenal returns and that too **irrespective of market trends**.
2. **High Liquidity:** Equity returns mostly require long term investments, at least greater than one year. But this Hedging Plan gives you **monthly returns**. You may withdraw all your fund anytime without ANY noticeable impact on your profits.
3. **Stable Returns:** Compared to equity returns, Hedging Plan gives more stable returns. It will help you in your financial planning. Also, equities may not perform so well in future as global risks are rising to unprecedented levels (see Annexure – 2).
4. **Loss Protection:** Hedging Plan uses market-neutral strategies for very short-term trades, that limits any foreseeable loss (see Annexure – 3). Till now, all trades were closed in profit.
5. **Risk Management:** You may also consider investing in Hedging Plan as asset diversification (see Annexure – 4 for details). Diversification is necessary to **manage risk** from being **overly concentrated** in a specific type of asset like equity or gold.
6. **Peace of Mind:** Your profits are not dependent on markets! Because of its multiple benefits, a big part of global smart money gets invested in hedge funds (see Annexure – 5).

HOW IT WORKS:

In this we do not invest in any stocks, only in index options. We short options, means we sell first at higher price (known as premium) and buy later at lower price. We simultaneous sell a call option and a put option. If the market rises, value of put falls and value of call rises, and vice-versa. So, during a day, there is very minor change in total premium received.

But, as days pass, both call and put options lose some value which is known as time value. This time value is **always in our favor**, and when the price of Nifty does not change considerably, this strategy (called 'short strangle') allow investors to benefit. Loss may occur if there is a sharp movement in any one direction for several days. Our expertise is in identifying the right entry/exit time and managing the adverse conditions profitably (see details in Annexure – 6).

TEAM:

SUGAM KASHYAP

He is a SEBI registered research analyst. His expertise is in identifying long-term growth stocks. His analysis identifies cyclical stocks near bottom of the cycle, small companies with unique competitive advantage (patents, any type of monopoly or entry barrier, deep research) coupled with long term growth opportunities, and small and low valued companies that have managerial and technical capabilities to grow in a sunrise industry.

www.trikaalcapital.com

RAJESH SHARMA

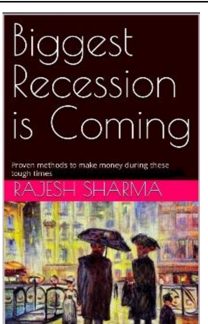
BE (Agri), PGDM (SPA) IIMA

He has more than two decades of experience in fund management, global investment research, trading, algorithm development, arbitrage, and hedging. He has researched and traded in equities, debt, commodities, and currencies. His job experience includes working as Chief Investment Officer of Escorts Asset Management Company (later acquired by Quant Mutual Fund). He is an engineer and a post graduate in management from Indian Institute of Management, Ahmedabad, India.

Major achievements

His use of algorithms coupled with macro-economic research enabled him to forecast the following major turning points (details are on site www.trikaalcapital.com) –

1. Covid crisis (Feb 2020): He correctly anticipated a serious downfall in stock markets
2. Covid Recovery (Sep, 2020): He correctly predicted a strong market rally
3. Inflation Super Cycle (Sep, 2021): When most experts were saying inflation is transitory, he predicted a long-lasting inflation, which is still the biggest global risk
4. Bull run (Apr, 2023): When media was all bearish and there were recession warnings by many experts, he correctly predicted that stocks may rise further from here.

	Author of a weekly LinkedIn newsletter *Trikaal Macros,* on global capital markets *Trikaal Macros* is a free weekly newsletter published on LinkedIn. *Trikaal Macros* is subscribed by global thought leaders, CEOs, investors, and business strategists. It provides a commentary on the most crucial global factors affecting the capital markets. Link for its free subscription.
	Author of the ebook '*Biggest Recession is Coming*' available on Amazon. It may sound strange to many people, but the fact is that the world's largest economy and strongest military power is almost like a house of cards now! It is a balloon which is about to go burst, and will affect every country just like the 2008 recession. This ebook explains it all in simple manner with concrete data. Every long-term investor must be aware of this looming risk.

Click here to see his profile on LinkedIn.

Annexure – 1

Nifty 50 CAGR 10 Years

Year	Nifty 50 CAGR 10 Years
1996-2006	13.32%
1997-2007	14.12%
1998-2008	15.21%
1999-2009	11.15%
2000-2010	13.17%
2001-2011	17.74%
2002-2012	16.66%
2003-2013	19.21%
2004-2014	13.93%
2005-2015	15.17%
2006-2016	8.34%
2007-2017	9.70%
2008-2018	7.87%
2009-2019	14.28%
2010-2020	4.98%
2011-2021	9.69%
2012-2022	12.63%
2013-2023	11.77%

Annexure – 2

Global Risks are at Unprecedented High Levels

The key reason for a global recession in near future (may be 2025) is a continuing inflation. This inflation may rise for years like it did in 1970s. Its rise will be due to the unprecedented rise in money supply since the 2008 recession. Before the 1970s inflation, wars and other problems had forced U.S. government to increase money supply, which created inflation in 1970s. Now, just compare the two situations below –

- Since 1960 to 1970, money supply had increased at a CAGR of 3.94%, and inflation stayed above 5% for 10 years (1973 to 1982)
- Since 2008 to 2023, money supply increased at a CAGR of 25.2%, and inflation has just started rising!!

Compare 3.94% rise for 10 years with 25.2% for 15 years – it is devastating to think how long the inflation may last and how high it may go – it will be a complete destruction of global economy.

It is an unimaginable jump in money supply, never seen in the human history, it came in various forms – QE, QE1, QE2, QE3, ZIRP, bailouts, doles, backstops etc.

Other Important Facts

- Never assume recessions last 1-2 years, the 2008 recession lasted less than a year but it took six years for markets to recover to same levels
- In past 120 years history of stock markets, 66 years were spent in recessions and recoveries
- Current global inflation cannot be controlled for years to come as global economies are already weak and any increase in interest rate will push them into recession
- Most of data here is about U.S., as it is going to be the centre of recession
- U.S. government networth is -29.9 trillion USD (yes, it is negative), unimaginable, but it is the world's largest and so-called strongest economy?
- U.S. housing is a bigger bubble than 2008's housing crisis
- U.S. Inflation remains near a 40-year high
- U.S. housing sector lost $2.3 trillion in 2022, most since 2008
- Total U.S. mortgage debt now double the 2006 peak
- A record 48% of retired Americans will outlive their savings
- 67% of retired Americans have unpaid credit card debt
- Us government pays 14.5% of its revenue for interest on debt, it may reach over 30% in next few years, after deducting defence and healthcare expenses, it will not have much left – it is moving towards a bankruptcy.

Read more about this expected recession with updated data here.

Recession is well on its way; it cannot be stopped. It may start from U.S. but will impact all countries just like what happened in 2008. Link to our eBook – https://www.amazon.in/Biggest-Recession-Coming-methods-algorithm-ebook/dp/B0BZ8LJM4V

Annexure – 3

Loss Protection

Short strangle may be in loss only if there is a sharp movement in any one direction for several days. We always close positions within 2-4 days. We trade during technically flat markets and avoid trading before any major event. Our expertise is in identifying the right entry/exit time which is based on a trend analysis algorithm.

Real life recommendations for the month of March 2024 given below should help in explaining this. Trades use 1 lot each of put and call with combined margin of about Rs 1.4 lakhs.

		Date (March)	Nifty	Call	Put	Total	
TRADE 1				22800	22000		Strikes
	Entry	12	22400	348	188	536	Premium received
	Exit	14	22200	245	227	472	Premium given
			Gain	103	-39	**64**	Net profit in points
						3200	Net profit Rs per pair
						2.3%	Net profit in %
TRADE 2				22500	21500		Strikes
	Entry	15	22000	275	160	435	Premium received
	Exit	19	21940	250	151	401	Premium given
			Gain	25	9	**34**	Net profit in points
						1700	Net profit Rs per pair
						1.2%	Net profit in %
TRADE 3				22500	21200		Strikes
	Entry	19	21850	212	99	311	Premium received
	Exit	20	21800	181	96	277	Premium given
			Gain	31	3	**34**	Net profit in points
						1700	Net profit Rs per pair
						1.2%	Net profit in %
TRADE 4				22700	21300		Strikes
	Entry	21	22000	146	78	224	Premium received
	Exit	22	21950	108	81	189	Premium given
			Gain	38	-3	**35**	Net profit in points
						1750	Net profit Rs per pair
						1.3%	Net profit in %

Annexure – 4

Hedge Funds are a Type of Asset Class

Investing in a hedge fund is a diversification of your asset classes

Do not put all your eggs in one basket.

It is a well-accepted strategy to diversify your investments. This is the reason all fund managers build a portfolio of stocks, so that the returns are not dependent on a single stock. Same way, investing all your money in just one asset class like stocks (equity), is also a very big risk. If market falls big, you lose big. To minimize this risk, you should invest in different asset classes like equity, debt, gold, real estate, hedge funds, art etc.

WHY HEDGE FUNDS ARE AN ASSET CLASS

Hedge funds are a type of alternative investment asset because they have clearly different characteristics compared to traditional assets like stocks and gold. Their main characteristics are –

a. **Ability to short:** In traditional assets, we can only buy first and sell later, whereas in a hedge fund, we can sell first (without owing the security) and buy later. This allows us to benefit even when markets are falling, as we can sell first at higher prices and buy later at lower prices. Short positions are normally created using derivatives (futures and options).
b. **Ability to leverage**: In hedge funds, one can use derivatives which are leveraged securities. Leverage means facility to buy using only a fraction of the total cost, also known as buying on margin. Normally an index future/option needs 11-12% margin in India. It means, you can buy a Rs 10 lakhs worth security at only Rs 1.1 – 1.2 lakhs, called margin money.
c. **Market Independent Returns**: As explained above, one can short and make profit even in falling markets using derivatives. This is not possible in traditional assets.

Alternative investment is a vast field. Hedge funds, private equity and private credit are three key asset classes in the alternatives universe. They provide portfolio diversification, help tap potential for growth, and enable financing opportunities for investors and businesses.

One may remain concentrated in just a single asset class depending on one’s objectives. But in case of equity, long-term market outlook is the biggest uncontrollable external factor. And right now (in 2024 March), the long-term global outlook for equities is looking extremely risky. It is advisable to diversify from equity into other asset classes.

Annexure – 5

Institutional Investors Invest in Hedge Funds

Smart money always follows the safer path. The primary investors in hedge funds are institutional investors. These are professional investors who manage large amounts of money. They work for pension funds for corporations, government workers, and labor unions. They also manage sovereign wealth funds for entire countries. They handle the cash assets of insurance companies, other corporations, and trusts.

68% of institutional investors allocated their assets to hedge funds in 2020. These institutional investors include:

1. Public employee pension plans
2. Corporate employee pension plans
3. University and college endowments
4. Foundations and other non-profit organizations

Hedge Fund Industry has USD 4.74 trillion assets under management in 2024.

Source: Preqin Global Hedge Fund Report

Annexure – 6

We use market-neutral Nifty option strategies, mostly short strangle. It involves simultaneous selling of a call option and a put option. If the market rises, value of put falls and value of call rises, and vice-versa. But, as days pass, both call and put options lose some value which is known as time value. This time value is **always in our favor**, and when the price of Nifty does not change considerably, short strangles allow investors to benefit.

Loss may occur if there is a sharp movement in any one direction for several days. Our expertise is in identifying the right entry/exit time and managing the adverse conditions profitably.

Understanding Short Strangle

A short strangle is a multi-leg, neutral strategy with undefined-risk and limited profit potential. The strategy looks to take advantage of a drop in volatility, time decay, and little or no movement from the underlying asset.

OVERVIEW

Short strangles consist of selling an out-of-the-money short call and an out-of-the-money short put for the same expiration date. The strategy capitalizes on minimal stock movement, time decay, and decreasing volatility.

SHORT STRANGLE MARKET OUTLOOK

Short strangles are market neutral and have no directional bias. Short strangles require minimal movement from the underlying stock to be profitable. Credit is received when the position is opened. Beyond the premium collected, the risk is unlimited above and below the strike prices.

HOW TO SET UP A SHORT STRANGLE

A short strangle consists of a short call option and a short put option with the same expiration date. The short options are typically sold out-of-the-money above and below the stock price. The combined credit of the short call and short put define the maximum profit for the trade. The maximum risk is undefined beyond the credit received.

SHORT STRANGLE PAYOFF DIAGRAM

The short strangle payoff diagram resembles an upside-down “U” shape. The maximum profit on the trade is limited to the initial credit received. The maximum risk is undefined beyond the credit received. The break-even point for the trade is the combined credit of the two options contracts above or below each strike price.

For example, if a stock is trading at $100, a put option could be sold at $95 and a call option sold at $105. If the position received a total credit of $5.00, the break-even points for this trade would be $90 and $110.

The short strangle could be closed anytime before expiration by purchasing the short options. If the cost of buying the contracts is less than the initial credit received, the position will result in a profit. Implied volatility will have an impact on the price of the options. If implied volatility decreases, the options contracts' price will decrease as well, which benefits an options seller.

ENTERING A SHORT STRANGLE

To enter a short strangle, sell-to-open (STO) a short call above the current stock price and sell-to-open (STO) a short put below the current strike price for the same expiration date. For example, if a stock is trading at $100, a call option could be sold at $105 and a put option sold at $95. Higher volatility will equate to higher option prices. The longer the expiration date is from trade entry, the more the options will cost, and the more premium will be collected when sold.

Sell-to-open: $95 put

Sell-to-open: $105 call

Exiting a Short Strangle

A short strangle looks to capitalize on time decay, minimal price movement in a stock, a drop in volatility, or a combination of all three. If the underlying stock price stays between the short options, the contracts will expire worthless at expiration, and all credit received will be kept.

Any time before the expiration, the position can be exited with a buy-to-close (BTC) order of one or both contracts. If the options are purchased for less money than they were sold, the strategy will be profitable.

If either option is in-the-money (ITM) at expiration, the contract will be automatically assigned.

TIME DECAY IMPACT ON A SHORT STRANGLE

Time decay, or theta, works in the advantage of the short strangle strategy. Every day the time value of an options contract decreases. Ideally, the underlying stock experiences minimal movement, and theta will exponentially lose value as the options approach expiration. The decline in value may allow the investor to purchase the options contracts for less money than initially sold.

IMPLIED VOLATILITY IMPACT ON A SHORT STRANGLE

Short strangles benefit from a decrease in the value of implied volatility. Lower implied volatility results in lower options premium prices. Ideally, when a short strange is initiated, implied volatility is higher than it is at exit or expiration. Future volatility, or vega, is uncertain and unpredictable. Still, it is good to know how volatility will affect the pricing of the strangle options.

ADJUSTING A SHORT STRANGLE

Short strangles can be adjusted by rolling one leg of the option up or down as the price of the underlying stock moves. If one side of the short strangle is challenged as the contracts approach expiration, an investor can manage the position to maximize the probability of success.

If one side of the strangle is challenged, the opposing side could be closed and reopened closer to the stock price. Adjusting the position will result in additional credit.

For example, if the stock is trading lower and challenging the $95 short put, the $105 short call option could be closed and a new call option sold at a lower price. This will tighten the width of the spread, but additional credit will be received to help offset the smaller profit zone.