INDIAN
STOCK MARKET JOURNAL
EMPOWERING TRADERS AND INVESTORS

STOCKS TO BET ON

Penny Stocks

Stock Market Outlook

- Strategies to Exit a Trade
- Different Types Of Stocks For Investors
- Is Covid-19 Second Wave Hitting Indian Economy?

INDIAN STOCK MARKET JOURNAL

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FROM THE CEO'S DESK

Dear Readers,

Among many things in India, it was still the Coronavirus impact that caught all the attention. While other things were also happening nationwide, the much-needed positivity was the continuation of the COVID-19 vaccination drive for people above 18 years of age.

In this edition of ISMJ, we have brought you the impact of Coronavirus second wave on the Indian economy. The edition also comes up with the ways and strategies of exiting a trade. Also, in the edition, we have talked about penny stocks.

Along with all the topics deemed to be the future of markets, we also bring you Stock Market Outlook, how Nifty and Bank Nifty is expected to move in the upcoming months. Hope you learn and grow.

We would like to thank you for appreciating our previous editions with your kind words. We would love to have your continuous feedback so that we improve our work. Please feel free to write to us at support@equitypandit.com.

Happy investing!

Abhishek Parakh
CEO & Managing Director
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STOCK MARKET OUTLOOK

NIFTY

Indian equity market took a breath today after three consecutive days of corrections. The Nifty closed at 15746.50 with a net gain of 63.15 points in the Monday session. As shown on the daily chart, after approaching at higher levels five days back, it had suffered a classical throwback which took the Index to its support levels. The Nifty Index bounced off from 15450 levels, which has now become immediate critical support for the Index.

The Nifty Index closed above the upper Bollinger band, which is a sign of bullishness for the coming session as long as the lower Bollinger is intact on the downside. If we take a 161.8% projection of Fibonacci, then there is a possibility of seeing the target of 16220 levels. The level of 15450 would be crucial support in the near term as any break below this level will invite incremental weakness.

BANK NIFTY

The banking index had a very buoyant day as it closed with a strong bullish candle on June 21, 2021. The Bank Nifty Index formed a Bullish Engulfing pattern on the daily chart. As per the Ichimoku cloud, there is a positive confirmation since prices managed to close above the cloud. The index has a key resistance level at 34920. A break above this level can take prices towards 37700 levels. This outlook is valid as long as the 33900 level remains protected on the downside. On the other hand, if prices move below this support, we can see more weakness towards the downside. Due to the month expiry week, a very selective and cautious approach is advised for the coming sessions.

UPCOMING TRADING HOLIDAYS

Bakri Id

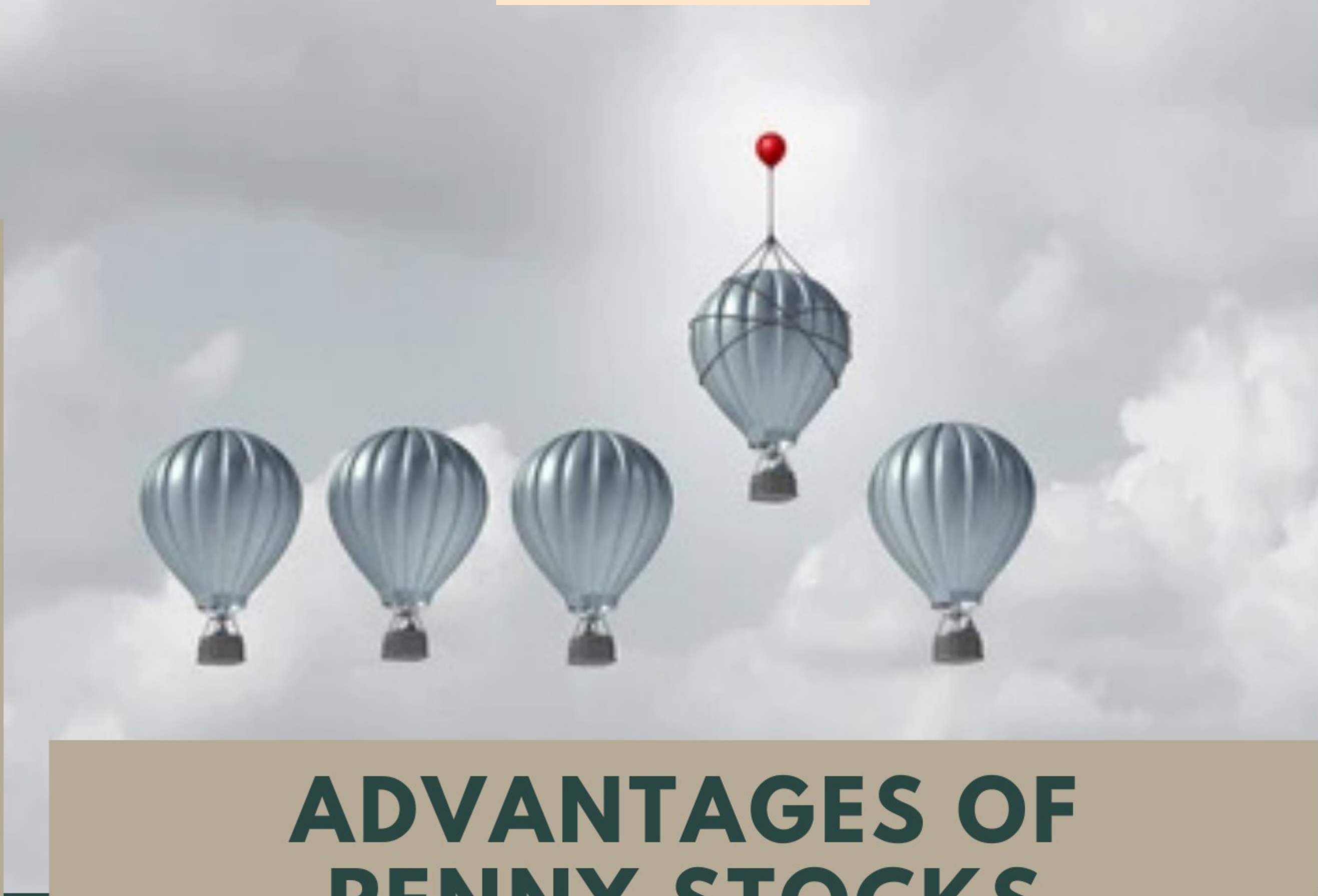
July 21, 2021

Wednesday

PENNY STOCKS

Penny stocks trade at a low price, have very low market capitalisation and are usually listed on a smaller exchange. Penny stocks in the stock market can have prices as low as Rs 10. If you are a new investor and just started trading in the stock market, then penny stocks are perfect for you. Since the value of penny stocks are generally low, you would not have to invest much capital.

Penny Stocks have some advantages and risks. So let's take a look at some of the critical things you should know about these shares before you invest in them.



ADVANTAGES OF PENNY STOCKS

Perfect for Beginners

Since the price of a penny stock is generally low, you don't have to invest a lot of your capital to start trading. This will also help you keep your losses to a minimum amount.

Generate High Returns

Not all penny stocks have to fail. There are many attractive companies with sound financials and growth potential that can be traded for penny stocks. One can identify these companies by researching and investing in them, which can generate good returns.

RISKS OF INVESTING IN PENNY STOCKS

You have to know about penny stocks because they are very risky even than regular stocks. Investing in penny stock can be a difficult decision for first-time investors. Following are the four reasons that make these stocks difficult:

Lack of Information

A successful investment can only be made when you have enough information to make the right decisions. Information for penny stocks is quite challenging to find. Companies listed on the pink sheets are not required to file with the Securities and Exchange Commission (SEC), so there is not much information available for penny stocks.

No Minimum Standards

Penny stocks do not have to fulfil minimum standard requirements to remain on the exchange. If a company can no longer maintain its position in one of the major exchanges, it moves to one of these smaller exchanges.

Lack of History

Many companies that sell penny stocks are either newly formed or going to be bankrupt. These companies usually have poor track records or none at all.

Liquidity

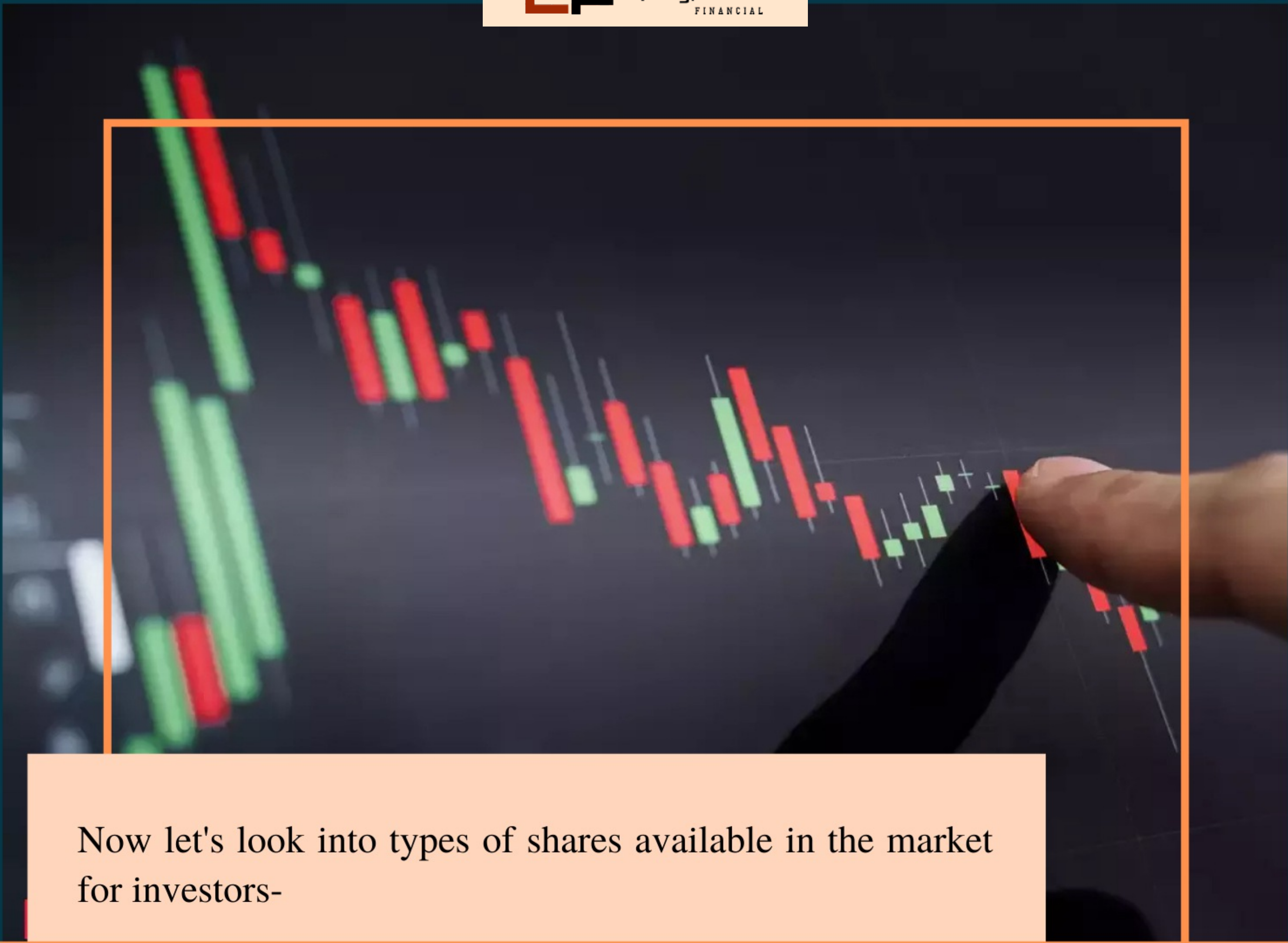
Buying a penny stock can be easy, but to sell it would be difficult. As the companies are not very popular, finding a buyer for a penny stock may be challenging. And these may provide opportunities for some traders to increase share price by buying a massive amount of shares which will attract an investor and then sell it in overprice. This will profit the trader who sold the stock but will result in a loss for the investor who bought the penny stock.

In short, Penny Stocks allow investing in small amounts and help to earn a good profit. They are highly volatile in nature, and because of that, the entire investment can be lost. And, a lot of scams exist, which means penny stocks are not for everyone. Good research needs to be done before investing in such stocks.

DIFFERENT TYPES OF STOCKS FOR INVESTORS

Before understanding the types of stocks and shares, let us first understand what stock means. If you buy a stock or share of a company, you have purchased a unit of ownership of the company. You are a shareholder of the company. The more shares you hold, the more percentage of the company you own.

The main reason to buy a share of a company is to make money. If the company makes a profit, the shareholder of that company gets dividend payments, or the shareholder can simply sell them to make a profit.



Now let's look into types of shares available in the market for investors-

1. Based on Stock Classes:

This is one of the main factors used to classify stocks. These types of stocks are based on the voting rights of shareholders. Not every stock gives voting rights to a shareholder. Voting rights gives the power to the shareholder to vote in the company's annual meetings and take decisions regarding the company's management.

2. Based on Market Capitalisation:

Stocks are classified on the basis of market value of the total shareholding of a company. To calculate it, you multiply the share price by the total number of issued shares. Stocks can be classified into three categories based on the market capitalisation of the company:

Large-Cap Stocks

These are the stocks of Blue-chip firms, which are usually quite established and have good financial cash flow. These stocks allow investors to get higher dividends and maintain capital for an extended period.

Mid-Cap Stocks

These stocks are basically medium-sized companies with a market capitalisation of Rs 250 to Rs 4000 crores. These stocks have the potential for moderate growth as well as the stability of a big company. In the long run, these stocks do and grow well.

Small-Cap Stocks

As the name suggests, these stocks represent small-size companies. Such companies can perform well and show good growth in the future. However, these stocks are highly volatile and may decrease in value at any time.

3. Based on Ownership

There are three types of stocks based on ownership:

Preferred & Common Stocks

Preferred stocks promise investors a fixed dividend amount every year, unlike common stocks. Due to this, the price of preferred stock is not as volatile as that of common stock.

Hybrid Stocks

These stocks are generally preferred shares that come with an option to be converted into a fixed number of common stocks at a particular time.

Stocks with Embedded-derivative Options

These stocks come with an embedded derivative option, meaning they can be 'callable' or 'putable'. A 'callable' stock has an option of buyback at a particular time, and A 'putable' stock offers the stockholder to sell it back to the company at a specific time.

4. Based on Dividend Payment

Dividends are the primary source of income until a share is sold. These Stocks are classified into two types:

Growth Stocks

These stocks do not pay many dividends as companies prefer to reinvest their earnings for company operations. This helps the company grow fastly. Such stocks are called growth stocks.

Income Stocks

These stocks give a higher dividend compared to their share price. This is why these stocks are called income stocks.

5. Based on Fundamentals

Companies compare recent share prices with per-share earnings, profits, and other financials to get the intrinsic value per share. The value is categorised into two parts:

Overvalued Shares

These types of shares have exceeded the intrinsic value and are considered overvalued.

Undervalued Shares

These types of shares are preferred by value investors as they believe that the share price would rise in the future.

IS COVID-19 SECOND WAVE HITTING INDIAN ECONOMY?

The economic impact of the second Coronavirus wave may not be as destructive as last year, but it is impacting many financially essential sectors. A report by SBI economists says that India is likely to reach its peak in the upcoming months. Many efforts have been taken to break the chain of infections, but the economic damage has impacted many sectors.

Here are five sectors that the second coronavirus wave has hit the most:

HOSPITALITY SECTOR

The sector contributes a large part to India's annual GDP, has been struck by the restrictions and curfews imposed by states. Many of these businesses have been closed as they are just allowed to deliver food as an essential service. However, nearly all hospitality-related businesses in the country are now facing the same challenge.

When Covid-19 cases were rising during the second wave, Maharashtra was the first state to announce strict restrictions that the government may end for many businesses. The economic impact of the second wave could last longer than a quarter, and most of these businesses may have no choice but to shut down permanently. The result will be a massive increase in unemployment, which has already been seen last year.

TOURISM SECTOR

The tourism sector that employs millions of Indians started recovering after the first wave, but the restrictions due to the second wave have ruined the tourism sector again. The tourism sector contributes nearly 7 per cent of India's annual GDP.

AVIATION SECTOR

The aviation sector has also faced a massive struggle during the first wave of the pandemic. Reports say that travelling by flight has decreased by 50 per cent in the past few months. For airlines and the travel sector, the recovery will not depend on the Covid-19 peak but whether people will trust to use such services. At the moment, the future for the aviation and broader travel sector does not look good.

AUTOMOBILE SECTOR

The carmakers in India are back to pressure as sales have fallen rapidly. A report by Emkay Global Financial Services says that the automobile sector is expected to remain under pressure due to the Covid-19 situation in India.
However, it will depend on how fast India recovers the second wave under control, as per experts. According to an ETAuto report, passenger vehicle sales in April are likely to see an 11 per cent drop. The sales declined by almost 64 per cent in May 2021 compared to April 2021.

REAL ESTATE SECTOR

The real estate and construction sector has started facing interference during the second wave. The lack of labourers has hit both construction and housing projects in urban areas and states. In this situation, construction sites are operating with nearly half the strength. Not just they have a lack of workers but also a shortage of material due to the restrictions.

The Reserve Bank of India (RBI), in its annual report, said that the impact of the Covid-19 second wave on the Indian economy is not as bad as the first wave, but the surroundings remain uncertain. This means that the Indian economy is slowly moving towards recovery but very slowly. And, the recovery of the economy from the Covid-19 will mostly depend on the revival of public demand.

Strategies to Exit a Trade

An investor plans and strategizes well before trading in a stock. Traders take so much time finding the right strategy to enter the stock market but can lack an exciting system from a trade. An exit strategy not only helps in minimizing losses in the market but also helps in gaining up profits. You can make your plan by calculating reward and risk levels before entering a trade, then use those levels as a blueprint to exit the trade at the best price.

Let’s look up some strategies you can use to exit a trade:

Exit a Trade Using a Stop-Loss Order

A stop-loss order can enable you to automatically exit a trade at a predetermined level by limiting your loss. Stop-losses can help you manage your risk in a rapidly moving market by pulling the plug on your trade if you lose a certain amount of money.
This is the most basic type of stop-loss, but there are different types that you could use, which are:

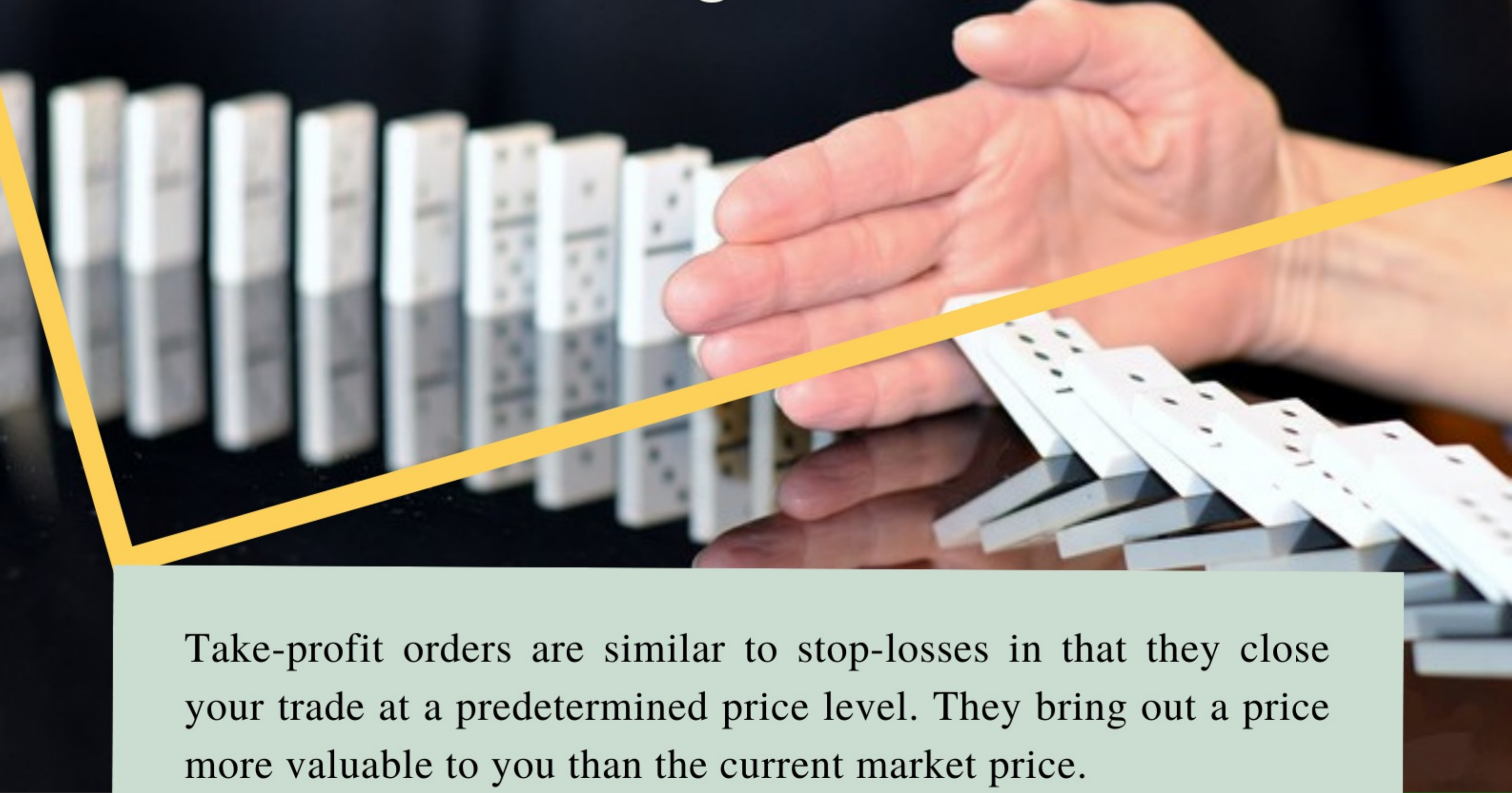
a) Guaranteed Stops

These ensure your position is permanently closed at your pre-selected price. They are free to attach, but you will be charged a small premium if the alarm gets triggered.

b) Trailing Stops

This will follow the market if it moves in your favour but locks in if the market moves against you.

Exit a Trade Using Take-Profit Orders



Take-profit orders are similar to stop-losses in that they close your trade at a predetermined price level. They bring out a price more valuable to you than the current market price.
You just need to set an exit point above the current market price for a long position, and for a short position, you need to fix it below the market price. They can lock in a good profit for you.

What Should You Consider in Your Exit Strategy?

Before you plan an exit strategy, you will have to consider these things:

Trading Style

Your exit strategy will depend on the style of trading you choose. There are four popular trading styles:

- Position trading
- Swing trading
- Day trading
- Scalping

Risk-Reward Ratio

You will have to consider your risk-reward ratio (RRR). This means the capital you will be losing compared to the profit you earned on the trade. The most common RRRs are 1:2 or 1:3, and 1:1 is considered too risky.

Risk Tolerance

In simple words, your ability to handle the loss. It is essential to know your own risk tolerance because if you take on too much risk, you could panic and exit your position too early or too late.

To sum up, it is crucial to decide whether to keep stock or sell it, and it may be difficult to predict; certain things can help you exit a trade. It is good to stick with a company that you have researched about, but it is also necessary to exit a trade at the right time. Use the strategies we mentioned above to exit the market with a good profit rather than a loss.

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