

INDIAN

STOCK MARKET JOURNAL

EMPOWERING TRADERS AND INVESTORS

How Depreciation Affects Profitability

Writing Call Options: Strategy Made Simple

What Is a Gilt Fund? A Complete Guide for Investors

EMI Trap: How to Escape It and Rebuild Your Finances

CAGR vs Absolute Return: What Works Best for Mutual Funds



Top Trading Patterns In Charts:
A Complete Guide for Traders



FOUNDER'S MESSAGE

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Full efforts have been made to ensure the authenticity and accuracy of the contents of the Yearbook, but we do not accept any liability for the errors if committed and the subsequent loss arising from the same, but we will make sure that the errors if occurred are recited and minimized in future editions and also would welcome the reader's feedback.

We welcome your comments and suggestions for our future editions to make it more helpful month after month.

Dear Readers,

In this month's edition of ISMJ, we focus on strengthening the foundations of smart investing and disciplined trading. Leading our cover story, Top Trading Patterns in Charts: A Complete Guide for Traders, we decode some of the most reliable chart patterns that traders use to anticipate market moves. From reversal formations to continuation setups, this guide aims to help readers understand how price behaviour often follows identifiable structures — and how recognising them can sharpen trading decisions.

We then move to How Depreciation Affects Profitability, where we break down how this non-cash expense influences company earnings, balance sheets, and valuation metrics. By understanding the role of depreciation, investors can better interpret financial statements and avoid common misconceptions about reported profits.

In CAGR vs Absolute Return: What Works Best for Mutual Funds, we explore two widely used performance metrics and clarify when each measure is most relevant. The article helps investors look beyond headline returns and assess mutual fund performance with a more informed perspective.

For those interested in options strategies, Writing Call Options: Strategy Made Simple explains the fundamentals of selling call options, the risks involved, and the scenarios in which the strategy may be suitable. The goal is to simplify a concept that often appears complex and make it accessible to practical traders.

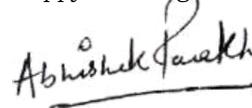
Personal finance remains equally important, and in EMI Management Made Easy: Rebuilding Your Path to Prosperity, we discuss structured approaches to handling loan obligations efficiently. The piece focuses on restoring financial balance, improving cash flow, and creating a roadmap toward long-term stability.

We also present What Is a Gilt Fund? A Complete Guide for Investors, offering clarity on government-backed debt funds, their risk-return profile, and their role within a diversified portfolio. This guide helps investors evaluate whether gilt funds align with their financial goals and risk appetite.

As always, our aim is to combine clarity with insight, helping you navigate markets with confidence and discipline.

We sincerely thank our readers for your continued trust and support. Your feedback enables us to deliver relevant and insightful content every month. Feel free to reach out to us at support@equitypandit.com.

Happy Investing!



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Upcoming Trading Holidays



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March 26, 2026

Thursday

Shri Mahavir Jayanti

March 31, 2026

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How Depreciation Affects Profitability



A company can report strong sales, healthy cash in the bank, and still show lower profits on paper. Strange? That's where depreciation quietly steps in. It doesn't involve money leaving the account. It doesn't affect daily operations. Yet it can significantly change how profitable a business looks to investors.

Depreciation is more than an accounting entry buried in financial statements - it shapes reported earnings, tax outflows, cash flow perception, and even investor confidence. If you've ever wondered why two companies with similar revenues show very different profits, depreciation is often the hidden reason.

Let's break it down properly — not just what it is, but how it truly affects profitability and what you, as an investor, should look for.

Understanding Depreciation In Simple Terms

Depreciation is the gradual reduction in the value of a business asset over time. Machines wear out. Vehicles age. Computers become outdated. Factory equipment loses efficiency. Even if the asset still works, its value reduces.

Instead of recording the full cost of an asset as an expense in the year it is purchased, businesses spread that cost across its useful life. This prevents profits from swinging wildly.

For example:

If a company buys a machine for Rs 10,00,000 and plans to use it for 10 years, it does not record the entire Rs 10,00,000 as an expense in year one. Instead, it charges a portion every year. Why? Because that machine generates income for 10 years. The cost should be

matched with the income it helps create. This matching principle gives a more realistic and stable picture of profits. And here's where it gets interesting — depreciation directly reduces reported profit, even though no cash leaves the business.

How Is Depreciation Calculated?

(And Why It Changes Profits)

.....

Different businesses use different methods depending on asset type, usage, and legal requirements. The

method chosen can significantly influence reported profitability — especially in the early years.



Let's see how.

1 Straight-Line Method (SLM)

Steady and Predictable

Under this method, the asset loses the same value every year.

Formula: $\text{Depreciation per year} = (\text{Cost} - \text{Salvage Value}) \div \text{Useful Life}$

Example:

| | |
|---------------|---------------|
| Machine cost | : Rs 5,00,000 |
| Salvage value | : Rs 50,000 |
| Useful life | : 5 years |

Annual Depreciation = $(5,00,000 - 50,000) \div 5$
= Rs 90,000 per year

So every year, Rs 90,000 reduces the company's profit.

This method keeps profits stable. Investors like it for predictability.

2 Written Down Value (WDV) Higher Impact in Early Years

Here, depreciation is calculated on the remaining value each year.

Formula: $\text{Depreciation} = \text{Opening Book Value} \times \text{Depreciation Rate}$

Example: Machine cost : Rs 5,00,000

Depreciation rate : 20%

Year 1: $5,00,000 \times 20\% = \text{Rs } 1,00,000$

Year 2: $4,00,000 \times 20\% = \text{Rs } 80,000$

Notice something? Profit is hit harder in the early years.

This method lowers profits more initially but reduces tax earlier as well.

Many capital-intensive industries prefer it.

3 Units of Production Based on Usage

Here, depreciation depends on how much the asset is used.

Example: Machine cost: Rs 3,00,000

Salvage value: Rs 60,000

Expected production: 1,20,000 units

Depreciation per unit = Rs 2

If the machine produces 20,000 units in a year:

Depreciation = $20,000 \times 2 = \text{Rs } 40,000$

This method aligns cost directly with output. When production is high, depreciation is higher — and so is expense.

4 Double Declining Balance Faster Write-Off

This is an accelerated method.

Formula: Depreciation = Opening Book Value × Depreciation Rate

Example:

| | |
|--------------------|---------------|
| Asset cost | : Rs 4,00,000 |
| Useful life | : 5 years |
| Straight-line rate | : 20% |
| Double rate | : 40% |

Year 1 depreciation = $4,00,000 \times 40\% = \text{Rs } 1,60,000$

- Profits fall sharply in early years.
- Companies expecting assets to lose value quickly may use this method.

Now here's the key takeaway:

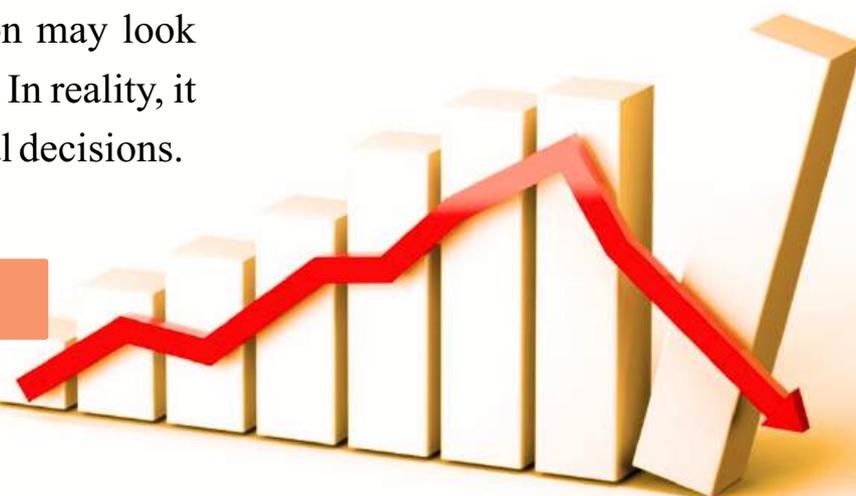
- The method of depreciation can change reported profitability without changing actual cash flow.
- And that's where investors must pay attention.

Why Depreciation Matters More Than Most Investors Realise

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At first glance, depreciation may look like a technical adjustment. In reality, it influences multiple financial decisions.

Let's see how.



It Shapes The Real Profit Picture

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If a company recorded the full cost of machinery in year one, profits would crash that year and look artificially high later. Depreciation smooths profits over time.

That stability helps investors judge performance accurately.



It Reduces Tax — Legally

.....

Depreciation lowers taxable income. Lower taxable profit means lower tax outflow. This improves retained cash. Asset-heavy sectors like manufacturing, infrastructure, telecom, and airlines benefit significantly.

In simple terms:

Higher depreciation = Lower taxable profit = More cash retained.



It Explains The Gap Between Profit And Cash Flow

.....

You may see a company reporting modest profits but strong operating cash flow.

Why?

Because depreciation reduces profit but does not involve cash.

This is why serious investors look at cash flow from operations, not just net profit.



It Signals Asset Age And Future Spending

High accumulated depreciation may indicate older assets.

That could mean:

- Future capital expenditure is coming
- Replacement costs may rise
- Cash outflows may increase later

Ignoring this can lead to surprises.



It Affects Key Ratios

Depreciation lowers net profit. This affects:

- Return on Equity (ROE)
- Return on Assets (ROA)

At the same time, falling asset values can improve asset turnover ratios.

The numbers change — but the business may not.

Understanding this prevents misjudgment.



How Depreciation Impacts The Three Financial Statements

Now let's connect everything.

On the Income Statement

Depreciation appears as an expense.

It reduces operating profit and net profit.

No cash leaves the business — but profits go down.

On the Balance Sheet

Assets are shown as:

Cost – Accumulated Depreciation

This shows the current book value.

If assets remain at original cost forever, the balance sheet would be misleading.

On the Cash Flow Statement

Depreciation is added back under operating activities.

This explains why:

Profit ≠ Cash Flow.

And for investors, cash flow often matters more.

What Smart Investors Should Watch



This is where most blogs stop. Let's go further.

If you truly want to understand profitability, look at:

- Whether depreciation policy is consistent
- Sudden changes in useful life assumptions
- Differences between accounting depreciation and tax depreciation
- Capital expenditure trends versus depreciation levels
- Whether profit growth is coming from real efficiency or accounting changes

Example:

If a company suddenly increases asset life from 10 years to 15 years, annual depreciation falls.

Lower depreciation = Higher reported profit.

But has the business really improved? Not necessarily.

This is why reading notes to accounts matters.

Regulatory Framework In India

Under the Companies Act, 2013 and SEBI regulations:

- Depreciation must be charged every year
- Useful life must follow Schedule II (or be justified)
- Method must be disclosed
- Changes must be explained clearly
- Accumulated depreciation must be shown separately

Consistency builds credibility.

Frequent changes raise red flags.



Depreciation may look like a silent accounting adjustment, but it quietly shapes profitability, tax outflow, financial ratios, and investor perception. It reduces profit without reducing cash, protects companies from overstating earnings, and signals future capital needs — all at the same time.

Most importantly, it separates headline numbers from real business strength.

If you truly want to judge a company's profitability, don't stop at revenue growth or net profit. Look at depreciation. Because sometimes, the real story isn't in how much a company earns — but in how it accounts for what it owns.

And that insight is what separates casual readers from serious investors.

CAGR vs Absolute Return

What Works Best For Mutual Funds



Money grows. But how it grows makes all the difference.



A mutual fund showing 60% returns looks impressive at first glance. But pause for a second — did it earn 60% in one year... or over five years? That one detail can completely change how you judge its performance. This is where many investors get misled. Big numbers grab attention.

Context tells the truth.

Absolute return shows the total growth. CAGR shows the speed and consistency of that growth over time. And when you're choosing a mutual fund for long-term wealth creation, understanding this difference isn't optional — it's essential.

So let's break down CAGR vs Absolute Return and see what actually works best for mutual fund investors.

Understanding CAGR In Mutual Funds

CAGR, or Compound Annual Growth Rate, shows the average yearly growth of your investment over a specific period.

Now here's the key: it assumes your money grew at a steady rate every year, even though markets actually move up and down. In reality, returns fluctuate.



CAGR simply smoothens those ups and downs to give you one consistent annual number.

Think of it this way.

If you invested Rs. 1,00,000 and it became Rs. 1,80,000 in five years, CAGR tells you the average annual rate at which your money compounded to reach that value. It doesn't get distracted by year-to-year volatility. It focuses on the overall journey.

That's why CAGR is powerful for long-term goals like retirement, children's education, or wealth creation. It helps you answer important questions:

- Has the fund grown steadily over time?
- Has it beaten inflation?
- Is it doing better than safer options like Fixed Deposits?
- How does it compare fairly with other funds over the same period?

When you're investing for 5, 10, or 15 years, CAGR gives you clarity.

How CAGR Is Calculated

(And What It Really Means)

CAGR measures the average annual growth rate over a specific number of years.

Formula:

$$\text{CAGR (\%)} = \{[(\text{Ending Value} / \text{Beginning Value}) ^ (1 / \text{Number of Years})] - 1\} \times 100$$

Let's take a simple example.

If you invested Rs. 1,00,000 and it grew to Rs. 1,80,000 in 5 years:

$$\text{CAGR} = \{[(1,80,000 / 1,00,000) ^ (1 / 5)] - 1\} \times 100$$

$$\text{CAGR} \approx 12.5\%$$



This means your investment effectively grew at an average annual rate of about 12.5% for five years.

It doesn't mean the fund delivered exactly 12.5% every year. Some years could have been 18%, some 5%, maybe

even negative in one year. CAGR simply tells you the compounded annual pace of growth.

And that's what matters in long-term investing—compounding.

Understanding Absolute Returns In Mutual Funds

Now let's shift gears.

Absolute return is much simpler. It shows the total percentage gain or loss on your investment, without considering how long you stayed invested.

If Rs. 1,00,000 becomes Rs. 1,20,000, the absolute return is 20%.

Straightforward. No time adjustment. No annualisation.

That makes it useful when you're tracking short-term performance — say, less than a year. For example, if you invested Rs. 50,000 and it became Rs. 65,000 in one year:

$$\text{Absolute Return} = [(65,000 - 50,000) / 50,000] \times 100$$

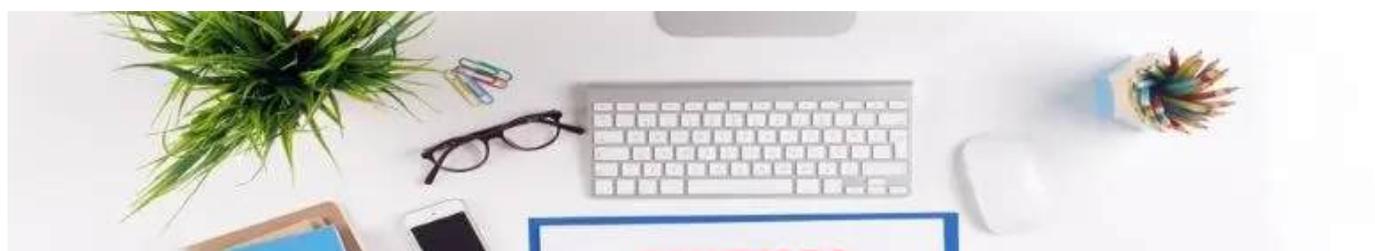
$$\text{Absolute Return} = 30\%$$

That tells you exactly how much you gained overall.

But here's the catch. If that same 20% return came over 4 years instead of 1 year, the story changes completely. And

absolute return won't tell you that difference.

It gives a result. Not the pace.



CAGR vs Absolute Return

Where Most Investors Get Confused

This is where things get interesting.

Imagine two funds:

Fund A
delivered 40% absolute
return in 2 years.

Fund B
delivered 40% absolute
return in 5 years.

Same number. Very different performance.

Fund A clearly grew faster. But if you only look at absolute returns, you might assume they're equal.

This is why CAGR considers time, and absolute return ignores it.

CAGR helps you compare funds fairly over longer periods. It smoothens volatility and shows

steady compounded growth. Absolute return simply shows the total profit or loss at the end of the period.

So the real difference is this:

- Absolute return answers: How much did I make?
- CAGR answers: How efficiently did my money grow every year?

And in long-term investing, efficiency matters.

What Should Investors Actually Use?

If you're reviewing performance for less than one year, absolute return works fine. There's no need to annualise short durations.

But for investments held longer than a year — especially equity and hybrid mutual funds — CAGR is far more meaningful. It reflects compounding and helps you judge long-term consistency.



In fact, serious investors use both together.

Absolute return gives a quick snapshot.

CAGR gives depth and context.

If you're planning retirement, building wealth, or investing through SIPs, CAGR should be your primary performance lens.

One More Thing Most Blogs Don't Tell You

Even CAGR has limitations. It smoothens returns, which means it can hide volatility. A fund with sharp ups and downs can still show a decent CAGR.

So don't stop at CAGR.

Also check consistency across market

cycles, drawdowns during bad years, and how the fund behaved in falling markets. Growth is important. Stability is equally important.

The smartest investors don't chase the highest return. They look for sustainable growth.



CAGR and absolute return serve different purposes — and understanding both makes you a smarter mutual fund investor.

Absolute return is useful for short-term performance tracking. It tells you the total gain or loss quickly.

CAGR gives a clearer picture of long-term growth because it considers time and compounding. It helps you compare funds fairly and evaluate whether your

money is growing efficiently.

If your goal is long-term wealth creation, focus on CAGR. If you're reviewing short-term results, absolute return is enough.

And if you truly want to make informed decisions, use both — but never look at a return number without asking one simple question:

Over how many years?

Writing Call Options

Strategy Made Simple

A hand in a dark suit jacket points towards a glowing green square icon containing a white upward-pointing triangle and the word "CALL". The background features a blurred image of a person in a suit and a financial candlestick chart with a white line connecting various points.

CALL



Options trading is no longer just a buzzword on Dalal Street — it's a full-blown obsession. Premiums jump, charts move fast, and most traders chase the next breakout.

But here's something most beginners don't realise: in options, the consistent money often sits with the seller, not the buyer.

Buyers chase big moves.

Sellers sell probability, time, and patience.

And that brings us to a powerful but often misunderstood strategy — writing call options.

Let's simplify it properly. No jargon. No drama. Just clarity.

What Does Writing Call Options Really Mean?

At its core, writing a call option simply means selling a call option contract.

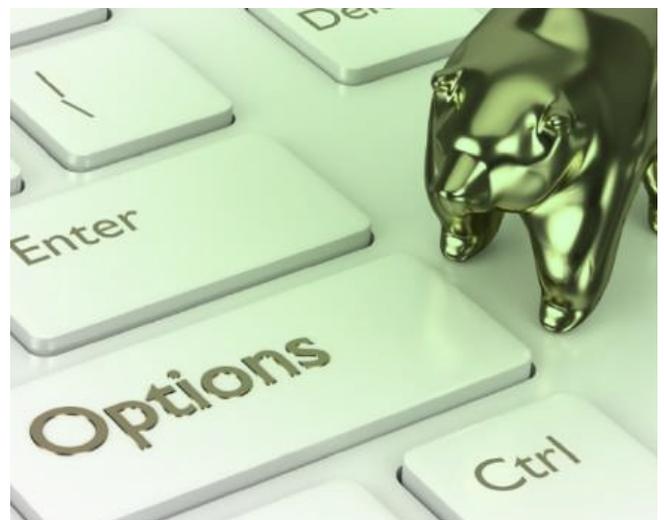
When you write (sell) a call option:

- You give someone the right to buy a stock (or index) from you
- At a fixed price (called the strike price)
- Within a specific time period
- And in return, you receive a premium upfront

That premium is yours to keep — no matter what happens next.

Sounds easy, right? It is. But there's a catch.

Your maximum profit is limited to the premium you receive.



Your risk, in some cases, can be very large.

If the stock price shoots up sharply, you're still obligated to sell at the strike price — even if the market price is much higher.

So why would anyone do this?
 Because most of the time, markets don't
 explode. They move sideways. They

move slowly. They waste time.
 And time is exactly what benefits the
 call writer.

Why Traders Write Calls In The First Place



Before jumping into strategies, let's understand the mindset.

Call writing is usually done when a trader:

- Expects the stock to stay below a certain level
- Believes the market will move sideways
- Wants to generate steady income
- Wants to earn from time passing rather than price jumping

This is not a “get rich quick” strategy.

It's a structured income approach — when done correctly.

Now let's look at how it's actually used.

Covered Call

This is the most practical and widely used call writing strategy.

In a covered call:

- You already own the stock
- You sell a call option on the same stock

Because you already hold the shares, your position is “covered.” If the option buyer exercises the contract, you simply

deliver the shares you already own. That's why this strategy is considered relatively safer.

Example –

Let's say Harit owns 100 shares of Reliance at Rs. 2,500.
He sells a Rs. 2,600 call option for Rs. 30 premium.
He receives Rs. 3,000 upfront
(Rs. 30 × 100 shares).

Rs. 2,500.
Rs. 30 premium.
Rs. 3,000 upfront
(Rs. 30 × 100 shares).

Now two outcomes are possible:

If the stock stays below Rs. 2,600:

The option expires worthless. Shree keeps Rs. 3,000 as extra income.

If the stock rises to Rs. 2,700:

He must sell at Rs. 2,600.

He earns Rs. 100 per share gain + Rs. 30 premium.

But he misses the extra Rs. 100 above Rs. 2,600.

Rs. 2,600:
Rs. 3,000 as extra income.
Rs. 2,700:
Rs. 2,600.
Rs. 100 above Rs. 2,600.

That's the trade-off.

Covered calls convert long-term holdings into income-generating assets.

But they cap your upside.

This strategy works best in flat or slowly rising markets.

Naked Call Writing

Now we move to the aggressive side.

In a naked call:

- You sell a call option
- You do not own the stock

This means if the stock price rises sharply, you'll have to buy it from the market at a high price — and sell it

at the lower strike price.

That's where the risk becomes dangerous.

Example –

| | |
|--------------------------------------------------|-----------------|
| Sejal sells an Infosys Rs. 1,450 call for | Rs. 20 premium. |
| She earns | Rs. 2,000. |
| If Infosys stays below | Rs. 1,450: |
| She keeps | Rs. 2,000. |
| If Infosys rises to | Rs. 1,550: |
| She must buy at Rs. 1,550 and sell at Rs. 1,450. | |

$$\text{Loss} = \text{Rs. } 100 \times 100 \text{ shares} = \text{Rs. } 10,000$$

After premium, net loss = Rs. 8,000.

If the stock goes even higher, losses increase further.

That's why naked call writing is usually done only by experienced traders with strict risk control.



Want Safer Alternatives? Try Structured Call Writing

If naked calls feel uncomfortable (and they should), there are smarter ways to structure risk.

Bear Call Spread (Call Spread Writing)

Here's how it works:

- You sell one call option
- You buy another call at a higher strike

The bought call acts as insurance.

- Your profit is limited.
- Your loss is also limited.

This makes it far safer than naked call writing.

This strategy is ideal when you expect the market to stay below a certain level — but you still want protection in case you're wrong.



Ratio Call Writing

This is the most practical and widely used call writing strategy.

This involves selling more call options than shares owned.

It increases premium income — but risk rises sharply if the stock rallies strongly.

This is an advanced strategy and requires deep understanding of position sizing and margin. For most traders, covered calls or spreads are more practical.

The Hidden Advantage: Time Decay

Here's something powerful.

- Buyers fight against time.
- Sellers benefit from it.

Even if the stock doesn't move, the option premium slowly reduces — and that works in favour of the call writer.

That's why writing calls is often described as “selling time.”



Who Should Consider Writing Call Options?

Call writing may suit:

- Investors who already own stocks and want steady additional income.
- Traders with a neutral or slightly bearish view.
- Disciplined traders who understand risk and position sizing.

It is not suitable for beginners who don't understand margin requirements or sudden market spikes.



Pros And Cons

Let's keep this practical.

Pros



- Premium income upfront
- Works well in sideways markets
- Covered calls are relatively safer
- Time decay works in your favour

Cons



- Profit is capped
- Naked calls carry very high risk
- Requires margin
- Needs emotional discipline

The key is understanding what you're trading: probability, not prediction.



What Most Blogs Don't Tell You

Here's the real edge.

Successful call writing is not about randomly selling high premiums.

It's about:

- Choosing strikes wisely (not too close, not too far)
- Selling when volatility is high (premiums are richer)

- Managing position size carefully
 - Exiting early if the market view changes
- Professional traders often close positions before expiry once most of the premium is captured.

They don't wait for the last rupee. That's discipline.



Writing call options is not gambling. It's structured income trading — when done responsibly.

Covered calls can turn long-term holdings into income machines. Spreads can provide defined-risk opportunities. Naked calls, however, demand extreme caution.

This strategy works best in sideways or mildly bearish markets, where time slowly erodes option value.

If used with patience, proper risk control, and realistic expectations, call writing can become a steady, repeatable approach — not a speculative thrill ride.

In options, excitement is expensive.

Calm strategy pays.

And call writing is exactly that — calm strategy.

Top Trading Patterns In Charts

A Complete Guide for Traders



Technical analysis rests on a simple yet powerful belief: price reflects everything. Every rise, fall, consolidation, and breakout visible on a chart represents collective human psychology, such as fear, greed, optimism, panic, and expectation. Over decades of market history, traders have observed that price movements tend to form recurring structures known as chart patterns. These patterns help traders anticipate potential trend continuation, reversals, and breakout opportunities.

Chart patterns are not random drawings on a screen. They are the visual

outcome of supply and demand imbalances. When buyers dominate, prices trend upward; when sellers overpower buyers, prices decline. Between these two forces lies consolidation, where neither side has decisive control. Understanding how these forces interact allows traders to interpret patterns with higher probability.

Broadly, chart patterns fall into three categories: continuation patterns, reversal patterns, and bilateral patterns. Each serves a different purpose in a trader's strategy. Let's explore them in depth.



Continuation Patterns: Riding The Existing Trend

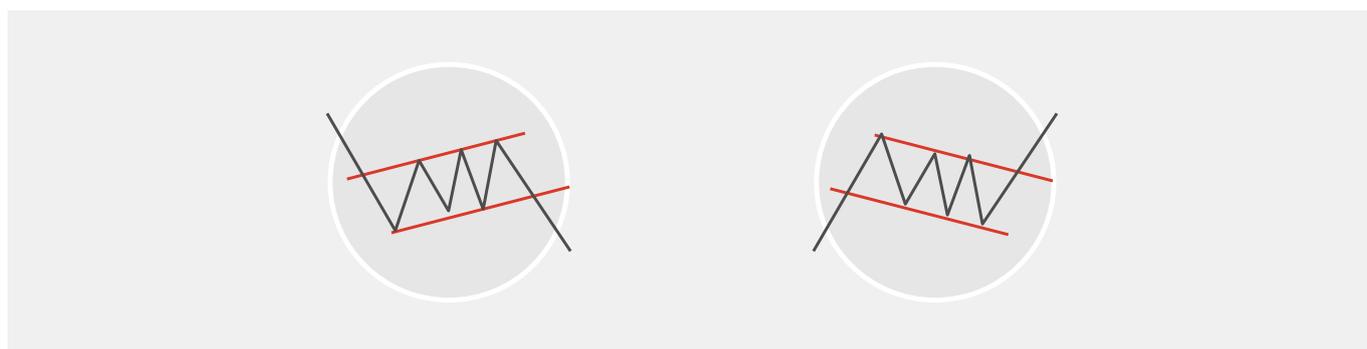
Continuation patterns indicate that the prevailing trend is likely to resume after a temporary pause. These formations are especially

valuable in trending markets because they allow traders to enter positions in alignment with momentum rather than against it.

1 Flags And Pennants

Flags and pennants form after a strong directional move known as the “flagpole.” Following this sharp movement, the price consolidates within a small range. In a flag pattern, this consolidation appears as a small parallel channel, while in a pennant, it forms a small symmetrical triangle. This pause represents temporary profit booking or hesitation before the next leg of the trend.

What makes flags and pennants reliable is volume behaviour. Typically, volume declines during consolidation and expands significantly at breakout. When price breaks above the consolidation range in an uptrend—or below it in a downtrend—it often resumes the prior move. Traders commonly project the length of the flagpole from the breakout point to estimate potential targets.



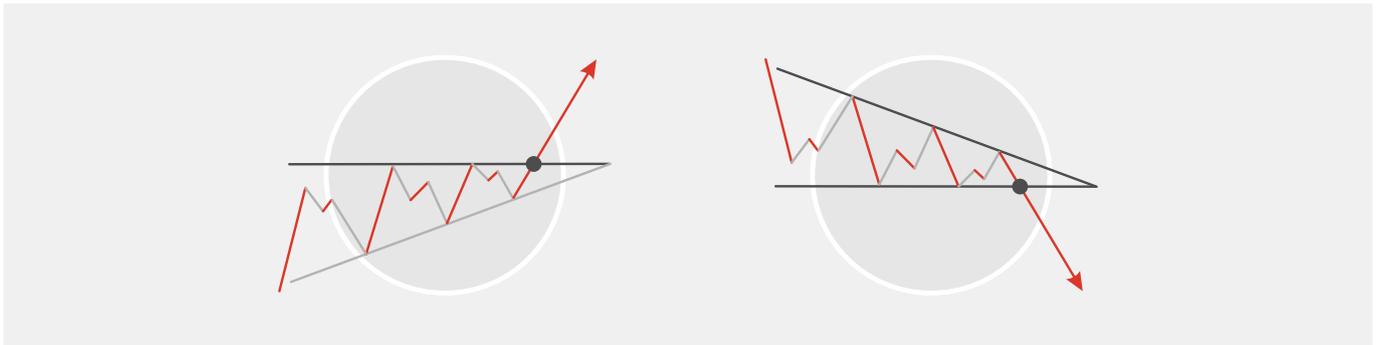
2 Triangle Patterns

Triangle patterns develop when price movements become restricted between two approaching trendlines. The price movement creates a compression pattern which shows that market activity has decreased while buyers and sellers experience increasing conflict. The market tension between buyers and sellers will result in a breakout which

will occur after a certain period of time. Investors employ symmetrical triangles to identify periods of market uncertainty which occur when prices create a pattern of increasing highs and decreasing lows. An ascending triangle develops when resistance remains flat while support rises, signalling increasing buying pressure and a typically

bullish outcome. A descending triangle emerges when support levels stay fixed while resistance levels decrease, which indicates rising selling pressure that creates a predominantly bearish market trend. The volume pattern shows that traders experience a volume decline

during triangle formation but they observe a volume increase during breakout events. The probability of sustained momentum after a breakout increases with stronger volume expansion beyond the normal volume range.

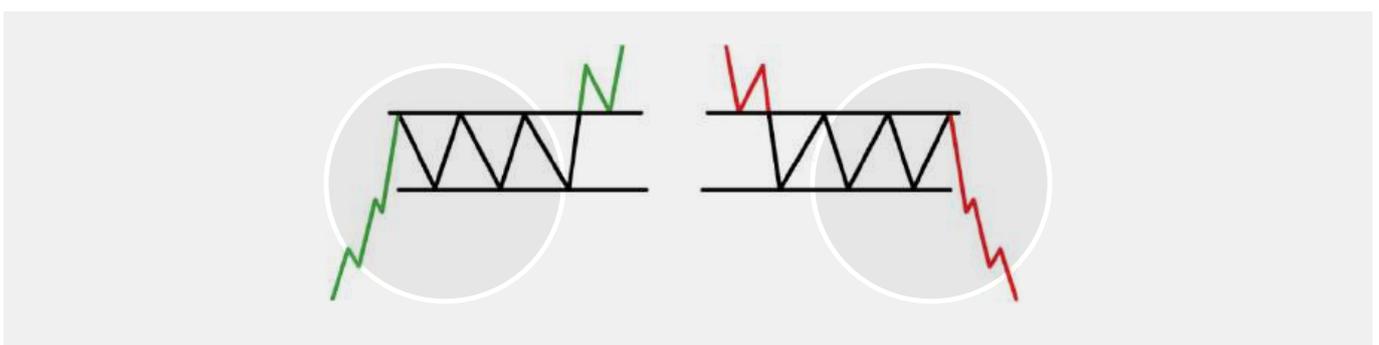


3 Rectangle Pattern

The rectangle pattern demonstrates a consolidation phase in which prices move between two fixed horizontal support and resistance points. The trading range emerges because buyers activate their trades at support levels while sellers execute their trades at resistance levels.

The market uses rectangles as temporary break points during existing

upward trends which will continue after the break. The price movement creates a breakout when it leaves the established range through strong volume confirmation which indicates a return to directional market movement. Traders often measure the height of the rectangle and project it from the breakout level to estimate potential price targets.



Reversal Patterns: Identifying Trend Changes

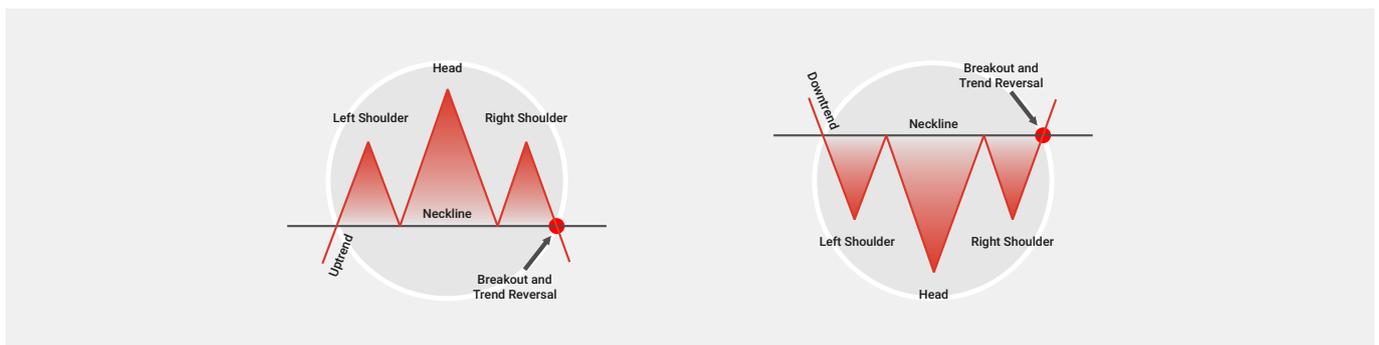
Reversal patterns signal a potential shift in market direction. They are particularly important for swing

traders and positional traders aiming to capture the early stages of new trends.

1 Head And Shoulders Pattern

The Head and Shoulders pattern is one of the most recognised reversal formations. It consists of three peaks: a left shoulder, a higher head, and a lower right shoulder. The neckline connects the lows between these peaks. When price breaks below the neckline with strong volume, it confirms a bearish reversal. This pattern reflects weakening buying strength. The first peak shows strong bullish momentum, the

second peak indicates exhaustion despite a higher high, and the third peak reveals diminished buying interest. The inverse version of this pattern—called the Inverse Head and Shoulders—signals bullish reversal after a prolonged downtrend. Traders typically measure the distance from the head to the neckline and project it downward (or upward in the inverse pattern) to estimate price targets.



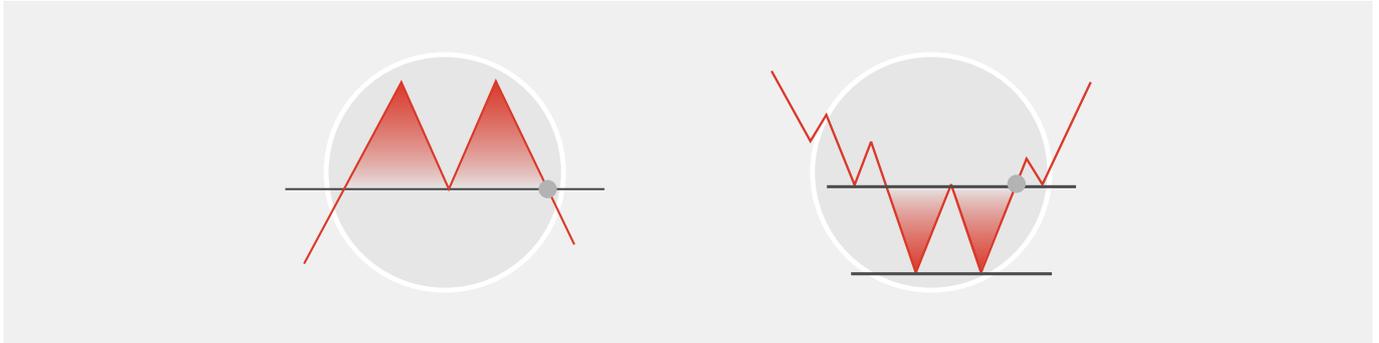
2 Double Tops And Double Bottoms

Double tops and bottoms are simpler yet highly effective reversal patterns. A double top forms when the price tests a resistance level twice but fails to break

through, signalling strong selling pressure. When price subsequently breaks below the support level (neckline), it confirms a bearish

reversal. A double bottom forms when the price tests support twice and fails to break lower. A breakout above resistance confirms a bullish reversal.

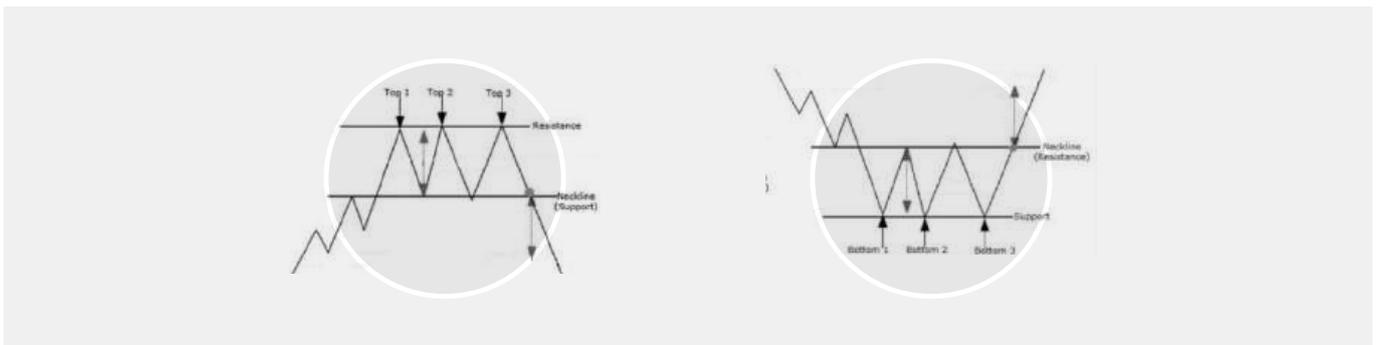
These patterns highlight strong supply or demand zones and are particularly powerful when accompanied by high volume during the breakout phase.



3 Triple Tops And Triple Bottoms

Triple tops and bottoms extend the logic of double formations. Here, price tests a support or resistance level three times before reversing. The repeated failure to break through the level strengthens

its significance. Once a breakout occurs, the resulting move often carries strong momentum due to accumulated orders around that level.



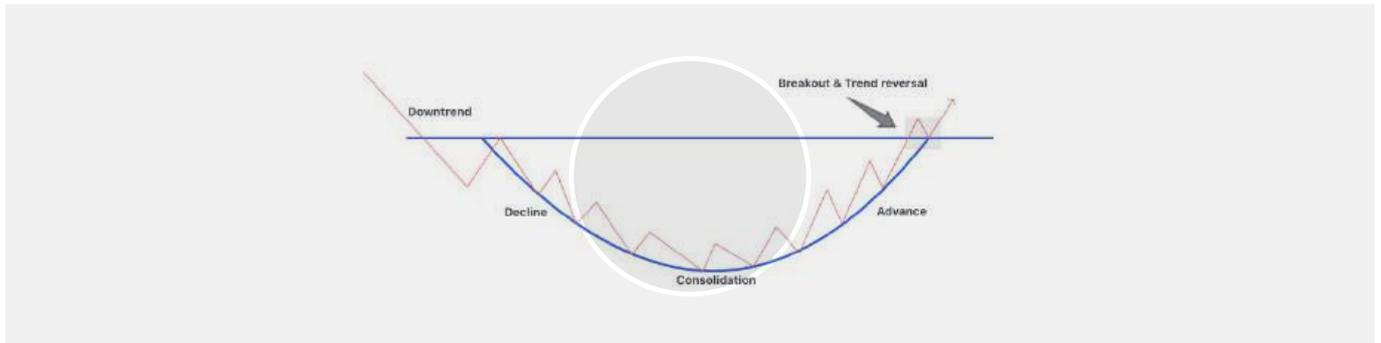
4 Rounding Bottom (Saucer Pattern)

The rounding bottom is a long-term reversal pattern characterised by a gradual shift from bearish to bullish sentiment. Instead of sharp price

swings, it forms a smooth, curved structure. This pattern often indicates accumulation, where institutional investors slowly build positions before

a breakout. The price establishes a bullish trend when it breaks through the resistance level that created the formation.

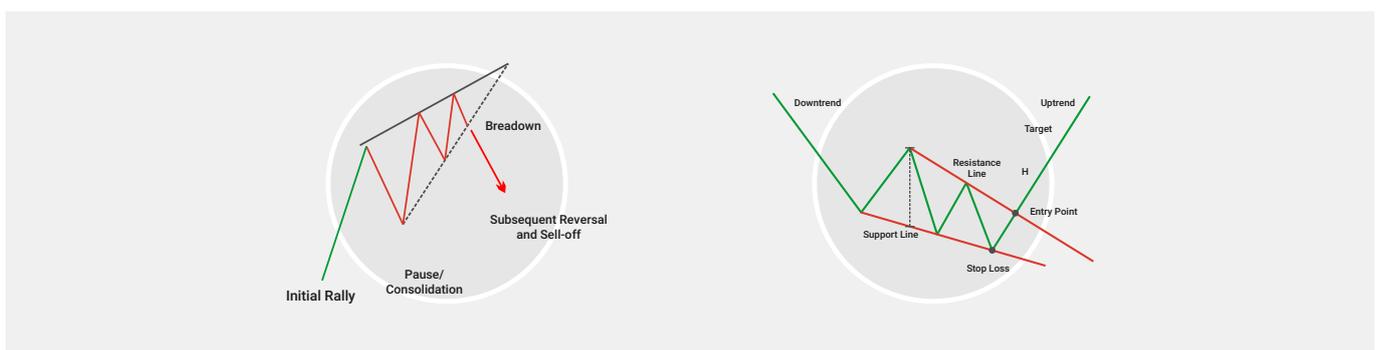
Rounding bottoms are more commonly observed on daily, weekly, or monthly charts rather than intraday timeframes.



Wedge Patterns: Momentum Weakening Signals

The upward and downward slopes of wedges create triangular shapes. A rising wedge leads to a bearish breakdown because it shows declining upward momentum strength. A falling wedge pattern shows decreasing downward pressure which results in a

bullish breakout. The combination of wedges and momentum indicators that include RSI divergence produces optimal results. If price continues rising but RSI declines, it reinforces the bearish case for a rising wedge breakdown.



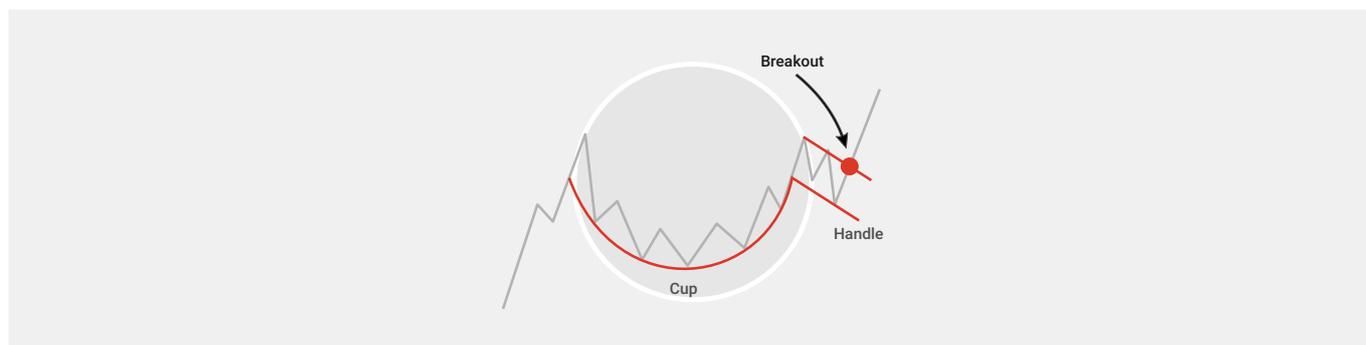
Cup And Handle Pattern

The Cup and Handle pattern is popular among growth stock traders. It consists of a rounded “cup” formation followed

by a smaller pullback called the “handle.” The cup shows how investors accumulated shares until they reached

their peak value, while the handle forms the final stage before breakout to a new price level. A price breakout occurs when the handle resistance level breaks with significant trading

volume, which leads to an uptrend. The pattern occurs regularly in stocks that have strong fundamentals, especially before their major price increases.



The Role Of Volume In Pattern Confirmation

Volume plays a critical role in validating chart patterns. Patterns without volume confirmation are more likely to result in false breakouts. The ideal situation requires volume to decrease during consolidation periods while it

increases sharply during breakout and breakdown points. The presence of high volume proves institutional traders participated, which gives more trustworthiness to the observed price changes.

How To Trade Chart Patterns Effectively

Identifying a pattern is just the first step. Here are key tactics traders use:

1. Confirm with Volume

A breakout or breakdown should be accompanied by higher than average volume — this validates a supply/demand shift.

2. Price Targets Based on Pattern Size

Many patterns project targets by measuring the height of the pattern and adding or subtracting it from the breakout point.

3. Enter with Clear Rules

- Buy on a breakout above the pattern resistance
- Sell on breakdown below support
- Place a stop-loss just outside the

invalidation point

4. Use Multiple Timeframes

Confirm patterns on higher timeframes (like daily or 4-hour charts) for stronger signals.

Common Mistakes To Avoid

Ignoring Volume Confirmation:

Patterns without volume validation are weak and prone to false breakouts.

Trading Every Pattern You See:

Quality over quantity matters, and not only trade patterns that align with trend, volume, and timeframes.

Not Using Stop-Loss Orders:

Even validated patterns can fail, so always manage risk.

Neglecting Broader Market Context:

Patterns should align with macro sentiment or market trend.

Many traders misinterpret patterns by forcing formations that do not clearly exist. Overtrading, ignoring volume, entering before confirmation, and neglecting broader market trends are common errors. Patterns work best when aligned with overall market direction and sector strength.

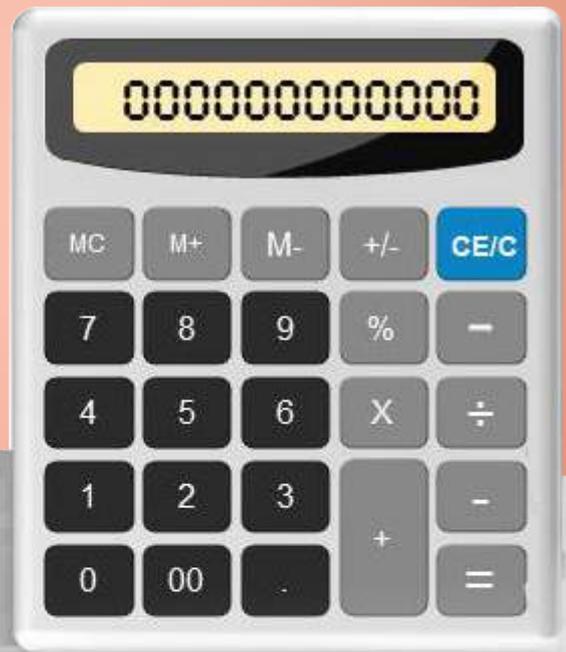


Market behavior patterns show repeated trader behavior which creates visual patterns through chart patterns that traders employ for their analysis. The system assists traders to discover breakouts, reversals, and setups which have high success rates and defined risk boundaries. However, patterns are not shortcuts to guaranteed profits. The approach achieves optimal results through the combined use of trend analysis, volume confirmation, disciplined risk management, and market context knowledge.

Mastering chart patterns requires study and practice. Reviewing historical charts, journaling trades, and backtesting strategies can significantly enhance pattern recognition skills. Over time, traders begin to recognise these formations instinctively, allowing for faster and more confident decision-making.

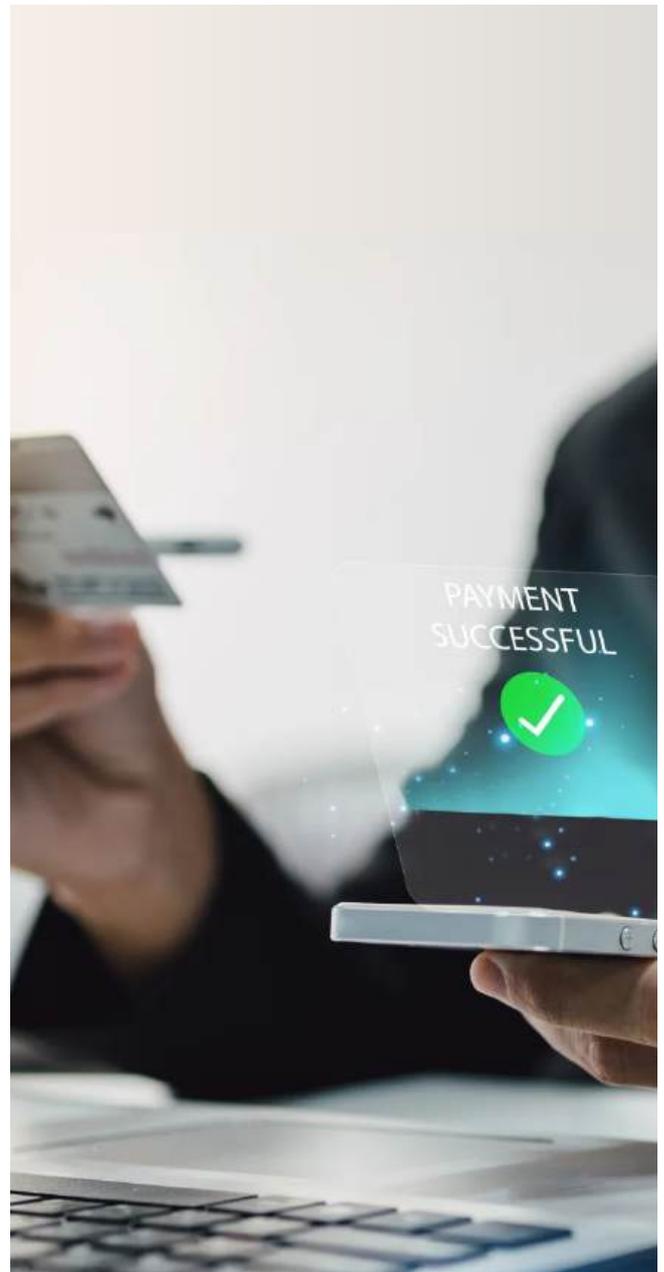
EMI Trap

How To Escape It And Rebuild Your Finances



The current consumer-driven economy enables people to obtain credit easily causing loans and EMIs (Equated Monthly Instalments) to become standard financial instruments. EMIs provide a way to finance expensive purchases including homes and cars and electronics but they become a financial burden when users fail to control their spending. For millions of people, what begins as a manageable repayment quickly transforms into a cycle of debt that restricts financial freedom and increases stress.

This blog explains what an EMI trap is, how it happens, its impact on your financial health, and, most importantly, practical strategies to break free and rebuild your finances. We'll also look at the latest data and best practices from financial experts.



What Is An EMI Trap?



An EMI trap occurs when a large portion of your monthly income is committed to loan repayments, leaving little room for savings, emergencies, or discretionary spending. Over time, as more EMIs pile up, liquidity dries up, and budget flexibility diminishes. This

can lead to defaults, penalty interest charges, and further loans to cover existing obligations.

A debt trap is when you borrow money to repay pre-existing loans, often leading to a vicious cycle that is difficult to break.

Why EMI Traps Happen: Common Triggers



Understanding how the trap forms is the first step in escaping it.



Over-borrowing Without Planning

People tend to make the mistake of borrowing money for non-essential items which exceeds their ability to pay back. People experience financial stress when their monthly EMIs for personal loans or car loans exceed 30-40% of their monthly income.

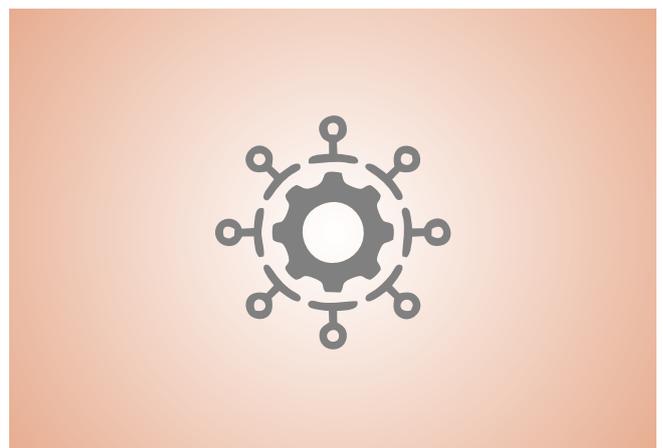


Multiple Loans At Once

Many borrowers juggle:

- Personal loans
- Home loans
- Car loans
- Credit card EMIs
- Buy now, pay later (BNPL) EMIs

The cumulative burden can be overwhelming.



High-interest Loans And Credit Cards

Personal loans and credit card cash advances often carry interest rates of 15–36% annually, much higher than secured loans. This accelerates debt growth.



Disrupted Income Or Emergencies

When people experience job loss or health emergencies or unexpected expenses their well-planned budgets become stressful because they have to borrow more money.



Lack Of Emergency Fund

The general public needs to build emergency funds which require time to grow because they need money to cover their urgent expenses. People without emergency reserves turn to credit for short-term spending needs which creates a cycle of debt they cannot escape through repayment.



Signs You Are In An EMI Trap



Here are common signs that you might be slipping into or already stuck in an EMI trap:

- You can't build savings because EMIs take priority
- You're borrowing to repay existing loans
- Your credit card balances are consistently high
- You miss payments or pay only minimum amounts
- You use personal loans to pay credit cards or other EMIs
- You have taken multiple overlapping loans

If this sounds familiar, you're not alone. A recent consumer finance survey showed that over 40% of Indian

borrowers feel stressed by multiple EMIs, especially those with personal and credit card debt.

The Real Cost Of Being Trapped In EMIs

....

High Finance Charges & Interest Payments

1

When you have multiple loans, interest starts to dwarf the principal. On credit cards, minimum payments often cover only interest, leaving the core debt untouched.

Lower Savings & Wealth Creation

2

When you have multiple loans, interest starts to dwarf the principal. On credit cards, minimum payments often cover only interest, leaving the core debt untouched.

Damaged Credit Score

3

Late or missed payments can hurt your CIBIL / credit score, making future loans expensive or hard to get.

Psychological Stress

4

Financial stress affects mental well-being, relationships, and productivity.

Proven Strategies To Escape The EMI Trap

••••

While an EMI trap can feel overwhelming, it is not permanent. Here's a structured plan to regain control:

Assess The Full Picture — List All Liabilities

Start by documenting:

- Loan name
- Outstanding principal
- Interest rate
- EMI amount
- Tenure remaining

This will help you prioritise the most expensive debts and plan actions. A simple spreadsheet or app can help you visually organise your debt.



Calculate Your Debt-to-Income Ratio

A healthy debt-to-income (DTI) ratio is generally below 30–40%. Simply divide your monthly EMIs by your net monthly income:

$$\text{DTI} = \text{Total EMIs} / \text{Net Monthly Income} \times 100$$

If your DTI exceeds 40%, you may be in stress territory.



Create A Budget And Cut Non-Essential Spend

Create a realistic budget that:

- Covers EMIs
- Allocates an emergency fund
- Includes savings and expense categories

Look for unnecessary spending you can cut — dining out, subscriptions you don't use, excessive travel — and divert that amount toward loans.



Use The Snowball Or Avalanche Method

Experts recommend two debt-repayment approaches:

Avalanche Method:

Pay off debts starting with the highest interest first, which is scientifically cost-efficient.

Snowball Method:

Pay off the smallest debt first, which is psychologically rewarding.

Choose the method that motivates you best.



Consider Loan Consolidation Or Balance Transfer

If you have high-interest debts, especially credit card debt, transferring them to a lower-interest personal loan or balance transfer credit card can reduce the monthly interest outflow.

For example, if a credit card charges 36% interest, transferring that amount to a personal loan at 15% can cut your cost significantly.



Increase Income Where Possible

Look for ways to enhance income:

- Upskilling for promotion
- Freelance work or gig income
- Rent out idle assets
- Monetise hobbies

Even an additional monthly inflow of Rs 5,000–Rs 10,000 can accelerate debt repayment.



Build An Emergency Fund (Even While Repaying Debt)

Modern financial planning requires people to build an emergency fund between Rs 10,000 and Rs 30,000 before they begin debt repayment according to contemporary financial planners. People need this fund to handle unexpected expenses which would lead them to use credit.



Negotiate With Lenders

Many banks and NBFCs offer:

- EMI holiday options
- Restructured repayment plans
- Extended tenure with reduced EMIs
- Lower interest takeover loans

It doesn't hurt to ask, especially if you have a decent repayment history.



Tips That Helped Thousands Escape Debt



- **Track Every Rupee:** Earning Rs 1 lakh and spending Rs 1 lakh feels the same as earning Rs 60,000 and



spending Rs 60,000. Awareness creates discipline.

- **Avoid Impulse Borrowing:** Just because a loan is available does not mean it's affordable.
- **Automate Payments:** Set auto-debit for EMIs to avoid missed payments and credit score damage.
- **Leverage Professional Advice:** A certified financial planner (CFP) can help you design a long-term plan.

Data Snapshot: Debt Stress In India (Recent)



According to industry data and consumer finance surveys:

- Over 40% of urban borrowers feel burdened by EMIs.
- Credit card delinquency rates in India have risen in recent years, reflecting growing repayment pressure.

- Personal loan disbursements have increased but carry higher interest rates compared to secured loans.

These numbers suggest many households are living close to their credit limits, emphasising the need for disciplined money management.



An EMI trap is not a life sentence, but it's a solvable financial challenge. What separates those who escape from those who struggle indefinitely are clarity, strategy, discipline, and persistence.

- Assess your situation objectively
- Formulate a practical repayment plan
- Cut unnecessary spending
- Increase income
- Refinance wisely
- Build safety nets

Debt is a tool, not a burden, when managed correctly. The goal isn't just to eliminate EMIs but to restore control over your finances and build a future where money works for you, not against you.

What Is a Gilt Fund?

A Complete Guide for Investors



सत्यमेव जयते

In the world of investing, gilt funds occupy a unique space, offering safety, government backing, and a potential for steady returns, especially during periods of market uncertainty. Whether you're a new investor exploring debt mutual funds or a seasoned portfolio manager looking to diversify risk, understanding gilt funds can be an essential part of smart financial planning.

This blog provides a thorough explanation of gilt funds, how they work, why they matter, their risks and rewards, and

how they fit into your investment strategy, with insights from expert sources and the latest data.



– What Exactly Is A Gilt Fund? –

At its core, a gilt fund is a type of debt mutual fund that invests primarily in government securities (or “gilts”). These government securities are issued by the central government (or, in some cases, state governments, called SDLs—State Development Loans) and are considered one of the safest investment

avenues in the debt universe.

Unlike corporate bonds (issued by companies), which carry credit risk, government securities are backed by the sovereign authority. The possibility of default is extremely low, making gilt funds a relatively low-credit-risk investment.



– How Do Gilt Funds Work? –



a What They Invest In

Gilt funds invest in:

- Government of India securities with various maturities
- Treasury bills (short-term < 1 year)
- Long-term government securities (up to 30 years)

Federal securities with fixed interest rates are called fixed-rate gilts, while those that vary based on auctions or inflation may include special securities.

b How They Generate Returns

Gilt funds earn returns in two ways:

- Interest (coupon) income from the government securities they hold
- Capital gains when the price of these securities rises

Since bond prices and interest rates move in opposite directions, gilt funds can earn capital gains when interest rates fall. This dynamic makes them somewhat sensitive to changes in interest rate policy.

c Liquidity

Gilt funds are traded daily, and you can redeem your units like any debt mutual fund. However, fluctuations in interest rates and bond prices can affect your returns if you redeem during unfavourable periods.

Gilt Funds vs Other Debt Funds – What's the Difference? –

| Feature | Gilt Funds | Corporate Bond Funds | Liquid Funds |
|---------------------------|----------------------------------------------------------|-----------------------------------------|-------------------------------------|
| Primary Investment | Government securities | Corporate bonds | Short-term money market instruments |
| Credit Risk | Very low | Moderate to high | Very low |
| Interest Rate Sensitivity | High | Moderate | Low |
| Suitable For | Risk-averse investors | Income seekers with some risk tolerance | Cash parking & safety |
| Return Potential | Moderate — can be higher in falling interest rate cycles | Higher than gilts (sometimes) | Low |

Gilt funds carry minimal credit risk compared to corporate bond funds,

which can help preserve capital even when markets are jittery.

– Types of Gilt Funds –

Gilt funds can be classified based on duration exposure:

a. Short-Term Gilt Funds

These hold securities with shorter maturity profiles that are typically up to 3 years, and are less sensitive to interest rate changes.

b. Long-Term/Medium-to-Long-Term Gilt Funds

They invest in longer-dated government securities, up to 10+ years, and may offer higher returns when interest rates

decline, but come with higher interest rate risk.

c. **Dynamic Gilt Funds**

These funds do not stick to a fixed maturity band; instead, the fund manager actively changes the portfolio duration depending on the interest rate outlook and macroeconomic conditions.



— Why Invest In Gilt Funds? Key Benefits —

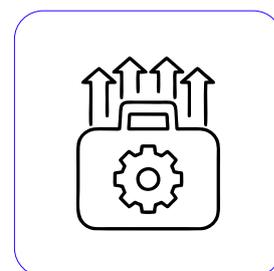
1 Safety And Sovereign Backing

The Government of India provides backing for gilts so their default risk remains almost non-existent which results in risk-averse investors showing interest in them.



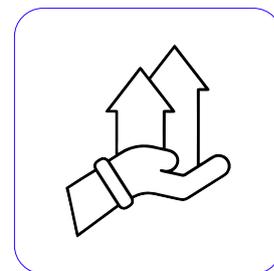
2 Portfolio Diversification

Gilt funds provide investors with protection against equity market declines because they respond to equities in different ways throughout market cycles.



3 Potential For Higher Returns In Certain Cycles

Bond prices increase when interest rates decrease which results in capital gains for investors who hold long-duration gilts.



4 Suitable For Income And Liquidity Needs

Gilt funds provide investors who want to maintain financial stability and access cash throughout extended periods with a beneficial investment option during times of market uncertainty.

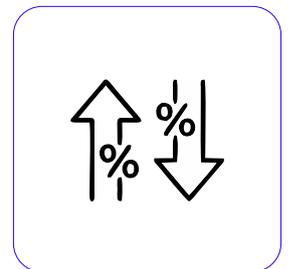


– Risks And Considerations –

Gilt funds offer strong safety protection but they still contain risk elements. The key risks which need understanding include the following elements:

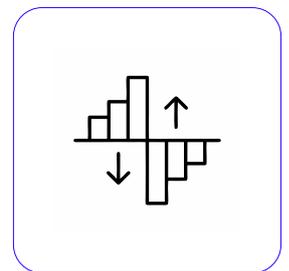
1 Interest Rate Risk

Bond prices decrease when interest rates increase which leads to a decline in gilt fund NAVs. The longer funds exist the more they experience this particular type of risk. Example: Long-term gilt funds demonstrate higher NAV volatility during RBI rate hike periods than short-term funds or liquid funds.



2 Market Volatility

Gilts lack credit risk but their market prices change according to investor predictions about upcoming interest rate changes and central bank decisions along with economic information.



3 Inflation Risk

Inflation increases beyond its anticipated level so real returns decrease despite nominal returns remaining positive.



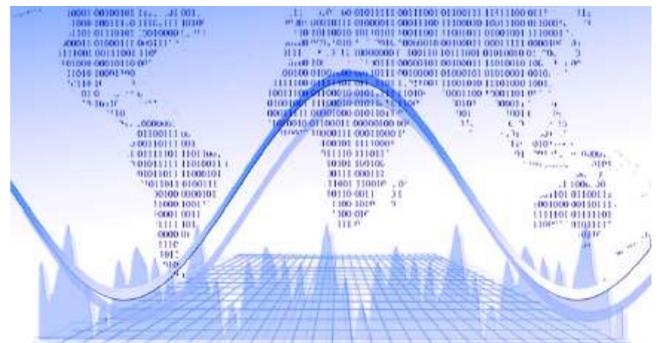
– Historical Performance And – Data Insights

While past performance is not indicative of future returns, historical trends show how gilt funds behave across rate cycles:

- In falling interest rate environments (like RBI rate cuts), long-duration gilt funds have historically benefited from capital appreciation.
- In rising rate periods, interest rate risk leads to short-term volatility and potential negative returns if positions are marked to market.

As of the latest data in 2025, Indian gilt

funds posted varied annualised returns depending on the duration and interest rate cycle, which is a reflection of the macroeconomic shifts in inflation and monetary policy.



– How To Choose The Right Gilt Fund –

Selecting a gilt fund depends on your risk profile, investment horizon, and financial goals.

1. Time Horizon

- Short-term goals (1–3 years): Short-term gilt or dynamic funds
- Medium-term goals (3–7 years): Dynamic or medium duration
- Long-term goals (7+ years): Long-term gilt funds (for capital gains in falling rate environments)

2. Risk Tolerance

- Conservative: Shorter duration or ultra-short gilt funds
- Moderate: Medium duration funds
- Aggressive (but safe on credit): Long-term gilt funds

3. Interest Rate Outlook

If markets anticipate rate cuts, longer

duration funds may benefit more; if rate hikes are expected, short duration funds cushion volatility.

It's also wise to compare:

- Expense ratio
- Fund manager track record
- Liquidity
- Historical risk-adjusted returns

— Gilt Funds vs Other Safe Instruments —

| Instrument | Safety | Returns | Liquidity | Interest Rate Sensitivity |
|----------------------------------------------------|-----------|----------|----------------|---------------------------|
| Gilt Funds | High | Moderate | High | High |
| Bank FDs | Very High | Low | Low/ Medium | None |
| Government Savings Schemes (e.g., GPF) Sensitivity | Very High | Stable | Low | None |
| National Savings Certificates | High | Stable | Locked | None |

While bank deposits are simpler and safe, they often deliver lower returns

compared to gilt funds, especially over long terms when inflation is considered.

— Practical Use Cases For Gilt Funds —

1. Safe Cornerstone in a Portfolio

Include gilt funds as a foundation in your debt allocation to reduce overall portfolio risk.

2. Hedge During Equity Market Turbulence

When equity markets correct, gilt funds often perform relatively better as investors seek safety.

3. Tactical Allocation Around Rate Cycles

If you expect central banks (like the Reserve Bank of India) to cut rates, longer-duration gilts could earn capital gains beyond coupon income.

4. Savings Goals with Lower Risk

For goals like children's education, emergency funds, or upcoming major

expenses, gilt funds can balance risk and returns more effectively than cash or traditional fixed deposits.



Conclusion

Gilt funds serve as an essential component for building investment portfolios because they operate beyond standard mutual fund categories. The investment product provides governmental protection while enabling investors to track interest rate fluctuations and access liquid assets which deliver moderate returns.

They are ideal for investors who:

- Want low credit risk
- Need liquidity
- Are cautious about fixed income

risk

- Want exposure to long-term government securities

At the same time, gilt funds are best understood as interest rate instruments, meaning your comfort with rate volatility and investment horizon should guide your choice. If stability and capital preservation are high on your priority list, gilt funds deserve serious consideration. If you'd like, I can prepare a comparison tool to help you choose between different types of gilt funds based on your goals and risk profile!





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