INDIAN
STOCK MARKET JOURNAL
EMPOWERING TRADERS AND INVESTORS

- Tax On Real-estate Sale And Lease Income In India: An Overview
- Mastering The Art Of Expiry Day Trading In Futures And Options
- Penny Stocks Vs. Small-cap Stocks: Spotting The Difference
- Key Mistakes To Avoid For Optimal Mutual Fund Returns
- Navigating Capital Gains Tax Regulations In India In 2024

Stock To Bet On

Stock Market Outlook

How To Sell Shares Of Unlisted Companies?

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From The
Founder's Desk

INDIAN STOCK MARKET JOURNAL

Special Edition | September 2024

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ISMJ, September Issue

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Full efforts have been made to ensure the authenticity and accuracyof the contents of the Yearbook, but we do not accept any liabilityfor the errors if committed and the subsequent loss arising fromthe same, but we will make sure that the errors if occurred arerecited and minimized in future editions and also would welcomethe reader's feedback.

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

Dear Readers,

Among the many things happening around India are the intense monsoon rains, floods, and waterlogging across many parts of the country, including Gujarat, Maharashtra, Telangana, Andhra Pradesh, and many others. The government has launched a real-time flood alert app, FloodWatch India 2.0, which is designed to enhance public safety by providing real-time flood forecasts.

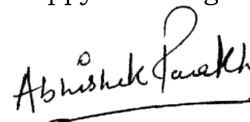
This edition of ISMJ has brought you a comprehensive guide to help you invest in unlisted companies, navigate the complexities of the market, and explore strategies for successfully selling shares in these unlisted companies. This edition will also help you avoid key mistakes to maximize your mutual fund returns and achieve optimal financial growth.

This edition will also help you understand the tax on real-estate sale and lease income in India. The edition also provide you with a guide to master the art of expiry day trading in the Futures and Options segment, equipping you with the strategies needed to navigate this high-stakes market with confidence.

In this edition, we also help you understand the difference between penny stocks and small-cap stocks and how these stocks give you different changes to grow your capital. This edition of the ISMJ also helps you navigate capital gains tax regulations in India, enabling you to make informed decisions.

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

Happy Investing!



Abhishek Parakh
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NIFTY

Nifty continued its northward journey with strong momentum in August and ended on record highs. Despite early weakness in indices amid yen carry trade, Nifty managed to end at all-time highs.

Markets supported by the expectations of an easing monetary policy stance by the US Federal Reserve including stable economic data which reduced the risks related to a hard landing in the US Economy. Result season was in line with market expectation and the technology sector outperformed during the result season driven by belief of bottoming of the growth cycle and

expectations of improved growth.

Nifty has shown excellent strength on charts despite correction in the early part of the month. It has shown a sharp recovery. It has only penetrated the 10-day SMA and ended at an all-time high. The momentum indicator RSI shows a bearish divergence, though it has to give a bearish crossover to confirm it. It is presently in overbought territory, so any bullish move remains lacklustre. Nifty has good support around 24500 levels; if closed below this, the index could fall to 23800 levels. Important resistance in Nifty at 25500 and 26000 levels.

BANK NIFTY

Bank Nifty ended August month with muted losses and underperformed broader indices. Banknifty showed sharp cuts in the early part of the month though it managed to recover most of the losses tracking strength in the Nifty index. Banking sector showing slow growth driven by tight liquidity and growing RBI lending restrictions. This can overall be negative for economic growth also. Bank Nifty recovered after it took support of its 20 sma. Next important resistance for Banknifty at 52300 and 53000 levels respectively. RSI indicator trending down and yet to show any reversal which suggests further weakness in index. Important support in Banknifty at 49900 and 48700 levels.

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Upcoming Trading Holidays

Mahatma Gandhi Jayanti

October 2, 2024	Wednesday

How To Sell Shares Of Unlisted Companies?

For a long time, ordinary investors never had the chance to invest in unlisted companies which were being reserved for wealthy individuals and institutional investors. However, with the advent of private markets and the growing access to alternative investments, selling shares of unlisted companies has gained immense importance among many kinds of investors seeking more diverse investment portfolios. In this article we'll discuss in detail about unlisted shares including how they work as well as the risks and possible rewards associated with this vibrant investment space.

Understanding Unlisted Shares

To comprehend how to sell unlisted shares, it is important to first understand their significance. Unlisted shares refer to equity ownership of companies that are not publicly traded on the stock exchanges that are recognized. These entities could be private limited companies or public limited companies which do not list their stocks on a market.

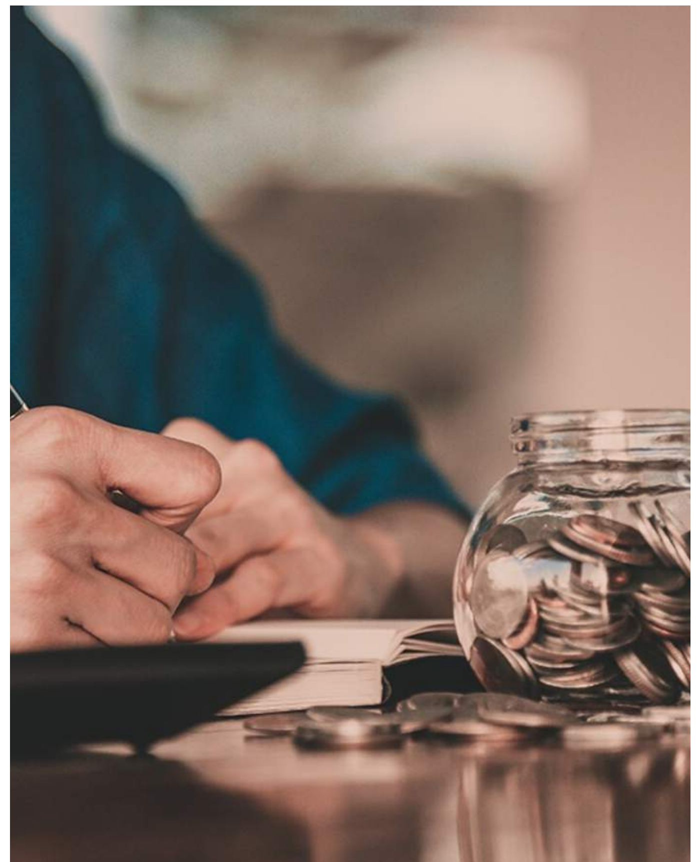
Usually private limited companies tend to be smaller and have restrictions on share transferability like board approval and some specified conditions before sales. On the other hand public limited unlisted companies have higher liquidity as their stocks can be traded more freely although through private transactions instead of being sold at the stock exchange.

The Attraction Of Unlisted Investments

For investors in search of outsized returns from unlisted firms, each option is unique and provides unique opportunities to be taken advantage of. Given the fact that these businesses are still nascent, there is significant potential for tremendous capital appreciation after they grow up, evolve into IPOs or find some other ways to raise money via initial public offerings (IPOs).

Is Investing In Unlisted Shares Right For You?

The temptation to invest in unlisted investments may be wild, but before someone thinks of stepping foot into this world, one needs to critically think about their financial position alongside what they want to gain from such investments through it; however, one thing worth noting is that unquoted shares are not readily convertible into cash hence why the long-term oriented people with a lot of patience ideally trade in them. If you are interested in short-term liquidity or desire quick returns maybe you need to look elsewhere because these instruments might not serve your interests.



Minimum Capital For Investing In Unlisted Companies?

Amount that considered as minimum option for putting money into as far as share certificates are concerned is determined based on varied facets including various types of companies and the country of origin. For instance, when it comes to public limited companies that are not quoted on a stock exchange, you might invest even just one share, if there is someone willing to give up such amount. Contrarily, private limited companies would prefer having only a small number of shareholders in order to keep control and conform to regulations.

Multibaggers In The Making: Unlisted Success Stories

Every listed company started as an unlisted entity at some point in time and it's amazing how much fortune they helped make for those who were lucky to buy their shares in their earlier days.

Zomato, Paytm and Nykaa are among the best-known examples of venture-backed start-ups that generated ample benefits for their initial investors prior to getting listed. Moreover, many companies, including National Stock Exchange (NSE) and Chennai Super Kings (CSK) have been profitable in the unlisted public limited company spaces, highlighting their potential for wealth creation in this market.

Navigating The Risks Of Investing In Unlisted Companies

Though the possible benefits of investing in unlisted shares are tempting, it is important to recognize the inherent dangers that come with them. The risks associated with investing in unlisted companies include:

1

Unlisted companies are generally smaller and less mature.

2

Unlisted companies have less stringent regulations than their publicly listed counterparts.

3

Compared to publicly traded stocks, unlisted shares tend to be less liquid, making it harder to exit positions or make profits.

Process of Selling Shares of Unlisted Companies

The process of selling unlisted shares can vary based on the kind of company and its individual circumstances.

For public limited unlisted companies, the procedure is typically more straightforward as brokers and other intermediaries can easily link those looking to buy and sell them. To initiate the sale process, investors typically need to provide proof of ownership, such as a Demat account

statement and a Client Master Report (CMR). The buyer's Demat account will then receive the shares, with payment usually made on the same day or within a short period afterward.

For private limited companies:

The process can be more complex, often involving board approvals, sale restrictions, and additional documentation.

When Is The Right Time To Sell?

Determining the optimal time to sell unlisted shares is a critical decision that requires careful consideration of various factors that are:

1

Financial performance and growth prospects:-

By closely monitoring financial reports and company events, investors can gain insights into the potential future value of their holdings and make informed decisions about the appropriate time to exit their positions.

2

Valuation and prevailing market price:-

Investors may consider selling when shares are perceived to be overvalued or when the market conditions are favourable for realizing gains.

It's important to note that the decision to sell unlisted shares should be based on a comprehensive analysis of the company's fundamentals, market conditions, and the investor's individual investment objectives and risk tolerance.

Choosing The Right Platform To Sell

With the increasing popularity of unlisted share investments, various platforms and intermediaries have emerged to facilitate transactions in this space. When selecting the platform to sell unlisted shares, investors should consider factors such as reputation, fees, minimum sale size, and the level of control over the sale process.

Compliance And Regulations Of The Unlisted Market

Although unlisted share markets appear to have few regulations compared to public exchanges, they are not entirely devoid of them; they remain under surveillance from such organizations as the Securities and Exchange Board of India (SEBI) or Ministry of Corporate Affairs (MCA). These institutions aim to monitor the compliance with different security and statutory provisions, including those governing private placements as well as

disclosures required from shareholders. Moreover, there are contracts governing transfer of unlisted shares signed often that adhere on contract and other legal provisions to preserve buyers' and sellers' rights. For this reason, investors should be aware of all applicable regulations and seek out professional assistance for continued adherence to these while transacting.

CONCLUSION

The world of unlisted share investments presents a unique opportunity for investors seeking potentially outsized returns and early-stage exposure to promising companies. While the risks are undoubtedly higher than traditional listed equity investments, a well-informed and disciplined approach can unlock significant wealth creation potential. However, it's important to note that investing in unlisted shares carries inherent risks. These companies are generally less regulated, may have limited financial disclosures, and lack the transparency associated with publicly traded entities. As such, thorough due diligence and a comprehensive understanding of the risks involved is paramount.

Key Mistakes To Avoid For Optimal Mutual Fund Returns

Mutual funds are one of the most excellent vehicles for long-term wealth creation while achieving financial goals efficiently. With their return and risk management efficiency beating inflation, all one needs to do is be patient and focused on maximising the associated benefits.

Many investors undergo disconcerting experiences with mutual funds, often not because of the underperforming funds but due to their own irrational behaviour.

Some Of The Key Pitfalls To Avoid For Maximising Mutual Fund Returns

Chasing Short-Term Gains

Avoid investing in mutual funds with an expectations of short-term profits. Adopting a long-term investment horizon, ideally at least seven years, is essential. Market performance, influenced by the assets in mutual fund portfolios, goes through cycles of highs and lows. Short-term investments may not yield the expected results unless luck is on your side.

Investing without clear objectives can lead to impulsive decisions during market volatility. Setting defined investment goals is crucial for staying steady during the market fluctuations, enabling the purchase of units at better prices, and ultimately supporting significant long-term financial growth.

Underinvesting

To reach your financial goals with mutual funds, it's crucial to align your investments properly. For instance, if you aim to build a fund of Rs 1 crore in 20 years, investing Rs 1,000 monthly or Rs 1 lakh as a lump sum might seem feasible. However, these amounts may fall short. To meet your target, you would need to invest Rs 7,550 each month, or Rs 6.1 lakh as a one-time contribution. Ensuring you invest the right amount is key to achieving your financial goals.

Chasing High-Performing Investment Funds

Investors often chase funds with recent strong performance, overlooking that past results don't guarantee future success. Switching from current investments to top performers isn't always wise. Instead, let a fund's performance be evaluated over a minimum of 2-3 years.

Fund performance goes through cycles influenced by the portfolio's structure and fund managers' strategies. Constantly changing investments can lead to missed opportunities, as the fund you leave may become a top performer while the new fund may underperform.

Reacting To Market Downturns

Market downturns can be opportunities for long-term wealth building. However, many investors react by selling their investments, often leading to losses or small gains. To achieve long-term financial goals, it's crucial to manage emotions and stick to your investment timeline. Temporary market declines can actually help boost wealth accumulation, but selling during these times disrupts your investment strategy and makes it harder to restart long-term investing.

Discontinuing SIPs And Making Frequent Withdrawals

Stopping systematic investment plans (SIPs) disrupts disciplined investing and hinders the growth of accumulated units. SIPs help average investment costs and promote compounding growth. Instead of ending SIPs suddenly, consider pausing them during tough times when payments are challenging. Frequent withdrawals can also reduce the compounding effect, making it harder to reach financial goals and impacting your financial planning.

Mimicking Others' Investment Moves

After reading a book about a successful investor, you decide to mimic their strategy by investing in the same mutual funds from their portfolio, expecting similar returns. While following a successful approach isn't wrong, copying it without considering your own risk tolerance and preferences can lead to significant mistakes in mutual fund investments.

Neglecting The Fund Manager's Track Record

While institutions may be larger than individual investors, the fund manager's style and track record are crucial. Focus on a fund manager with a consistent past performance, as many mutual fund investors overlook this aspect. In India, a good and consistent fund manager often makes a significant difference in a fund's performance.

Choosing Dividend Plans Over Growth Plans

Avoid choosing dividend plans, as they pay out dividends that you might spend on immediate needs. Instead, go for a growth plan where returns are automatically reinvested. Linking your SIP to a long-term goal is also simpler with growth plans, making it easier to track your progress.

Picking Funds Without Checking Their Risk Factors

Investing in a mutual fund should align with your risk profile. For example, those with a low-risk profile and long-term goals may prefer a balanced portfolio with a mix of debt and equity. Conversely, individuals aiming for higher returns and willing to take on more risk might choose equity funds suited absolutely for aggressive investors.

Chasing Risks With Thematic Funds

Sectoral and thematic funds can be appealing when a particular sector is popular, but they come with risks. Diversification is a key benefit of mutual funds, and focusing too much on sectoral funds can undermine this principle. Often, sector funds are aggressively promoted during market peaks, such as IT funds in 2000 and infrastructure funds in 2007, which can lead to significant downsides.

Conclusion

Avoiding these common pitfalls can significantly improve the effectiveness of mutual fund investments and help you better align your strategy with your financial goals. Additionally, viewing mutual funds as tools for gradual wealth accumulation rather than quick paths to financial success will help you navigate the fiscal challenges and opportunities that 2025 may bring.

Tax On Real-Estate Sale And Lease Income In India

An Overview

What Does A Real Estate Property Include?

Real-estate properties include the properties on the land such as residential, commercial, and industrial. The land is also considered as a real estate property.

Land's value is always appreciated. An agricultural property or farmland is also a real estate property.

What Are The Forms In Which Income From Real-estate Property Is Taxed In India?

Income from the real-estate is taxable majorly under these two heads

Under Section 56(2) Of The Income Tax Act

This section classifies the real-estate property as Immovable property. It states the income/profit from the sale of real-estate property in India.

Under sections 22-27 of the Income Tax Act

The income in the form of rent generated from letting out of a real-estate property via let-out, is defined under section 24 of the Income Tax Act of 1961. It is classified as "Income from House Property".

The income in the form of rent generated from letting out of a real-estate property via let-out, is defined under section 24 of the Income Tax Act of 1961. It is classified as "Income from House Property".

The income generated from 'house-property' could come from various sources such as a personal residence, an office space, a retail store, a structure, or any accompanying land such as a parking area.

According to the Income Tax Act of 1961, no distinction is made between commercial and residential properties. All real estate properties are subject to taxation under the income from house property category in the income tax return. For income tax purposes, the legal owner of the property is the individual who holds ownership rights and can assert these rights on their behalf.

Capital Gain Tax In Section 56(2) (x) Of The Income Tax Act, 1961?

Section 56 (2) (x) of the Income Tax Act, 1961, covers taxation on Capital gains. This section covers taxation on the sale and purchase of property, for both movable and immovable property or assets.

Income tax arising from the sale of property and stamp duty definitions are covered under this section.

Property can be classified into movable and immovable property. The real estate property is classified only under the immovable property.

For Immovable Property

If any fixed property, such as land or buildings, is received without consideration and has a stamp duty value of more than Rs 50,000, the full value will be taxable to the recipient.

Whereas if the property is received in exchange for consideration and the stamp duty value exceeds Rs 50,000 or 10% of the consideration, the excess amount will be taxable as income in the buyer's hands.

What Does Section 22-27 Of The Income Tax Act, 1961 Cover?

The income generated from 'house property' or real-estate property is governed from section 22 to section 27 of the Indian Income Tax Act of 1961. The details of the sections are as follows.

Section	Details
Section 22	Taxable Elements in Income from House Property
Section 23	Calculation of Annual Property Value
Section 24	Permissible Deductions for Income from House Property
Section 25	Non-Deductible Amounts in Income from House Property
Section 25A and 25AA	Realised Unrealised Rent
Section 25B	Receipt of Outstanding Rent Arrears
Section 26	Ownership of Property Among Co-Owners
Section 27	Instances of Deemed Ownership for Taxation of Income from House Property

Different Types Of Income Under House Property. What's Included And What's Not?

1 Income Taxable Under the Category of House Property

a) The income generated from a property owned by the taxpayer (including co-owner and deemed owner). The property could be for residential, commercial purposes (such as a shop or office), or land.

b) The amount received from leasing out the property.

c) Earnings received from a leased property (as a lessee) for a duration of 12 years or more.

2 Income from House Property is Not Subject to Tax under these categories.

a) Other than individuals, businesses are taxed on the rental income they receive under the head of Profits and Gains from Business or Profession (PGBP).

b) Individuals other than the owner, co-owner, or deemed owner (as per section 27) will have their rental income taxed as income from other sources or PGBP.

c) Rental income from subletting is taxable under "Income from Other Sources" or as business/professional income.

d) The income from selling a house/property is taxed under Capital Gains.

e) Suppose other assets, such as furniture and generators, are rented alongside the property and cannot be separated. In that case, the income will be taxed under the "Profit under the Head Business and Profession (PGBP)" or as income from other sources.

f) Income from conducting business or profession in a house, shop, or property is taxed under the category of business or profession.

How Is The Income From Agricultural Land Taxable In India?

Income from agriculture is fully exempt is the Indian Income Tax Act of 1961. A full tax exemption is applicable on agricultural income under the following circumstances:

a) When the annual agricultural income is below Rs. 5,000;

b) If the income is solely generated from agricultural land, meaning there are no other sources of income;

c) In agricultural and non-agricultural income cases, the total income, excluding the farm income, is below the basic exemption limit.

Recent Tax Rates After The Union-Budget 2024-25 On Real-estate Property

1) For easier tax calculations, the union-budget 2024-25 proposed to reduce the long-term capital gains (LTCG) tax on property from 20% to 12.5%.

2) There's also a removal of the indexation benefit. In the union-budget 2024-25, the government of India has made amendments. Options have been given to the tax-payers on long-term capital gains, which include –

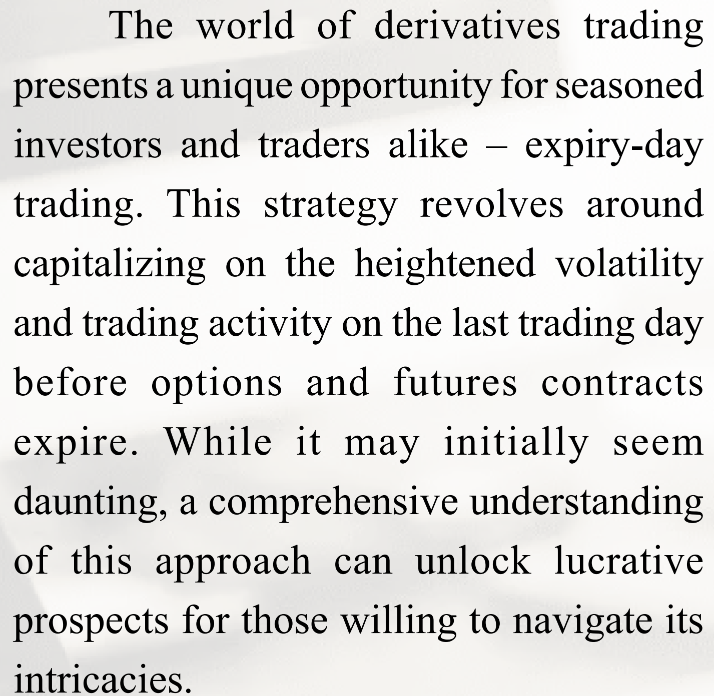
a) To compute long-term capital gain tax before July 23, 2024, for the real estate purchases either at 12.5%, and without indexation benefit, or

b) To compute such income to be taxable at 20% and with indexation benefit.

CONCLUSION

In this blog, we have covered the meaning of the immovable and the real-estate property. This blog not only covers income from sale of a real estate property in India, but also income from leasing or renting real-estate property in India. Further, including different heads of income in the Income Tax Act of 1961, India. Moreover, covering the recent amendments from the Budget 2024-25.

MASTERING THE ART OF EXPIRY DAY TRADING IN FUTURES AND OPTIONS



The world of derivatives trading presents a unique opportunity for seasoned investors and traders alike – expiry-day trading. This strategy revolves around capitalizing on the heightened volatility and trading activity on the last trading day before options and futures contracts expire. While it may initially seem daunting, a comprehensive understanding of this approach can unlock lucrative prospects for those willing to navigate its intricacies.

The expiry day, typically the last Thursday of each month for monthly contracts and every Thursday for weekly options, is a pivotal moment in the derivatives market. It's a day when traders scramble to square off or roll over their positions, leading to a surge in trading volumes and price fluctuations. This volatility presents opportunities and risks, making it essential for traders to approach expiry-day trading with a well-crafted strategy and a keen eye for market dynamics.

UNDERSTANDING FUTURES CONTRACTS AND EXPIRY DAY TRADING

Futures contracts are agreements to buy or sell an underlying asset at a predetermined price on a specified future date. On expiry day, traders holding futures positions must decide whether to deliver the underlying asset at the agreed-upon price or close their positions before the delivery obligation kicks in.

Traders often engage in a practice called "squaring off," where they open and close positions on the same day to capitalize on short-term price changes. This strategy is particularly popular among hedgers, who aim to protect themselves from adverse price movements before the delivery process begins.

OPTIONS CONTRACTS ON EXPIRY DAY

Options contracts grant the buyer the right, but not the obligation, to buy (call option) or sell (put option) the underlying asset at a specific strike price by the expiry date. Unlike futures, options trading on expiry day focuses primarily on the price movements of the options themselves rather than the underlying asset's delivery.

Traders employ two main approaches when trading options on expiry day:

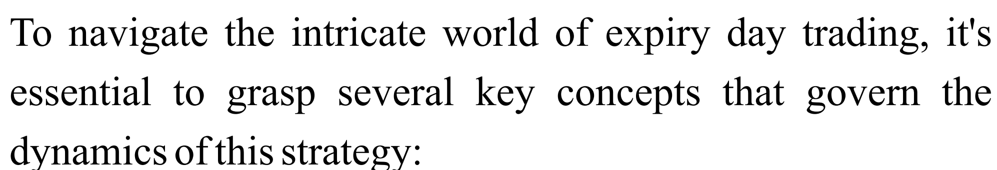
SPECULATING ON PRICE MOVEMENTS

Options traders can buy or sell options contracts based on their predictions of the underlying asset's price movement before expiry. If their prediction is accurate, they can potentially profit by selling the option at a higher price (buy low, sell high) or exercising the option to buy or sell the underlying asset at a favourable price.

EXPLOITING TIME DECAY

As the expiry date approaches, the options lose value due to a phenomenon known as time decay. Traders can capitalize on this by selling options that are likely to expire worthless, especially those that are significantly out-of-the-money (OTM).

KEY CONCEPTS IN EXPIRY DAY TRADING



To navigate the intricate world of expiry day trading, it's essential to grasp several key concepts that govern the dynamics of this strategy:

STRIKE PRICE

The strike price is the predetermined price at which the holder of a call option can buy or a put option can sell the underlying asset by the expiry date. It determines the option's intrinsic value and whether it is in-the-money (ITM), out-of-the-money (OTM), or at-the-money (ATM) at expiry. Options become more valuable as the underlying asset's price moves closer to the strike price on expiry day.

OPTION PREMIUM

The option premium is the cost of buying an option contract, calculated as the difference between the option price and the underlying asset's current price. It reflects the time value (potential for future price movements) and intrinsic value of the option. Higher volatility and more time until expiry generally lead to higher premiums, affecting the trade's profitability as it's the upfront cost of the option.

IN-THE-MONEY (ITM) OPTIONS

An option contract is considered ITM if the underlying asset's price is already favourable for the option holder at expiry. For a call option, this means the underlying price is higher than the strike price, while for a put option, the underlying price is lower than the strike price. ITM options hold intrinsic value and are more expensive than OTM options. They are more likely to be exercised at expiry and offer potentially higher profits, but they are less sensitive to price movements of the underlying asset as expiry approaches since they already have intrinsic value.

OUT-OF-THE-MONEY (OTM) OPTIONS

An option contract is considered OTM if the underlying asset's price is unfavourable for the option holder at expiry. For a call option, this means the underlying price is lower than the strike price, while for a put option, the underlying price is higher than the strike price. OTM options are cheaper but riskier, as they are less likely to be exercised at expiry and often expire worthless. However, they are more sensitive to price movements of the underlying asset than ITM options.

AT-THE-MONEY (ATM) OPTIONS

Options where the underlying asset's price equals the strike price are considered ATMs. They have minimal intrinsic value, and their price is primarily based on time value. ATM options offer a balanced risk/reward profile and are often used in straddle strategies. They are more sensitive to price movements of the underlying asset compared to ITM options but less sensitive than OTM options, as small price movements can significantly impact their value.

INTRINSIC VALUE

The intrinsic value of an option is the difference between the strike price and the current market price of the underlying asset. It represents the in-hand profit if the option is exercised immediately. The intrinsic value is only relevant for ITM options at expiry, as it becomes the dominant factor in option pricing for these options as expiry approaches. It directly affects the potential profit if the option is exercised before expiry.

TIME VALUE

The time value is the portion of the option premium that reflects the potential for the underlying asset's price to move towards the strike price before expiry. It represents the potential for future gains and decays over time as expiry approaches. Options with more time until expiry tend to have higher time value, playing a more significant role in option pricing earlier in the contract cycle and affecting profitability as time value constantly decreases towards expiry.

OPTIONS TRADING ON EXPIRY DAY

When trading options on expiry day, it's crucial to follow specific practices to maximize gains and minimize risks:

EXERCISE CAUTION

Closely monitor your positions throughout the trading day, especially as expiry approaches. This allows you to identify and capitalize on profitable opportunities or exit positions to secure gains.

UNDERSTAND OPTION TYPES (ITM, OTM, ATM)

Knowing whether your options are ITM, OTM, or ATM will help you make informed decisions about exercising or holding them until expiry.

TIME VALUE DECAY

Remember that the time value of options diminishes as expiry approaches. This can impact profitability, particularly for options bought closer to expiry.

Both option buyers and sellers can benefit from expiry-day trading, but their approaches differ:

OPTION BUYERS ON EXPIRY DAY

A common strategy for option buyers involves purchasing options with different strike prices. As the underlying asset's price moves favourably, the chances of these options expiring ITM increase. However, as the expiry date approaches, the premium value of options declines rapidly due to time decay.

OPTION SELLERS ON EXPIRY DAY

Option sellers often adopt a retrospective approach, aiming to sell multiple contracts at or near the same strike price to collect as much premium as possible. They frequently sell OTM options, anticipating that these will expire worthless and allowing them to retain the entire premium.

FUTURES TRADING ON EXPIRY DAY

Traders holding futures positions have several key considerations on expiry day:

1. Close or Roll Over Positions
2. Manage Margin Requirements
3. Monitor Settlement Prices
4. Hedge Exposure
5. Be Aware of Physical Delivery

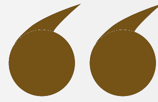
It's important to note that selling options, particularly OTM options, carries inherent risks. Unexpected price movements in the underlying asset can lead to significant losses if not properly managed. Therefore, a well-devised expiry trading strategy is extremely important to mitigate these risks.

FACTORS INFLUENCING EXPIRY DAY TRADING

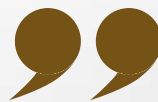
Expiry day trading is influenced by several factors that traders must consider when developing their strategies:

- Liquidity
- External Events
- Risk Management
- Lower Option Premiums
- Limited Risk
- Flexibility
- Market Sentiment
- Technical Analysis
- Advantages of Expiry Day Trading
- High Leverage
- Potential for Quick Profits
- Opportunity in Volatility

CONCLUSION



Expiry day trading in the futures and options market offers a unique opportunity for traders to capitalize on heightened volatility and market activity. However, it also demands a deep understanding of the underlying concepts, strategies, and risk management practices. By mastering the art of expiry-day trading, traders can potentially unlock lucrative opportunities while navigating the intricate dynamics of this fast-paced trading environment. Nonetheless, it's crucial to approach this strategy with caution, discipline, and a well-devised plan to mitigate the inherent risks and maximize the potential rewards.



PENNY STOCKS VS. SMALL-CAP STOCKS

Spotting The Difference

Unlocking the true potential of small-cap stocks and penny stocks can be a potential game-changer for our investments. Even seasoned investors sometimes struggle to tell these apart in the tricky stock market. Learn how each type of stock gives you different chances to grow your money and why it's crucial to know what sets them apart.

Understanding Small-Cap Stocks

Small-cap stocks refer to shares in companies with a small market value. In India, this means businesses with a market cap under Rs 5,000 crore. Even though these firms are smaller, they often have a lot of room to grow, which can lead to big gains for people who invest. When you put money into small-cap stocks, you're betting on businesses that are still growing and becoming more valuable. This gives you a chance to profit from their upward journey.

Upsides Of Small-Cap Stock Investments

Undervalued Opportunities

These stocks often get less attention from experts, so there are times when the price doesn't represent their actual worth. Therefore, it enables one to invest correctly after analysis, thus identifying low-priced shares with high prospects in the market.

Balancing Portfolio

Incorporating these stocks into your investment mix is a strategic way to manage risk. Unlike large-cap stocks, small-cap stocks often behave differently, which helps spread risk and prevent your portfolio from being overly concentrated.

Higher Potential Of Growth

Small-cap companies can experience significant growth. As they expand, their stock prices may increase, potentially offering high returns to investors.

Potential Risks Of Investing In Small-Caps

Volatility Concerns

Such stocks, when compared to large-cap stocks, are more volatile, thereby resulting in extreme changes in their prices within very short periods. This may be a little risky for an investor looking for some reasonably stable investments.

Liquidity Challenges

They are often less liquid, and buying or selling them in bulk often impacts their price significantly. This makes it tricky to trade these stocks without causing big price swings.

Business Risks

Small-cap companies often face higher risks, such as limited resources, intense competition, and regulatory hurdles. These factors can affect their performance and lower their stock prices.

Understanding Penny Stocks

Penny stocks are shares of companies priced very low, typically between Rs 1 and Rs 100. While they require a small investment, they can be highly volatile and risky. Be prepared for significant price swings and the potential for losses.

Upsides Of Penny Stock Investments

Higher Potential of Returns

Low prices mean even small changes in penny stocks can lead to big percentage gains, attracting speculative investors.

Cheaper Prices

One of the most attractive features of penny stocks is that limited capital can be used to purchase many shares, which is an extremely big appeal to the small investor.

High-Risk Ventures

Investing in such stocks is like betting on the potential of emerging companies. If these companies succeed, early investors could see significant returns.

Potential Risks of Investing in Pennies

Lower Liquidity

The prices of these stocks may be greatly affected by purchasing or selling large quantities as a result of their usually low trading volumes, leading to problems concerning liquidity.

Volatility Risks

The prices of these stocks can swing wildly within a very short period. These would be more suitable for investors who can handle a great deal of risk.

Lack of Transparency

They are mostly less regulated and may have poor financial disclosures, increasing the possibility of fraud and manipulation.

Market Cap. Vs. Stock Price

Small-Caps

They are defined by market capitalisation, usually below Rs 5,000 crore. The share price isn't a factor here. These stocks often represent companies with good growth potential.

Pennies

While pennies are defined by their low price, typically between Rs 1 and Rs 100, without considering the company's market capitalisation, they are often speculative and carry higher risks.

Comparing Risk And Volatility

Small-Cap Stocks	Penny Stocks
Generally, less volatile and risky than penny stocks. They are often backed by more established companies.	Highly volatile and risky. Their prices can be easily manipulated and are influenced by market rumours and speculation.

Must-Know Insights For Small-Cap And Penny Stock Investors

Assessing Risk Tolerance

Be aware of the quantum of volatility and potential loss that you can stomach. While penny stocks are highly speculative, small-cap stocks and mutual funds offer balanced risk-reward ratios.

Level of Market Expertise

Small-cap mutual funds that are professionally managed can be a relatively safe choice for new investors.

Building a Balanced Portfolio

Diversify and take control over the risk factor. Small-cap stocks can enhance your investment strategy when combined with other asset classes.

Investment Timeline

Small-cap stocks are meant for long-term and involved investment, whereas penny stocks may attract someone who just wants quick gains.

Mitigating Risks In Small-Caps And Pennies

Long-Term Approach

Focus on long-term investment, stay patient, and keep up with market research.

Thorough Research

For small-cap stocks, analyse the company's financials, business model, and management. Diversify investments to spread risk.

Caution With Penny Stocks

Due to their volatility and liquidity issues, invest only a small portion of your portfolio in penny stocks. Choose companies with transparent operations and good compliance with SEBI regulations.

Some Examples Of Successful Small-Cap Stocks

Eicher Motors

Known for Royal Enfield motorcycles, Eicher Motors started its journey as a small-cap stock and rose steeply with the flagship brand at the top and a good market presence in India.

Page Industries

Due to solid sales driven by its wide distribution networks, its status as the exclusive licensee for Jockey International in India, and increased demand for the brand, Page Industries saw a significant increase in its shareholder value.

CONCLUSION

Understanding the difference between penny and small-cap stocks is crucial. Small-cap stocks, particularly mutual funds, provide growth with relatively manageable risk. While penny stocks do offer nice multibaggers, they do carry very high risks and volatility. An investor needs to align his strategy with his risk-taking ability and investment time frame while considering the need for diversification to build a strong portfolio.

Navigating Capital Gains Tax Regulations in India in 2024

Capital gains are profits obtained from selling any capital asset. These gains can be acquired by selling an asset or real estate property. Capital gains can be categorised as short-term or long-term, depending on the duration. Since profits are considered as income, which are subject to taxation under capital gains head under sections 45, 56, and some other sections of the Income Tax Act, 1961.

What Is A Capital Asset?

Section 2(14) of The Income Tax Act, 1961 defines a capital asset as follows:

(a) It refers to any property an assessee holds, irrespective of its connection with their business or profession.

(b) any stocks owned by a Foreign Institutional Investor that has invested in those stocks according to the rules established under the Securities and Exchange Board of India Act, 1992 (15 of 1992);

(c) any insurance policy linked to units that do not qualify for exemption under clause (10D) of section 10 due to the applicability of the fourth and fifth provisos thereof, but does not include—

(i) any goods meant for trading [excluding the securities mentioned in sub-clause (b)], consumable stores or raw materials held for his business or profession;

(ii) personal belongings, which are movable items (including clothes and furniture) held for personal use by the taxpayer or any dependent family member but do not include-

(a) jewellery;
(b) archaeological collections;
(c) drawings;
(d) paintings;
(e) sculptures; or
(f) any piece of art.

What Is Capital Gain Tax?

Capital gain tax is the tax imposed on capital gains to simplify the capital gain tax. These taxes are enforced when ownership of an asset is transferred.

While all capital gains are subject to tax, the taxation method for long-term gains differs from that of short-term profits. Taxpayers can employ tax-efficient financial tactics to lessen the impact of their capital gains taxes.

What Is Section 45 Of The Income Tax Act, 1961?

Section 45 of the Income Tax Act of 1961 defines the Capital gains. According to this section, any gains or profits from the sale of a capital asset in the preceding year are liable to be taxed as 'Capital Gains' income. These gains are treated as income for the year the transfer took place.

What Does Section 56 (2) (x) Contain For Income From Capital Gain Tax?

Section 56 (2) (x) of the Income Tax Act, 1961, covers capital gains taxation for movable and immovable property. It outlines that if the stamp duty value of immovable property exceeds Rs 50,000, the recipient will be taxed. If the stamp value exceeds 10% of the consideration for movable property, the difference will be taxed as income from other sources.

What Is Short-term Capital Gain And Long-term Capital Gain?

Before defining short-term capital gain and long-term capital gain, let's address what are short-term capital assets and long-term capital assets.

Short-Term Capital Asset

The Short-term capital asset is a capital asset which is held by the assessee for a period of 36 months or less, which is immediately preceding the date of transfer from that asset.

For some assets such as shares held in the stock market, the holding period should be 12 months or less. Such short-term assets include the following:

Listed shares; zero coupon bonds (listed or unlisted); Units of UTI (listed or unlisted); Units of Equity oriented mutual funds (listed or unlisted); other listed securities like listed debentures, bonds, government securities, derivatives, etc.

Further, gains from unlisted equity shares are short-term only if the holding period is less than 24 months.

Short-term capital assets are defined under section 2(42A) of the Income Tax Act, 1961, India.

Long-term Capital Assets

The long-term capital asset is a capital asset which is held by the assessee for a period of more than 36 months, which is immediately preceding the date of transfer from that asset. Long-term capital assets are defined under section 2(29A) of the Income Tax Act, 1961, India.

Any gain or profit arising from the sale of short-term capital assets and long-term capital assets are called short-term capital gain and long-term capital gain, respectively.

It should be noted that the short-term capital gain and long-term capital gain are taxed in the Income Tax Act, 1961 in India.

New Taxation Rates For Long-term Capital Gain And Short-term Capital Gain

After the union budget 2024-25, the tax rates on capital gain have changed. The Budget 2024 has surged the tax rates on long-term (LTCG) and short-term capital gains (STCG). The tax rate for STCG from equity investments is now 20%, up from the previous rate of 15%. All other assets will be taxed based on the applicable slab rate for the taxpayer.

A flat rate of 12.5% has been declared for long-term capital gain (LTCG). This rate will be applicable only if your LTCG exceeds the threshold limit of Rs. 1,25,000, which is higher than the previous limit of Rs. 1,00,000.

Additionally, the period for non-financial assets to qualify as LTCG has been reduced to 2 years (24 months). Despite the LTCG rate on the sale of land, gold, and unlisted shares being lowered to 12.5% from 20%, indexation benefits have been eliminated.

In addition to that, the recent Union-Budget unveiled a substantial increase in the Securities Transaction Tax (STT) rate, from 0.01 to 0.02%. This will double the tax burden for equity and index traders involved in Futures and Options (F&O) transactions.

Moreover, taxpayers have experienced significant relief as the period for reassessment and reopening returns filed for earlier years has been reduced to 6 years, down from the prior 10 years.

CONCLUSION

Capital gain tax are calculated based on the type of capital gain asset it is. In the above blog, we have covered the meaning of the capital asset. Sections 47 and 56 (2) of the Income Tax Act, 1961, were touched. We covered types of capital assets, i.e. long-term and short-term capital assets. Further, we have stated the new tax rates with the earlier tax rates on long-term capital assets and short-term capital assets.

Stock To Bet On

Advanced Enzyme Technologies Ltd

Venky's (India) Ltd

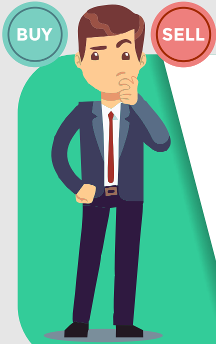
Star Health And Allied Insurance Co Ltd

PVR INOX Ltd

Exclusive Recommendation By:

EquityPandit Financial Services Pvt. Ltd.

(SEBI Registration Number INA000006688)



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