

## Investment in Equity (Part 16)

Fear of loss is the greatest worry of those who invest in stock market. One is uncertain about the extent of loss one might have to incur, and how soon. Satyam Computer, which, for years, was a blue chip scrip and a darling of traders, fell from around Rs. 180 to a little more than Rs. 6 in a matter of 48 hours. More than 96% gone in just two days! If one had invested one lakh rupees in that scrip, the capital would have got reduced by a whopping 96%, and just 4% of the capital, i.e., just Rs. 4000, would have remained at the end of the 48 hours. If the risk is so high as 96% in two days, who will be bold enough to invest in stock market?

That leads us to the question, how much loss are we ready to bear in any given single day?

Definitely not 96%. How about 10%? If we lose 10% of our capital every day, in just 10 days the total capital can vanish. How about 5%? It looks better. As already mentioned, very few persons will come forward and invest in stock market if the risk of loss is so high as 96%. More people might be ready, if the risk is much lesser, at 10%. Still more people might come forward, if the risk of loss is still lower, at, say, 5%, or even less. It is loss *per day*, mind you. If one loses 5% of one's capital every day, the whole capital will last for 20 days, in simple arithmetic. One may not, in the least, like the idea of one's whole capital getting wiped out in a matter of 20 days. Then, are you ready for 1%?

The risk-bearing capability of different persons is different. The size of the money one possesses may not have much of a bearing in one's risk bearing capability. Some people, though rich, may not be willing to take up much risk. Some others, though with small-sized funds, may be ready for risks which are, percentage-wise, huge. Some may even be reckless. We are, however, not professing recklessness; we are only seeking levels of risk which are prudent.

The overnight trading system, of which I am the proponent, provides the investor two means of limiting his risk of loss. It has already been mentioned more than once in the preceding chapters that whenever we are holding a scrip, there will be a stoploss sell order entered at the level which is 5% below the last formed high, so that if the scrip crashes 5% or more than 5%, the sale order will get executed and the scrip will get sold away. This stoploss sell order limits the risk of loss.

However, some investors might view even this, reduced risk of loss as too high to bear. Here I would like to draw your attention to the Chapter 5 of this write up. (A click on [Chapter 5](#) will take you to that chapter.) The net profit or net loss, as a percentage of the respective opening capital, earned or suffered in all the deals indicated in that chapter, are given below for ready reference:

Deal Number	% of Net P or L	Deal Number	% of Net P or L	Deal Number	% of Net P or L	Deal Number	% of Net P or L
Deal 5	148.30	Deal 94	11.86	Deal 28	1.40	Deal 102	-3.06
Deal 100	79.46	Deal 115	11.35	Deal 108	0.92	Deal 75	-3.09
Deal 72	49.63	Deal 71	9.52	Deal 106	0.55	Deal 103	-3.10
Deal 29	47.63	Deal 15	9.46	Deal 98	0.54	Deal 47	-3.24
Deal 69	45.15	Deal 34	8.97	Deal 87	0.40	Deal 43	-3.48
Deal 20	41.54	Deal 62	8.89	Deal 8	0.38	Deal 113	-3.49
Deal 33	41.29	Deal 2	8.58	Deal 85	0.38	Deal 19	-3.61
Deal 22	34.25	Deal 79	8.58	Deal 14	0.21	Deal 7	-3.64
Deal 110	28.51	Deal 74	8.55	Deal 96	0.10	Deal 49	-3.85
Deal 91	26.79	Deal 24	8.16	Deal 114	-0.24	Deal 88	-3.93
Deal 36	26.71	Deal 39	7.77	Deal 27	-0.42	Deal 4	-4.13
Deal 52	26.38	Deal 35	7.10	Deal 23	-0.48	Deal 6	-4.20
Deal 11	23.62	Deal 55	6.72	Deal 50	-0.78	Deal 95	-4.25

Deal 1	21.27	Deal 53	5.90	Deal 82	-0.83	Deal 48	-4.27
Deal 31	20.87	Deal 93	5.89	Deal 65	-0.84	Deal 83	-4.40
Deal 42	20.08	Deal 66	5.56	Deal 59	-1.16	Deal 116	-4.42
Deal 112	19.62	Deal 25	5.54	Deal 86	-1.17	Deal 76	-4.58
Deal 44	18.17	Deal 92	5.51	Deal 60	-1.26	Deal 111	-4.66
Deal 45	18.08	Deal 63	5.38	Deal 70	-1.48	Deal 30	-4.81
Deal 80	17.45	Deal 40	5.22	Deal 46	-1.84	Deal 64	-4.83
Deal 58	16.87	Deal 89	4.73	Deal 41	-1.97	Deal 104	-4.88
Deal 37	16.25	Deal 97	4.44	Deal 109	-2.11	Deal 10	-4.94
Deal 61	16.21	Deal 38	4.12	Deal 68	-2.37	Deal 105	-5.16
Deal 67	16.00	Deal 54	3.77	Deal 26	-2.49	Deal 90	-5.25
Deal 107	14.66	Deal 101	3.37	Deal 73	-2.51	Deal 21	-5.34
Deal 84	14.66	Deal 18	2.27	Deal 77	-2.69	Deal 32	-5.53
Deal 51	14.38	Deal 3	2.04	Deal 16	-2.70	Deal 12	-5.58
Deal 17	13.96	Deal 57	1.76	Deal 13	-2.82	Deal 9	-5.72
Deal 78	12.70	Deal 81	1.75	Deal 99	-2.91	Deal 56	-5.91

It can be seen from the above given figures that the maximum loss suffered was 5.91%, inclusive of the brokerage. None of the losses exceeded 5.91%. This shows that the risk of loss on any given day is limited to 5% (plus brokerage) of the opening capital. I hope you will also notice that the net profit is not subjected to any such limit. On one day (Deal 5), the net profit was as high as 148%. On another day (Deal 100), the net profit was 79%. On 31 days, the net profit exceeded two digits.

The point is, while loss was limited to 5% and brokerage, the loss was unlimited. While the potential for profit was unlimited, the risk of loss was limited. This is the greatest advantage of my system.

However, there may be several investors who consider 5% loss, per day, as too high to bear. For them, there are several options. Suppose one investor is comfortable with a loss of 2.5%. One of the options open to him is to apportion his total opening capital into two equal halves every morning. One of the two equal halves will be considered as not available for the trading of that day. In this way, his risk of loss will get reduced by half. In this case, only 50% of his opening capital will be used for trading. This percentage can be increased or reduced in accordance with the risk-perception. At the same time, it should also be borne in mind that when only a portion of the opening capital is used, the profits too will fall in that proportion.

Another option is to follow a system with multiple positions. Only one single long position was mentioned so far in all the preceding chapters. However, it is possible to have more than one long position too. In such a system wherein the whole capital gets divided or distributed equally over a number of positions, the risk of loss per position will get reduced in proportion to the total number of positions. This will be dealt in more detail in the next chapter.

(To continue)