

KEDIA | CAPITAL

Trusted Wealth Partner

KEDIA CAPITAL SERVICES PVT. LTD.

GOLDM PORTFOLIO HEDGING STRATEGY

Why Gold?

- Safest Investment (Safe Haven)
- Low Volatility v/s Stocks
- Low Risk v/s Stocks
- Highly Liquid
- Easy to Track
- Monthly Options Available
- Contract Size 10 ($10 \times 50,800 = 5,08,000$)



Gold(MCX) 9 Years Monthly Returns

GOLD PRICE MOVEMENT SINCE 2014

Year	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Growth
2014	29462	30090	28536	28887	26863	27776	27818	27996	26313	25881	25835	26703	-1661.00
	3.87	2.13	-5.16	1.23	-7.01	3.40	0.15	0.64	-6.01	-1.64	-0.18	3.36	-5.86
2015	27895	26477	26204	26716	26860	26471	24813	26682	25856	26499	25069	24931	-1772.00
	4.46	-5.08	-1.03	1.95	0.54	-1.45	-6.26	7.53	-3.10	2.49	-5.40	-0.55	-6.64
2016	26638	29513	28549	30266	28627	31199	31549	30724	30742	29950	28385	27445	2514.00
	6.85	10.79	-3.27	6.01	-5.42	8.98	1.12	-2.61	0.06	-2.58	-5.23	-3.31	10.08
2017	28942	29566	28463	28873	28843	28439	28557	29745	29557	29253	29012	29000	1555.00
	5.45	2.16	-3.73	1.44	-0.10	-1.40	0.41	4.16	-0.63	-1.03	-0.82	-0.04	5.67
2018	30117	30379	30408	31036	30831	30432	29653	30129	30481	31748	30240	31392	2392.00
	3.85	0.87	0.10	2.07	-0.66	-1.29	-2.56	1.61	1.17	4.16	-4.75	3.81	8.25
2019	33096	33286	31998	31756	32266	34206	35420	38805	37323	38578	38031	39208	7816.00
	5.43	0.57	-3.87	-0.76	1.61	6.01	3.55	9.56	-3.82	3.36	-1.42	3.09	24.90
2020	41000	41397	43000	44906	46654	48762	53445	51701	50334	50699	47918	50151	10943.00
	4.57	0.97	3.87	4.43	3.89	4.52	9.60	-3.26	-2.64	0.73	-5.49	4.66	27.91
2021	49096	45736	44935	46737	49349	46839	48001	47120	46521	47635	47805	48099	-2052.00
	-2.10	-6.84	-1.75	4.01	5.59	-5.09	2.48	-1.84	-1.27	2.39	0.36	0.61	-4.09
2022	47632	50760	52166	51754	50847								2748.00
	-0.97	6.57	2.77	-0.79	-1.75								5.71
Average	2.81	0.97	-0.97	1.26	-0.32	1.06	1.87	4.50	-3.00	0.62	-2.49	0.80	Average

Gold Outcomes (Monthly)

Conditions	Downside	No of times	Upside	No of times
1	Below 5 %	34	Less than 5 %	44
2	5-10%	11	5-10%	11
3	10% and above	0	10% and above	1

Total Observations: 101

Probability for Gold remaining in the range of 0-5% below or above - **77.22%**

Probability for Gold remaining in the range of 5-10% below or above- **21.78%**

Probability for Gold remaining around 10% below or above- **1.00%**

Note:

Out of the 0-5% range we saw the upside was **56.41%**

Out of the 5-10% range we saw the upside was **50.00%**

Out of the 10% range we saw the upside was **100%**



Investor's Appetite

GOLD CMP: 50800

Returns Estimated	What to do?
2-4%	5% below the strike price that is 48250
4-6%	4% below the strike price that is 48750
6-7%	3% below the strike price that is 49250
7-8%	2% below the strike price that is 49750

NOTE: Returns and Risk are directly correlated.





View: Bearish to Neutral

As we saw above, chances of Gold staying above and below 5% is almost 77.22%.
Assuming Gold is at 50800, and its 4% is 48500 level

Gold CMP	50800
Gold Mini Lot Size	10
What to do?	Sell 48500 Put @ 147.50
Margin Required	Approx 50,000
Returns in Amount	$(147.50 * 10) = \text{Rs.}1,475.(\text{Monthly})$
Returns in %	$1,475 / 50,000 = 2.95\% (\text{Monthly})$



CASE 1



Considering view: Bullish

STEPS:

Buy futures @50750 and sell call (CE) option @50750

$825 * 10 = 8,250$ (Rs 825 is the premium and 10 is the lot size of Gold Mini)

Return in % = 16.50% ($8,250 / 50,000$) - (50,000 is the margin required)

Max profit = 8,250 (the premium received)

Risk = Delivery



What to do if the delivery comes?

CASE 1

If the delivery comes it will come of the same option strike which we have sold.

CASE 2

The delivery will come to us at the future price we have bought.

In both the above cases: $\text{Cost of Delivery} = \text{Purchase} - \text{Premium Received}$

Calculations:

$\text{Cost of delivery} = 50800 * 10$ (Lot size)

= Rs. 5,08,000

$\text{Premium Received} = \text{Rs.}8,250$

$\text{Returns} = 8,250 / 5,08,000$

= 16.50% (Monthly)



Cost of Purchase

CASE 1

Delivery at 50652

((50800 PE premium was 147.50 on monthly basis, so 50,800-147.50)

CASE 2

Delivery at 49925

(50750 CE premium was 825, so 50750-825=49,925)- (worst case scenario)

CE Strike Price	Premium Monthly
50500	930
50750	825
51000	735
51250	645
51500	583





Process

Note: IN CASE 1

**Assuming you sold Gold 48500 PE and its cost of purchase becomes
= 48500-147.50(monthly premium)**

So, 48500-147.50= 48352 (Taking delivery at 48352)

Gold at 48250	Will sell 48500 CE and received premium of 800= 48500-800, = 47700(Cost of Purchase)
Gold at 48000	Will sell 48250 CE and received premium of 800= 48250-800, = 47450(Cost of Purchase)
Gold at 47700	Will sell 48000 CE and received premium of 800= 48000-800, = 47200(Cost of Purchase)
Gold at 47450	Will sell 47750 CE and received premium of 800= 47750-800, = 46950(Cost of Purchase)

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THANK YOU

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