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'PROMISCUITY IS A VIRTUE IN THE STOCK MARKET, WHERE IT DOES NOT PAY TO BE EMOTIONAL'

Investors in stock markets should buy shares when prices are low and sell when they are high. But what actually happens is just the reverse. Most investors buy when markets are high and resort to panic selling when they are low.

As far as mature investors are concerned, they buy when the market is low (at a "hopeless" level) and sell when it is near the top (when there is "euphoria"). This approach should be par for the course, but it's not so.

Most amateur investors are emotional in their dealings on the stock exchange. They fall in love with and are loyal to their shares even when their price is falling; and they often buy when there are signals that prices are going to fall. They forget that promiscuity is a virtue in the stock market and that it does not pay to be emotional.

These are not the musings of an old bull or of some seasoned bear. Dr. Shirrang Joshi, the gentleman who made these observations at the meeting of April 5, changed professions at the turn of the century and gave up a thriving practice in psychiatry to become a technical analyst.

He moved from schizophrenia and neuroses to share prices and bourses after coming across several fascinating aspects of stock exchanges; these were narrated to him by some of his patients who had lost money in the markets.

Dr. Joshi, the Managing Director of MAIA Financial Services Pvt. Ltd., started his practice as a psychiatrist in 1989. In 2001 he started taking interest in the markets and learned technical analysis; soon, he became a consultant and started providing technical and fundamental research to high net-worth individuals and to various market intermediaries.

In 2007 he co-authored a book, *Time Your Trades with Technical Analysis*, the first comprehensive book on the subject written by Indians. A second book, *The Magic and Logic of Elliott Waves*, on the Elliott method which

helped in analysing the market structure, was published recently.

Dr. Joshi said at the outset that he was very happy and peaceful ten years ago when he practised psychiatry. He went to his clinic twice a day and listened to people telling him interesting stories about their lives. It was a learning process for him and, to top it all, he was paid for listening.

He believed (as did many others) that dabbling in shares was akin to gambling and that the stock market was a gamblers' paradise. But one leisurely afternoon he read a book on technical analysis that changed his outlook. He realised that the stock market was not a gamblers' den and that it was the amateur traders who approached it as gamblers, without any sort of preparation.

This was the first pitfall of the stock market – people entered it without any kind of preparation, or with incomplete preparation. In any other field, whether one was a doctor, a chartered accountant, a lawyer or even a DTP operator, it was necessary to have proper training. The stock market was one area where people felt that since they had been successful in their own field, they would succeed here, too.

Although there were many reasons for failure, said Dr. Joshi, the basic one was that people were unable to appreciate that their responses to situations in the stock market had to be radically different from their responses to situations in real life; and real life never taught them the necessary responses.

"For example, in real life if my finger is trapped (somewhere), I will call my friends, the police or the fire brigade and try to save my finger. If my finger is trapped in the stock market (metaphorically speaking) and if I use my real-life response of trying to save it, my hand gets trapped. And if I try to save my hand, my whole arm goes!

"So while in real life the response should be to save the finger, in the stock market, I sit every day from 9 to 3.30 with a knife



From schizophrenia and neuroses to share prices and bourses. Dr. Shirrang Joshi speaks on 'The psychology of successful investing' at the meeting of April 5

in my hand and the minute I realise that my finger is trapped, I cut it.

"The 'Cut it!' response has to be learnt; it doesn't come from real life. The market environment is totally different. You have to equip yourself... knowledge is not the only thing that will lead to success in the market, the right mindset is also needed."

Dr. Joshi gave another example to explain the difference between real life and life on the stock market. In real life, it was a virtue to be loyal to one's spouse. But if he was "loyal" to his shares, he would be in trouble. Therefore, while in real life he was a loyal person, in the stock market he was a very promiscuous man who picked up shares, took his profit and dumped them. There were no emotions involved.

Sadly, most people were emotional while dabbling in the stock market. They were not fully prepared to adjust to the totally different milieu of the market.

Stating that he would reveal to members a few simple techniques of looking at the market, he said that only a few people were in the stock market for the excitement it offered. Everybody else was in it to make money.

One could make money in the stock market only if one could predict the future. While it was not easy to predict the future, the process could be simplified if one could find the answer to one simple question: "Who is more powerful at this moment? The bulls or the bears?"

Since success in any venture and in any field depended on the ability of an individual to filter out the noise and to latch on to the signals, Dr. Joshi said that it was essential to get to the heart of the matter without being distracted by "noise".

He said he would suggest two simple techniques to get to the core, one a very gross one and the other a finer approach.

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Forthcoming meetings

April 19, 2011

"Secrets of the Mahabharata," a talk by Mr. Devdutt Patnaik.

April 26, 2011

DAUD – District at your doorstep programme.

Believe it a lot! Most people buy shares when the markets are rising and sell at a loss when it's falling

(Continued from Page 1)

Displaying a slide which showed a little boy grappling with a Sumo wrestler, he said the picture itself gave the clue – the size difference. However, if shown a picture of two tough boxers who appeared to be evenly matched, most people would find it difficult to lay their bets because the picture offered no clue whatsoever.

To the professional, the stock market looked like the first picture – that of a child fighting a Sumo wrestler. Of course, professionals also made mistakes, but these were few and far between. As for amateurs, to them the market looked like the second picture – in which two tough boxers appeared to be equally matched and where the outcome was difficult to predict.

Dr. Joshi displayed a chart which he called the “Emotional Cycle”. In this, the word “Euphoria” was at the top and “Hopelessness” at the bottom.

As the eye travelled down from the top to the bottom (in a clockwise direction), it came across the words “Denial”, “Fear”, “Panic” and finally “Hopelessness”. Looking up from the bottom to the top, it came across “Denial”, “Confidence” and “Greed”, ending in “Euphoria”.

This was the regular up-and-down journey of the stock market, with prices going up or coming down. Ideally, the best time to buy was when they were close to the bottom and the best time to sell was when they were near the top. However, most people bought when prices were at the top and sold at a loss when they were near the bottom.

It was here that the sentiments included in the “Emotional Cycle” came into play. When prices were high, at or near “Euphoria”, the predominant emotion was one of elation or excitement. Many people entered the market at those levels.

Actually, when prices were high, it was a time to be on guard. For example, in December, 2007, with the Sensex near 21,000, most analysts were euphoric, predicting that it would go up to 30,000.

But that was also the time when there was a strong possibility of the markets going down. If the markets started falling, the professional used his logical tools and, sensing that his finger was trapped, he cut it off and quickly left the market with a slight loss.

April 19 to April 25, 2011

The amateur, on the other hand, went by his emotions. His first emotion was of “Denial”; he “felt” that the market would not collapse; so he waited and waited – and headed for trouble. As the market continued to fall, the emotion that overcame him was one of “Fear”; this led to “Panic” if there was any further fall, followed by “panic selling”.

This, then, was the “journey” of the average amateur investor – he entered at the top, at the stage of “Euphoria”, and he exited at the bottom, with a loss, at the level of “Hopelessness” when no one seemed to be interested in the stock market.

Similarly, when the market started going up, the amateur’s first emotion was of “Denial”, the second of “Confidence” and the third “Greed”.

Explaining this situation with the help of another paradigm, Dr. Joshi said it was like having a party from 6 to 10 pm. Everyone knew that 10 o’clock was the time at which the loudspeakers had to be switched off. But most people would play a few more songs at that time at full volume before leaving for home. Hearing the loud music, some more people would come and join the party at 10 o’clock.

Now, since it was possible that the police could raid a noisy party any time after 10 o’clock, a watch would be placed downstairs to warn the revellers the moment he espied a police vehicle. Once he gave the signal, the music was switched off and the revellers left the scene.

“But who will get caught? The people who entered at 10 o’clock! Once they are caught, on the next day, even if you give them an invitation to join the party at 6 o’clock, they will not come because they were trapped. The moral of the story is that the stock market party has to be entered at 6 o’clock and not at 10 o’clock.”

“You should enter close to the bottom, when the predominant emotion is ‘Hopelessness’. If you do that, then you are an investor, because there is a possibility of a big move up. But if you enter at the top, at the time of ‘Euphoria’, then you’re not an investor because at that point a downward move is possible. Of course, you can be a trader at that point because ‘Euphoria’ can last for some time.

“Thus, there are times in the market when you need to be an investor, there are times when you need to be a trader and there are times when you need to be out of the market.”

Dr. Joshi said this was the “gross” technique that he had referred to; there was also a “finer” one.

For this, he showed three scenarios in which a company’s shares listed at Rs. 100 and went up to Rs. 135. In one scenario, the share went down to Rs. 80 and then showed an upward movement. Some people would buy this share, thinking that since it had already shown an upward move, it could go back to Rs. 135.

In the second situation, the share went from Rs. 100 to Rs. 135, then

came down to Rs. 100 and started showing an upward trend. More people were likely to buy the share because they felt that it could go back to Rs. 135.

And in the last scenario, the share went from Rs. 100 to Rs. 135 and then came down to Rs. 120 before resuming its upward journey. In this situation, more people were likely to buy the share.

Thus, there were three scenarios of the same share, but the reactions were different. Any decision to buy had to be decided after looking at the scenario in a logical manner.

In the first case, the fall was steeper than the initial rise; thus it was clear that the bears were in control and there was no point in buying. In the second, the rise and fall were almost equal; hence it was best to remain neutral and to avoid buying. In the third, the bulls appeared to be more powerful and in control; therefore, it was prudent to buy the share at that stage.

“You have to see... in every move up, who is pulling the price up? It is the bulls. Hence, every up move indicates the power of the bulls and every down move indicates the power of the bears. When you see a chart, you just have to see whether the rise is big or the fall is big.

“I’ll show you actual charts (of real companies), so that you will understand it better. This is just the principle I am demonstrating.”

Dr. Joshi then pulled up the weekly chart for Satyam Computers. (This was a detailed graph plotting the weekly rates of the scrip; each dot, or candle that was coloured green or red, denoted the weekly open, high, low and closing rates, giving a continuous chart over the years.)

The chart for early 2008 showed a rise and a fall of roughly similar proportions. Later, there was a big fall and a small rise, which meant that the bears were more powerful at that point (when the price was well over Rs. 350). Was that the time to sell? No, because there was another line at the level of Rs. 320 (called the support line), which it had not touched.

On September 26, 2008, the stock closed below the support line of approximately Rs. 320. That was the point at which he told his clients to sell their shares and exit from Satyam.

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Page 2



When the prices are high, that's the time to be on guard, to book your profits and vanish, says ace technical analyst Dr. Shrirang Joshi

Simple techniques go a long way in preventing losses in the stock market, says Dr. Shrirang Joshi

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He told them that the company was good, as was its balance sheet, cash flow, assets, order book, management and so on. Despite all this, the falls were bigger and the rises smaller. Clearly, the bears were in charge.

That was the time to sell and to go on a vacation, meaning, to stay away from the scrip till such time as it gave another buy signal. (This had not happened for a very long time and the company had gone through tremendous upheaval, with the chief promoter landing in prison.)

Finally, when the scrip was at approximately Rs. 50, it started showing signs that the bulls were back. The rises were larger and the falls smaller. That was the time to re-enter the scrip and to ride the charge – keeping a strict eye on the weekly charts and the support levels.

“For investors, the weekly chart means a lot. Whatever trend is seen on the weekly chart is going to give you an effect formation in the weeks to come... When will I put money again? When the bulls take charge. But if there is a huge fall, I am protected because I am on vacation!”

“When I sell or exit at Rs. 320, I cannot predict whether it will come down to Rs. 10 or to Rs. 100 or Rs. 200. From Rs. 320 it may go anywhere, but it is giving me a sell signal. So I will exit. I also don’t know the reason why it’s happening and I am not interested in knowing it.

“I am in it to make money; I need an answer to only one question, who is powerful at this moment? If the bears are powerful, I will exit and not worry about why they are powerful. I am on vacation. I am protected from the big fall... This is a simple technique, looking at the rise and fall, to protect you from losses.”

Dr. Joshi then took up the Nifty chart. It showed a big fall in January, 2008 (that was the time when there was a virtual melt-down of markets and which was a precursor to the world economic crisis).

The moment there was a big fall, it was clear that the bears were in power. That was the time for the professional investor to exit from his positions and to go on a vacation. Of course, he would keep an eye on the market, to see whether the falls were bigger or the rises were larger. He was protected (since he had exited the market) and had to remain on vacation for many months be-



That was an excellent talk. President Pradeep Saxena presents a memento to Dr. Shrirang Joshi, the guest speaker at the meeting of April 5

cause there was no change in the scenario, there were no large rises followed by small falls.

From this arose the question, which was the right time to re-enter the market? While some believed that any time was the right time, he did not believe in this theory. After all, it concerned one’s hard-earned money. Even the legendary Mr. Warren Buffet timed his entry into the market. Of course, he used different tools, but he certainly timed his entry.

Continuing with the story of the big fall of January, 2008, Dr. Joshi said that for seven to eight months the bears were in control. Then another, distinct pattern became evident; there were big rises and small falls. From this it could be deduced that the bears were losing their grip and the bulls returning.

However, there was another, inclined line drawn above the new weekly tops, which was the “resistance” level. The prices would register small falls and then show big rises. But even when they rose, they only touched the “resistance” line and made small falls. Thus, even if slowly, it became evident that the bulls had resumed their leadership of the market. And that was the time to buy.

“If you go by my theory, there is a big rise and a small fall. But look at the end, there is a big fall and a smaller rise, so at that point, when it goes down, I would have booked my profit. From there, whether it goes down further, or whether it recovers, that is a further call to be taken.

“But some kind of micro-timing is needed and that can be done by simple methods. Just look at the rise and the fall. If the rise is big, then the bulls are in charge, if the fall is big, then the bears are in charge. If both are the same, then stay away. This simple technique can save you from big losses, or getting in at the wrong time.

“Whenever there is a big fall, fundamental analysts say that valuations are attractive. Well, valuations are attractive at 15,000 levels compared to 21,000, but valuations are attractive at 12,000 levels, too, and also at 8,000 levels. I say that you should always go by the trend, that’s my philosophy. It keeps you on the right side of the market, otherwise you may get crushed,” Dr. Joshi concluded.

President Pradeep Saxena noted that the speaker had basically suggested a technique to hedge one’s losses. But was there a fool-proof method to approach the market?

Dr. Joshi said there was no fool-proof system in the stock market which was “a game of probabilities, not of certainty”. It fell in the category of “risky” investments, not “risk-free” investments. However, research had shown that rather than putting one’s money in the risk-free category, it was better to have a portfolio that was a combination of risk-free and risky investments.

His portfolio management company used many techniques to make its recommendations. It went for fundamental analyses, it studied the economy, the various sectors and so

on. As for the charts, what they showed was merely a snapshot of investor sentiments. There were two basic elements in the market, company fundamentals and what the investors felt about it. And it was this that was reflected by the price.

“In mathematical language, the price is a sort of combined vector of investors’ sentiment. The price reflects the investors’ perception. I may know that the fundamentals of the company are good but it is the price that is telling me about the perception at that moment.

“On observing the chart, I can suggest the point at which to buy, because there is a big rise and a small fall. But at that buy point, whether it will go straight up; whether it will fizzle out half way; or whether it will fizzle out immediately, I cannot predict that and I don’t want to predict it. I will only ride with the trend.

“Some trends will give me big money, some trends will give me small money and some trends may fizzle out – and then I will know that my finger is trapped. I will cut my finger and pass on. It is the net (result) that’s important; there is no system, no indicator that can be 100% foolproof. That’s why we should have a stop-loss and that’s why we should have multiple trades, so that some trades will work out in our favour,” Dr. Joshi added.

While it was Nandan Maluste who introduced the guest speaker, the vote of thanks was proposed by Jagdish Malkani.

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 Nirav Shah

Information for the new Club Roster

This is the last call for members to send updated information about themselves for use in the new Club Roster that is under process and is proposed to be brought out very soon.

Nirav Shah, who is publishing the roster, has requested members to refer to their respective copies of the existing roster to check whether the information provided therein requires any change or correction.

He has also asked them to send two copies of their latest colour photographs along with the latest information.

President Pradeep Saxena and the Office-Bearers have requested members to send their latest photographs for the new Club Roster which will be in their hands by the end of the current Rotary year.

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Pick up your copies of the Yoga Directory

Joint Hon. Secretary Sitaram Shah has reminded members to pick their copies of the "Directory of Yoga Organisations of Mumbai and Greater Mumbai" by making a token donation of Rs. 150 per copy (or Rs. 500 for five).

The material for the directory was assembled after a year-long effort by a team led by him in his capacity as District 3140 Project Coordinator for Yoga and Health during the last Rotary year. The Rotary Club of Bombay was a key sponsor of the same.

This was the first such compilation of its kind for the city - and it would probably be the last because it was unlikely to be replicated or updated, he said.

He has urged members to use the directory as a handy reference book and to distribute it among family, friends, colleagues, clients and associates.

Copies of the sleek, slim book are available at the weekly Rotary meetings.

Happy Birthday



Suresh Agarwal
 April 19



Hon. Rtn.
 Mr. Mukesh Ambani
 April 19



Scherize Padamsee
 April 19



Vijay Dhawan
 April 20



Vinod Juneja
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