Market is a confluence of opposing viewpoints and which acts as an origination point for a transaction. The world of business or finance would not have existed but for these diverse opinions which are the major source of liquidity in the markets. Liquidity is the lifeblood of the financial system because of which transactions happen and the process of risk transferring happens to the entities who are willing to assume the risks.

At any given point of time there are multiple variables in the market which are simultaneously at work and the movement of the market in one direction of the other can be attributed to many factors at a single instant. Hence it is a herculean task to single out the cause and effect in real life since all the loose variable cannot be controlled. Hence it would be more prudent to insulate oneself from the vagaries of market by employing tools rather than overly thinking about correctly making a prophecy about the markets.

Current Market Scenario

It's been more than a year since war between Russia and Ukraine broke out, but still it is a stalemate. But there are conflicting reports emerging about a possible middle path to which both warring factions may agree and the can bring an end to the conflict. At the same time these hopes are like flash in the pan, which vanish as fast as they emerge. This conflict has disrupted the supply chain of entire globe especially the food shortages and many countries are reeling under acute shortages, which has spiked inflation all across the world. Most of the western economies have inflation at the highest level in 50 years. India too is facing the heat, since we largely import crude oil our fortunes can rise and fall quickly with crude oil rate.

These inflationary pressures are forcing major Central Banks to assume a hawkish stance, which obviously does not augur well for the equity markets. Monsoons have been normal and this has given some respite.

Case

This is about 2 friends Ajit and Suresh, who are behaviorally very different and their approach to financial decisions is also completely different. They also have different expectations and objectives form the market. This case is about how should they navigate these times keeping their temperaments in mind

Brief profile of Ajit

Ajit is a trader who has constantly been on the receiving end of the market for so many years, he has burnt his fingers regularly in the markets and hence he is quite aware of the pitfalls in the market. Now lately he has learnt about derivatives and their usage in the markets. Since Ajit has been an active player in the markets all his life, his frequency of trades and his expectations from the markets are those of a typical trader. Now banking on his recently acquired knowledge of Derivatives, he is quite keen to put it to use and see if these instrument can bring in change in fortunes.

Brief profile of Suresh

Suresh is a wealthy businessman and his own occupation keeps him busy for most part in the day. He is interested in the markets but the amount of time that he can spend on the markets is much lesser than Ajit. Suresh is more of a long term investor with a large equity portfolio which he has diligently built over the period of time. Hence Suresh can safely be termed as a long term investor. Suresh's main concern is to protect the value of the portfolio on account of falling markets.

Problem

Ajit is looking to make returns from the market since there is going to be lot of volatility and the basic view that Ajit holds about the market is that the war may end soon , which may bring a sudden bull run across the globe and he is looking to make money out of this opportunity.

Suresh on the other hand believes that market may be flat to negative in the short term and he is sure that markets are not going to go up.

Questions

a) What strategy should Ajit adopt to be on the winning side and which derivative instrument should he use and why?
b) What strategy should Suresh adopt to protect his portfolio and also earn some thing, which derivatives instrument should he use and why?