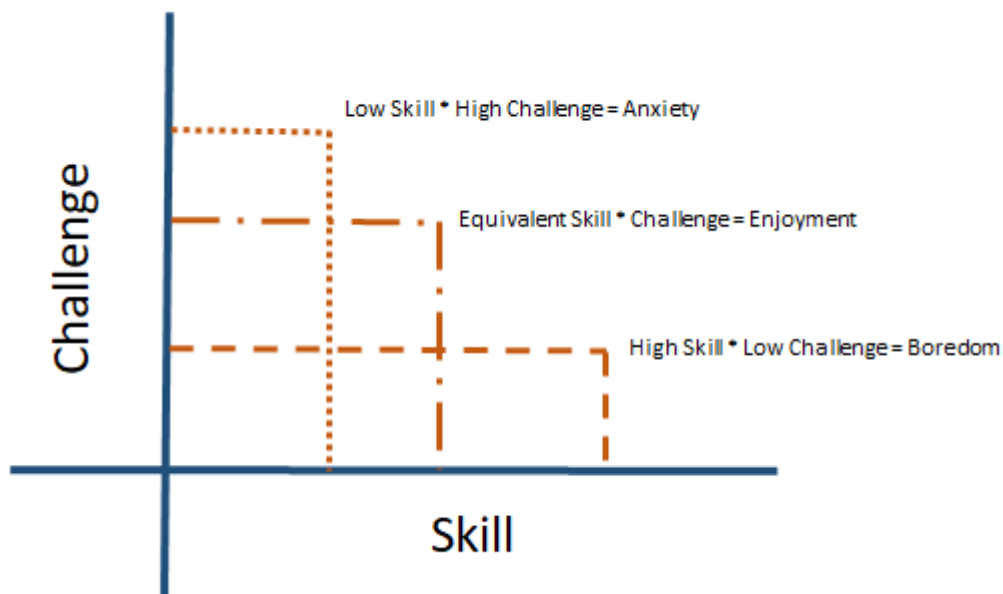


With the commencement of the 2019 Cricket World Cup, it is only natural that in our cricket crazy nation, fans are already rooting for the Indian cricket team. We experience jubilation and dejection with every single win and loss of our cricket team, as cricket is nothing short of a religion in India. We go to lengths to cheer for our team in all situations and stay excited till the very last ball of the match.

But for a die-hard fan, the excitement level varies for every match. Compare, for instance, the excitement quotient for an India Vs Afghanistan match to an India Vs Australia match.

Why the variance? Because in order to experience the thrill or enjoyment, there needs to be the right balance between skill and challenge. In case of the match against Afghanistan, our team's skill set is far superior to tackle the challenges offered by the opponent's team, so we may not savour the victory to its fullest. But while facing Australia, we celebrate the success completely, because of the comparable competence the opposition possesses.



Taking inference from the above hypothesis, we can implement the same belief to stock market trading. The Stock market itself is a very tricky subject, so by classification, it is termed as a High challenge activity by the regular traders. In the initial stages of trading, one possesses little knowledge of the market. Hence, Low Skill \* High Challenge = Anxiety.

The question is, how does one deal with this situation, given that the Markets will always remain to be a complicated issue for the novice trader? One should never lose hope or get disappointed. Any mammoth task can be simplified by dividing the complexity into simpler smaller parts and working around these parts individually, to develop the required skill-sets.

The industry is flooded with a large number of tools to understand trading charts and to undertake chart analysis. Say, if you wish to learn about Trend Lines, then you should stick to only one tool, till you understand the concept in-depth. Only after gaining expertise in one particular tool, should you proceed to the next available tool and keep practising in conjunction with the earlier learning. According to experts, we need only 4 to 5 tools to understand the charts and price action; as quoted aptly 'Too many cooks spoil the broth'.

Another obstacle is that there are too many companies listed on the exchanges. Hence, you should create a small universe of stocks by selecting the top 10-20 companies from Nifty 50. Once selected, you should apply your learnings of each tool to this set of stocks. Since your initial bucket size is small, you can easily analyse and understand the pattern.

Lastly, you should focus on sustaining the risk balance, by gradually increasing your risk appetite and temperament and develop the ability to learn from your mistakes at a minimal cost.

By following this procedure, over time you will be able to prove that Equivalent Skill \* Challenges = Satisfaction. Of course, it is a time-consuming process, but, you need to understand that, before you EARN, you need to LEARN.

Article authored by:  
Kapil Shah  
Technical Analyst at Emkay Global