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# INCOME FROM TRADING USING PATTERN RECOGNITION

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## **ARTICLE DETAILS**

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## **ABSTRACT**

Try to give some basic idea of future and option in trading and identifying the time of enter and exit in future and option of index trading. The person who has no idea for investing directly in DMAT account, then he should avoid the trading particularly from the future and option. The person must have an idea about call option, put option, in the money (ITM), out of the money (OTM), at the money (ATM), open interest for trading in future and option.

## Introduction:

Understanding the differences between In-the-money (ITM), Out-of-The-money (OTM) and At-the-money(ATM) options is crucial for anyone trading in the option market. An intrinsic value dictates the categorisation of options contracts into these three types. It is basically the difference between the strike price of an options contract and the spot price of an asset.

## Difference Between ITM, ATM and OTM Options :

The following table shows the difference between ITM, ATM and OTM options:

| Parameters                   | ITM  | ATM  | OTM  |
|------------------------------|--|--|--|
| Strike Price vs Market Price | Beneficial (Call: Market > Strike, Put: Market < Strike)                     | Usually Equal                                    | Not beneficial (Call: Market < Strike, Put: Market > Strike) |
| Intrinsic Value              | Present (determined by the price correlation)                                | Exists to a minimal extent                       | Absent   |
| Profit Potential             | Options immediately hold value because they already possess intrinsic value. | Balances immediate profits with potential gains. | Significant price shifts are necessary for profitability.    |

|                        |   |  |  |
|------------------------|---|--|--|
| Suitability            | It offers flexibility and the potential for immediate profit.           | It balances the risk with the potential for profitability. | Employed for strategies with high risk and high rewards. |
| Level of Risk          | Low risk  | High Risk  | Moderate Risk  |
| Pricing Considerations | Affected by intrinsic value, expiration duration and market volatility. | Affected by both intrinsic and extrinsic values.           | Primarily affected by the passage of time and volatility |

It is very difficult to earn money from trading than investing. Because in trading there is a time limit that is every lot have expiry date, but in investing there is no time limit.

Here I try to give identify time of entry and exit with 5 minute candles. We stay on the market for 15-20 minutes, that is stay on the market for 3-4 candles for one trading.

We enter the trading between 9: 30AM-10:15AM and 2 PM-3.15 PM if . Because trading volume and liquidity are maximum in this time. On the other timings that is between10: 15 AM-2PM trading volume is very low and the time between 3:15PM-3.30PM is very risky for closing time of the market.

If we have Demat account in any brokerages then ok. Otherwise go to “Trading View” then choose a candle for 5 minutes. That is a candle represents the value of particular stock or Index for 5 minutes.



Then go to indicator, choose simple moving average (SMA) two times. Choose each SMA setting and go to setting :

- (i) Choose the period 9 days and choose the colour 'RED'.
- (ii) Choose the another SMA and go to setting and choose the period 21 days and the colour is 'Green'.

If the following conditions hold simultaneously then we enter for training -

- (i) The red line that is 9 days simple moving average crosses green line that is 21 days simple moving average from down wards to upwards thrice then we have to alert for the next crossing which must be downwards to upwards.
- (ii) RSI must be above 50
- (iii) MACD line cross from down wards to upwards the signal line.
- (iv) The open interest must high on the strike price.

For future and options we should avoid this strike price which is far away from the current spot index, because the liquidity and open interest are very low on that strike price that that is far away from the current spot index. We should prefer call and put on the current index or  $\pm 150$  from the current index.

For example if Nifty 50 current value is 16000, then we should prefer for the call option of the strike price between 16000 and 16150. Choose put option on the strike price between 16000 and 15850.

It is favourable to choose the strike price In-The-Money and At-The-Money, but premium is too high so if someone have lower budget then he can choose out of the money, provided that the strike price is not far away from the stock price.



### **Conclusion:**

We should follow the above strategy in the specific time that is 9:30 AM-10:15AM or 2:00 PM-3:15PM when the above four conditions hold simultaneously. Our risk reward ratio is 1:3.

For example if the person starts with Rs 1000 then his maximum loss is Rs 250 and Maximum Profit is 3000. We avoid the trading on expiry date.

### **References:**

- (1) Futures & Options Blueprint-Beginner's Guide To Futures And Options|Zebralearn
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