4 Beta Management [Future Hedging]

Take opposite position in Index (Nifty or Sensex) to hedge portfolio of cash market

$$\text{No. of Contracts} = \frac{V_P \times (\beta_T - \beta_P)}{F \times m}$$ [Normal rounding off]

5 Commodity future

1 Cost of Carry model of Future

$F = (\text{Spot} + \text{PV of storage cost} - \text{PV of convenience yield})(1+r)$

2. Hedging through future

$$\text{Hedge ratio} = \frac{\text{S.D. of spot}}{\text{S.D. of future}} \times r \text{ between spot \& future}$$

Quantity of Hedging = portfolio [quantity] x Hedge Ratio

Amount of Hedging = Quantity of Hedging x price