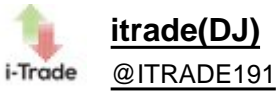


Twitter Thread by [itrade\(DJ\)](#)



In this thread, I'll walk you through my set up, absorb it as much as you can.

The instrument that I trade in are Nifty (NF) options

Thanks to [@AdityaTodmal](#) [@niki_poojary](#) for contributing in making this

How to set your charts:

DJ's (@ITRADE191) Trade Set up

On Nifty Futures chart in 5 min TF add the following:

1. 50 EMA
2. VWAP
3. RSI (settings 40 on the lower & 60 on the upper)
4. Volume (with 20 MA line)
5. Pivots (Traditional Auto)
6. Previous Day High (PDH) & Previous Day Low (PDL)
7. Change in OI



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Lets try to understand what to sell when 50EMA, VWAP & RSI works in different scenarios

Decoding the set-up

- Scenario 1:
 - If the price is trading above VWAP, 50EMA, RSI > 60 & the volumes are rising then sell PE's
- Scenario 2:
 - If the price is trading below VWAP, 50EMA, RSI < 40 & the volumes are rising then sell CE's
- Scenario 3:
 - If the price is trading between 50EMA & VWAP and the RSI is between 40 & 60, in such case one can sell a strangle (i.e. OTM CE & OTM PE)

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What options to sell and how to place the SL

The interpretation of the set up

- You can sell ATM or 2-3 strikes lower or higher than ATM (as they have as we have defined SL in place. Don't trade ITM as it will work more like a future. If you are a beginner)
- Once you zero in the strike you wish to sell, open the option chart in 5min TF and add VWAP & 50EMA to it.
- Be it a CE or a PE or both in case of strangle ensure the option prices are trading below VWAP & 50 EMA
- The SL for the sold option should be either the VWAP or 50EMA whichever is higher. For eg. Lets assume you sell a CE at ₹60 VWAP is at ₹75 and 50 EMA is at ₹85 then the higher of the two is ₹85 and hence you can place a SL of ₹85 in the system. We are keeping a far away SL because in case of a sudden spike and then a cool off, our SL wont get hit, and you can still be able to hold the trade (without the SL hunt)
- However, if option price (within this option chart) is slowly inching up, dont wait for the SL to get hit in the system, exit the option as soon as the option price closes above the VWAP in 5 min TF
- Lets say you have sold a strangle and your PE leg SL gets hit then watch the move of Nifty and if it clearly coming down, and even CE option prices are also falling below 50EMA & VWAP then immediately sell CE's

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Important to have a birds eye view when trading in NF options as many stocks influences its movement

Other things to monitor

- As highest theta decay happens when the options are closer to the expiry, this system will work well on the following days:
 - Tuesday
 - Wednesday &
 - Thursday
- Other things to be monitored includes movement of few Nifty heavyweights, viz. Reliance, HDFC twins, ICICI Bank, SBI, INFY, TCS. Eg: Lets assume Reliance, Infy & TCS are down, however NF is moving higher, in such cases sell a far away PE or go for Bull PE spread i.e. Sell 15600 PE and buy 15500 PE



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Why Previous Day Low (PDL), Previous Day High (PDH) & Pivots (standard) matters

Importance of Pivots & PDH & PDL

- Pivots point are important, as they act as Support & resistance. Lets say NF took support and pivot and is trending higher the next resistance (unless otherwise mentioned) is at R1, so if you can sold a PE, you can either book that PE when NF reaches at R1 or wait to see if it is able to break that R1 and is trending even higher, in that case, you can trail your SL to the existing PE and can short additional PE according to your position sizing
- Similarly PDL & PDH plays a vital role, If NF breaks PDL then the fall would accelerate more and vice versa if it breaks the PDH.
- You can see in all my charts where I post the trade logic, I mention NF took support of the PDL or breaks PDL and hence I did so & so.

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Another element that I look at is Change in Open Interest (OI)

Importance of change in OI

NF Price

- Rising
- Declining
- Rising

- Declining

Change in OI

- Rising
- Declining
- Declining

- Rising

What to sell?

- PEs
- CEs
- Either profit booking or short covering, if volume is low sell a strangle if volume is high then sell a PE
- Either profit booking or Long unwinding, if volume is low sell a strangle if volume is high then sell a CE

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No matter how perfectly you time your entries and exits, without Risk Management one cannot minimize the negative consequences of the trade

Risk Management

- To start with you can risk 1% on your capital, and try to diversify that risk by spreading into 5 trades. Eg: Lets say your capital is ₹10Lakhs, so 1% risk works out to ₹10k. So for 4 trades put together your total risk should be ₹ 10k.
- Now you have 4 positions open, the moment even 1 position's SL is trailed to cost (whenever it comes to a profit) you can again open one more position. Similarly if 2 positions or 3 or all positions are trailed into cost, you can open new position, such that at any point of time the total open risk remains constant at 1% of your capital.
- If you are a complete beginner, and you have a capital constrain then spreads are advisable as the overall margin required reduces and also the max loss is always fixed, and risk is always under check.

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Now apply this in your trading with proper risk management and don't undermine the role of practice, and try to get a hang of this set up

Promote what you love

- This set up is not for pro traders, as pro traders have a tried and tested set up which works for them, this is for those who are struggling with their set up or who do not have a set up.
- We believe in this, 'Promote what you love instead of attacking what you hate', so if you didn't like this set up, simply ignore it!
- Now that the set up is revealed, go & mint some money!

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