Twitter Thread by Pran Katariya

Pran Katariya
@KatariyaPran

The Straddle is my favorite trade these days. But more often than not, one needs to adjust to make a good return from it. There are many ways to do this depending on your view, psychology and imagination. Will discuss a few that I use

The Straddle is a delta neutral strategy and it is important to keep deltas in check during the course of the Trade and not let them run away from you. Of course Volatility is the elephant in the room- but not going there as that will require a separate discussion

The first and most common method is to go 'inverted.' That is to say to shift the untested side to generate additional Premium and increase the runway to Breakeven. So if you start with a Straddle at 700 and price goes to 740, you can move the PE up to say 720.

How much should you move the untested side? While again this is a matter of skill, experience and artistry, the rule of thumb is to cut deltas by half. Remember, prices will move and you have to allow sufficient room for them to fluctuate

The second method is to shift the entire Straddle in the direction of the move. So if you have a 700 Straddle and Price goes to 740, you can shift the Straddle to 720. If you time this right, it can generally be done at virtually no cost or minimal cost.

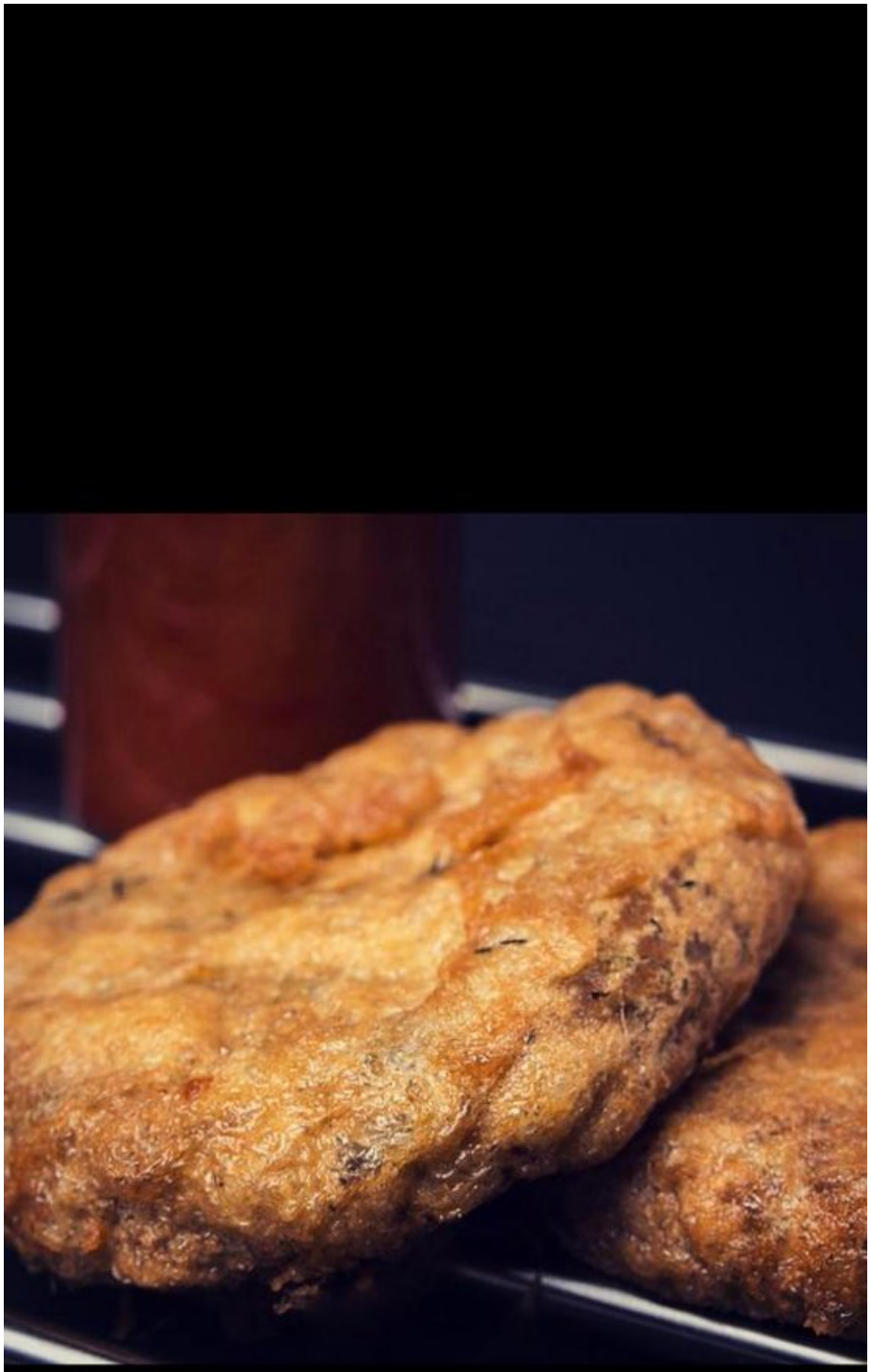
The third method is what I have learned from adjusting Iron Butterflies. Wait for Price to reach the Breakeven in either direction and then sell another Straddle at that Price. This will create a Strangle with a wider range in which you can make money

If Price continues to move against you, close the furthest Straddle and sell one closer to current price to cut deltas in high. However, unlike the first two strategies, this requires you to bring in additional capital.

The last method I use is a radical one when price is galloping. It is averaging. So if you have a 700 Straddle and Price has shot up to 740 and still shows signs of quickly advancing more, sell a 760 Straddle to make the overall position equivalent to a 730 Straddle.

There are many nuances to these adjustments which would be a topic in itself. So for instance time to expiry would be an important factor in deciding on what is the best way forward.

There is always the option of selling or buying a Naked Option to cut deltas and when to use these methods is something you will learn from experience. The only way you will really learn is to do many, many Trades. Practice makes perfecti



In conclusion, the Straddle is a very resilient strategy in which you will make money under most market conditions. It's a strategy which is a must in any Option Traders arsenal