Twitter Thread by Raghav Anand



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Getting a lot of hate and negativity in DM's regarding whatever I have said on 9:20 straddle.

A thread on my opinion, and an experiment that I did.

Going to be a long one, I hope you don't get bored.

1/n

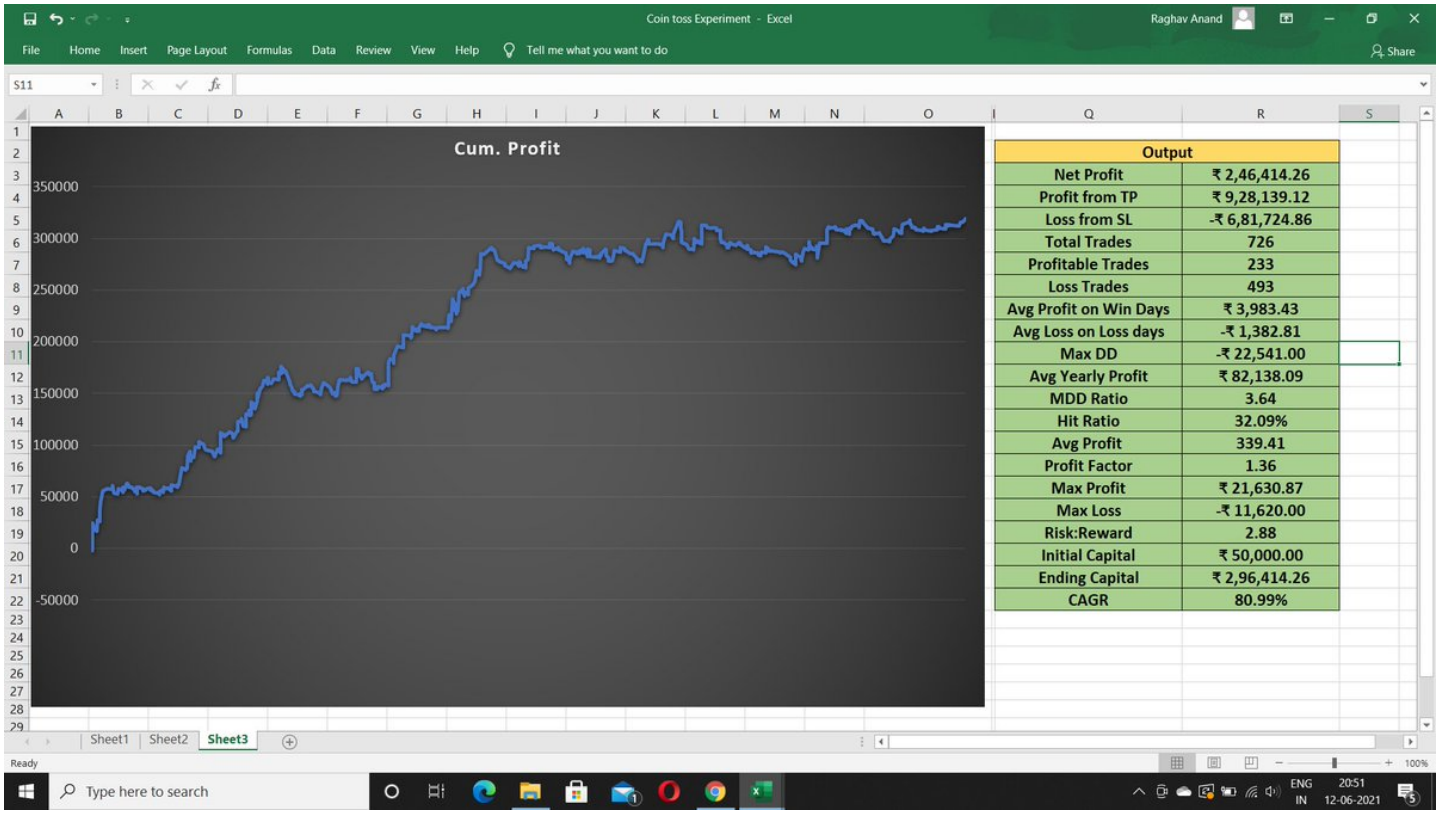
I ran a random simulation on excel, which would toss a coin 726 times (because there are ~750 working days in 3 years and I had data for only 726 days).
Each output would print either Heads/Tails.
I have defined Heads as bullish, Tails as bearish.

2/n

If the outcome is heads, I would buy ATM CE at 9:20, and if tails, I would buy ATM PE at 9:20.
Basic 10th math - 50% chance of a coin toss returning heads or tails. So if I can get a R:R of > 1:3, I might be able to make this random simulation profitable.

3/n

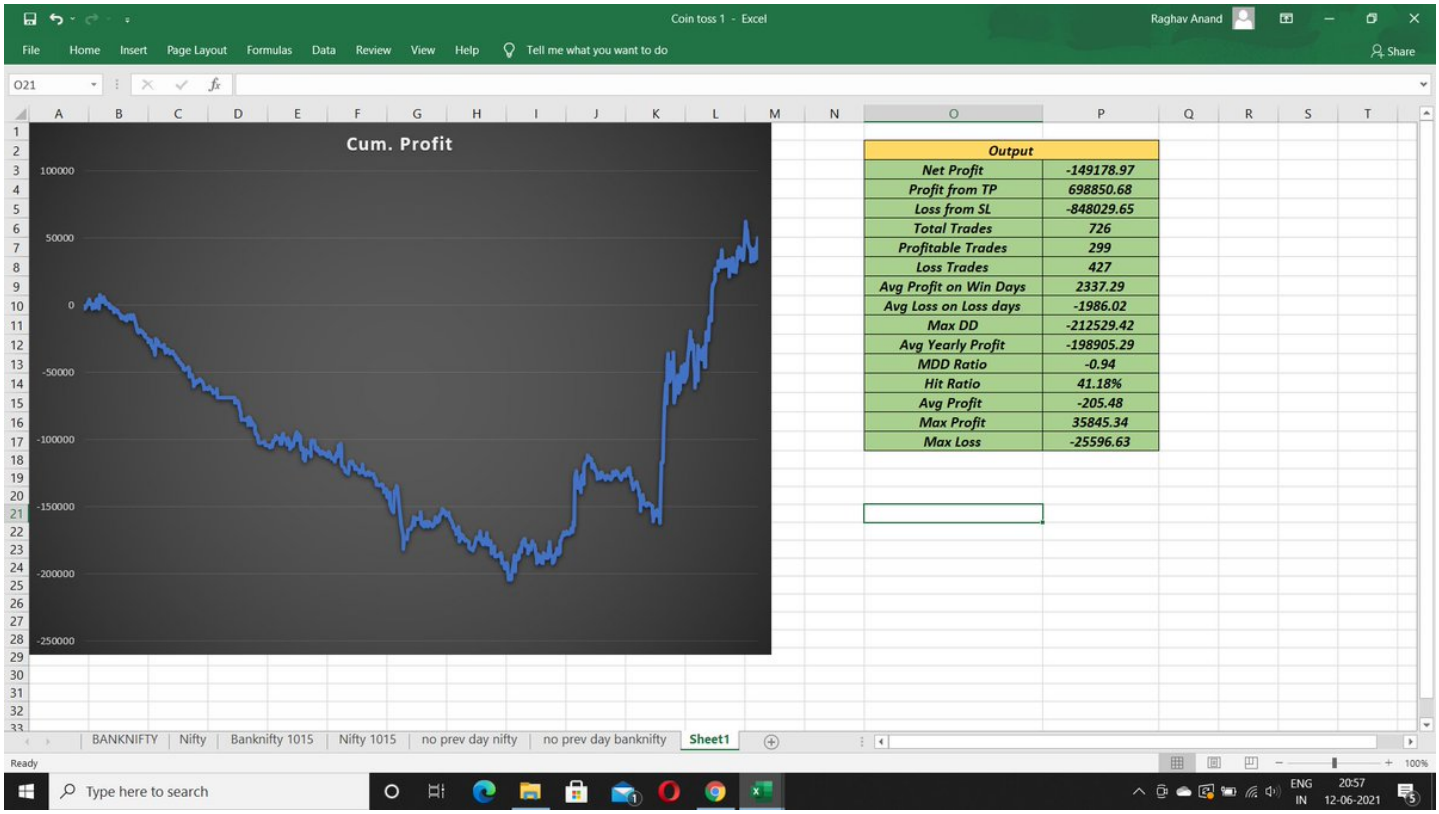
So the other parameters were :
1. Only 1 trade at 9:20 everyday, with fixed SL and target.
2. SL 50% of prem, target 4X of SL.
Ex : I buy ATM CE @ 100, my SL is 50 and target is 200.
3.If neither SL or target hit, exit at 3:25.
Here are the backtest results ■■



Just one trade every morning, no analysis needed, with fixed SL and target in system. Completely random simulation, could've resulted anything, but it is giving a CAGR of 80% !!
Would you trade this backtest result?
If you didn't know the logic, why wouldn't you trade this?

5/n

It is completely random, no relation to theta decay or gamma delta vega, makes 0 sense, but in the end it is profitable, and that is what actually matters isn't it?
Now I just changed the rules slightly.
Instead of R:R of 1:4, now I will aim for 1:2, and here is what happens
6/n



The account goes bust

So aiming for a R:R of 1:4 and this random strategy can be profitable.

So IMHO, the profitability of this system is due to it's R:R, and not theta or delta or vega.

Now let's relate this to 9:20 straddle.

Why 9:20? Why not strangles? Why not ITM options?

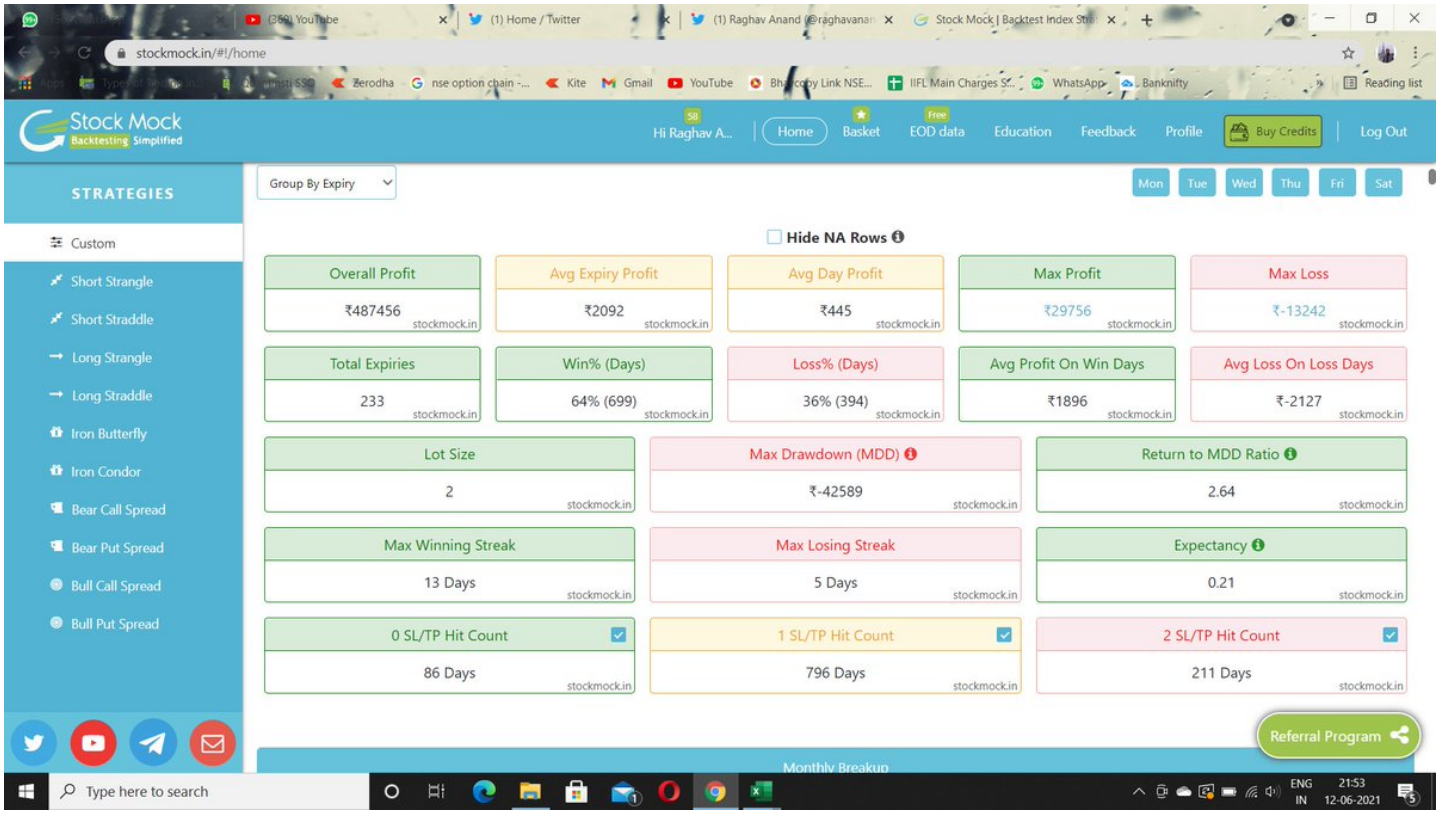
7/n

Instead of just relying on the excel backtest, for a moment try thinking why is 9:20 straddle profitable.

IMO, solely because one is quick in booking the loss making side and letting winners run.

Below attached is the BT of 9:20 straddle, SL 25% each leg

8/n



This has a pretty smooth Eq curve, though even this system makes you go long/short randomly. The profitability of this system is not solely because of theta decay, it is mainly because it has been right in catching the trend > 50% of times, and books losses quickly.
9/n

9:20 straddle was the first thing I ever backtested and it instantly gave me the feeling that Yes, I have finally found my holy grail. I even started it, but while trading it, I found myself to be helpless.
Say every data point is bearish, and some random spike took away
10/n

my SL in calls, I am bullish even when nothing in the market is bullish. But just because it was profitable in my backtests, I am supposed to hold my positions. Literally makes 0 sense to me.
My main motive is to understand why am I being profitable on this trade,
11/n

so that eventually I can scale it upto a certain point.
My intention here is to say that I am not comfortable trading this way because it does not suit my temperament, if it does suit you, go ahead.
If my tweet makes you doubt your system, is it even worth trading it?
12/n

I've said this earlier, I'll repeat.
If you are such a trader who does not want to understand why the profit is coming into your account, and just want to take random trades because it is profitable in an excel backtest, go ahead.
13/n

But rather than finding better and perfect entry points than 9:20, try building creative ideas on position sizing and execution so that the law of large numbers actually works on your trading account, and not on your excel workbook.
14/n

People trading this at a huge scale might have the appetite to accept such huge drawdowns, I am definitely not, so I don't like it and I cannot trade it.
Kudos to them
But my reason of not trading it is because I dont want to feel helpless when my own money is on the line.
15/n

Compounding will only work until it doesn't. These kind of strategies require better execution and mental stability, than new timings of selling straddles.
Try improvising on other important points in trading rather than fighting about which entry time and SL is better.

When i backtested 9:20 straddle, I was shocked to realize such a simple strategy making money. So that led me to do this experiment to check whether anything random can also lead to a profitable past.
And guess what, it did ■
I have full right to be wrong. No more 9:20.

~END~