Twitter Thread by Nikita Poojary

Nikita Poojary
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Few weeks ago @Ronak_Unadkat Sir conducted an exclusive session for me & @adityatodmal to explain how he trades.

He was kind enough to share all his trade strategies and was patient enough to answer our doubts.

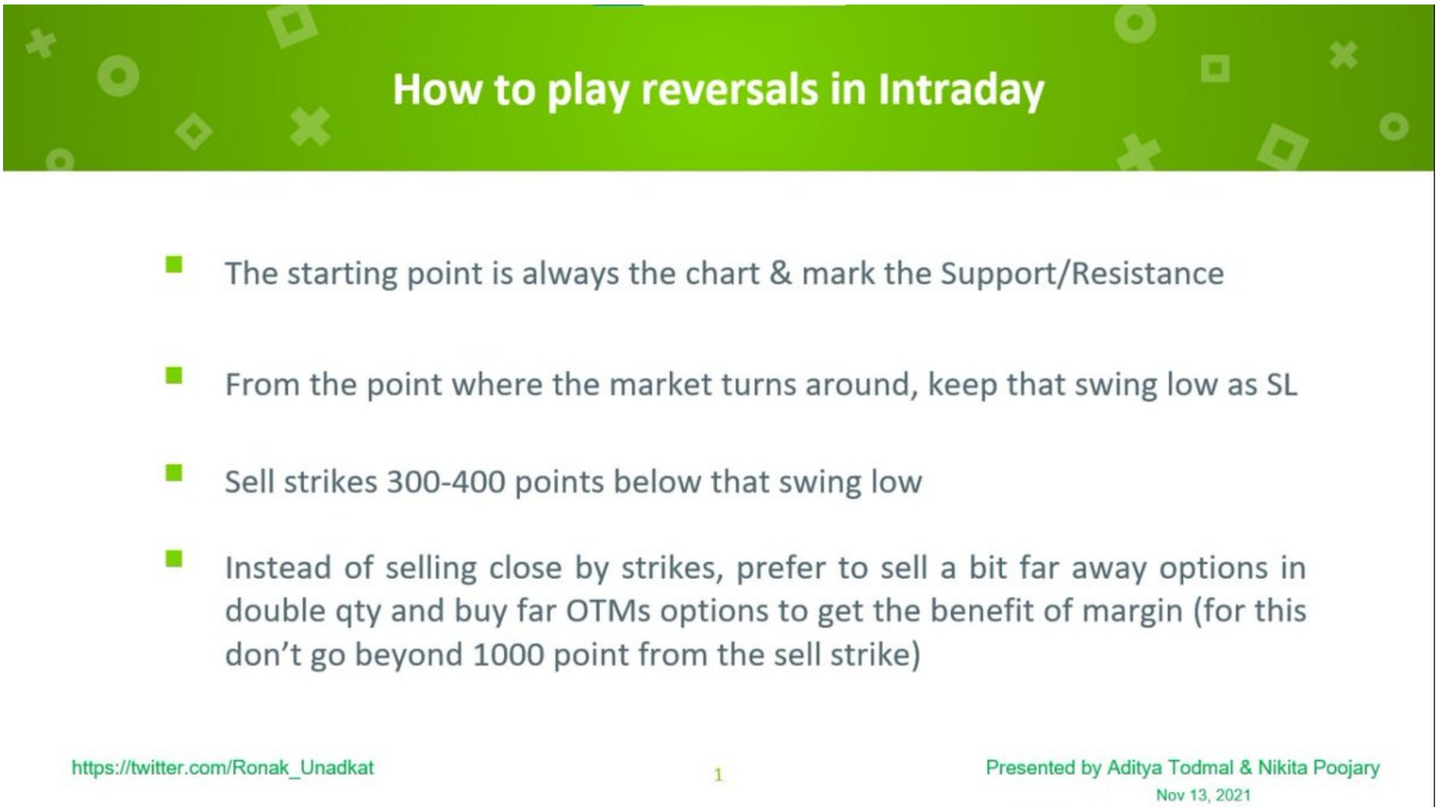
Thought of making a ■for the benefit of the larger audience here.

@Ronak_Unadkat Sir's Option Selling Logic ■:
• Reversals in Intraday Option selling
• Strike Selection & SL
• Hedging for any Black Swan Event
• Positional Option selling
• Ratio Spreads
• How to manage the positions
• Capital mgmt

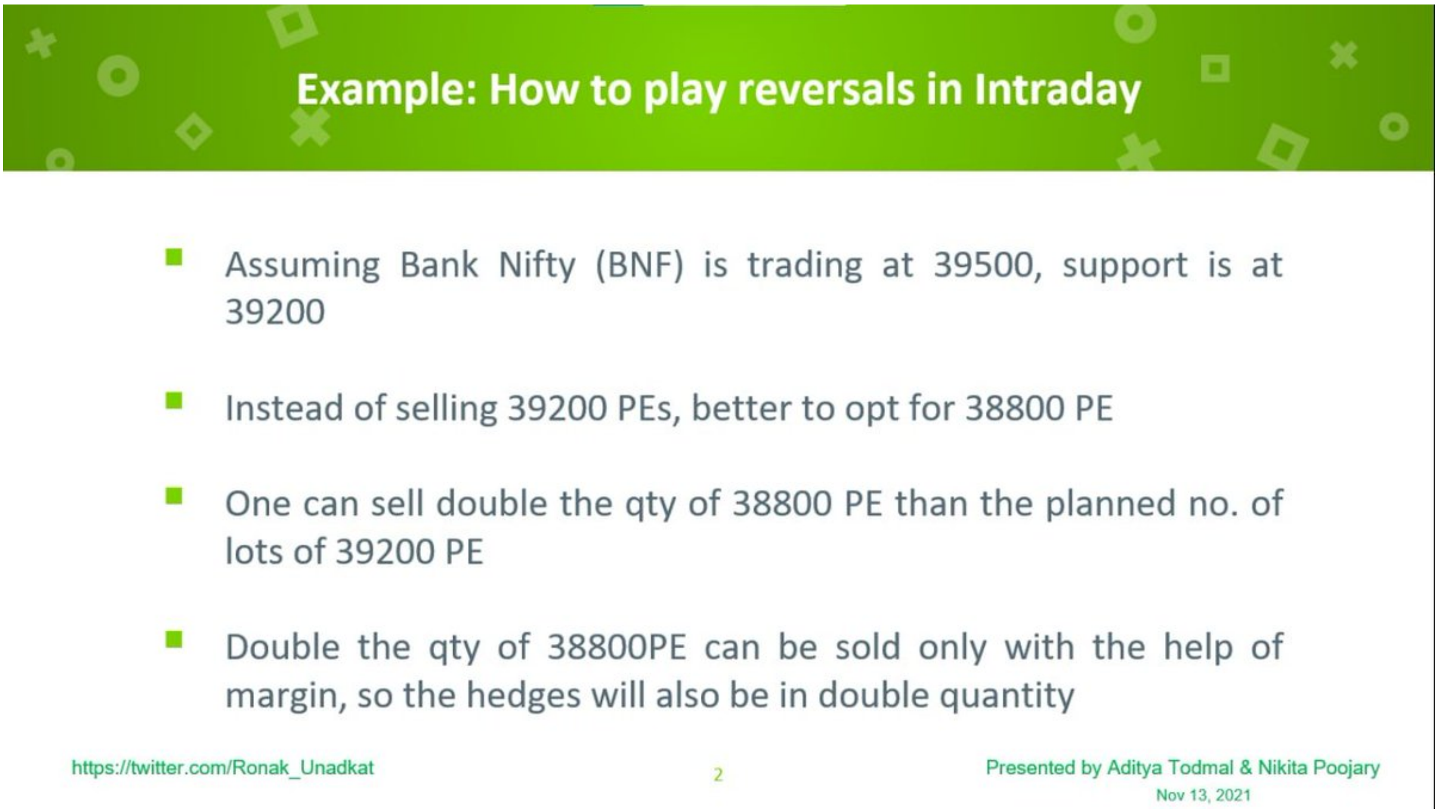
In collaboration with @AdityaTodmal

How to play reversals

- Always look at the chart as a starting point
- Spot the Swing low
- Sell Strikes 300-400 points below that swing low
- Buy a proper hedge



• Example on how to play reversals on Intraday
• Instead of the selling the support strike sell a bit far



• As the strike is far from the support you get enough cushion

• As soon as the SL is hit, you can exit the positions

• without your strike coming into ITM

Example: How to play reversals in Intraday contd.

- Stop loss will be the same i.e. once 39200 level is taken out
- The benefit here is since you are bit away from the Support/ Resistance you have additional cushion
- If you sell the support strike or just 1 strike down the support i.e. 39200 or 39100, your SL would still be 39200
- And in case the market reverses (turns against your position) & you wait for your SL levels, then your put will be ITM, and usually people freeze when the sold OTM options come into ITM

• Greatest fear of any option seller is the Black Swan event

• Especially if that risk plays out overnight

The fear of Black Swan event

- “Option sellers eat like chicken and shit like an elephant”
- The greatest fear of any Option seller is that of an Black swan event
- Such events can turn out to be catastrophic and could even wipe out the capital and put a dent on both trading account & confidence
- Usually events like war, tensions emerging from Indo China border or Indo Pak border or coupe situations, natural calamities etc can lead to big gap down, worst case scenario is even a lower circuit

• Importance of hedge over buying a margin

• Hedge is to protect your capital from any overnight adverse news/event - Black Swan

Importance of hedging

- Black swan events can neither be predicted nor avoided, but one can properly plan to mitigate the effects
- This is where the importance of hedging in real sense comes into picture
- Focus is on hedging instead of getting a mere margin without any protection on the downside
- One can always do some adjustments etc while any news comes during market hours
- The challenge is the overnight risk which is present in positional trades

• How selling Rs. 45 option and buying a Rs. 15 option is a superior strategy

• than selling Rs. 30 option and buying a 5 Rs. Option or

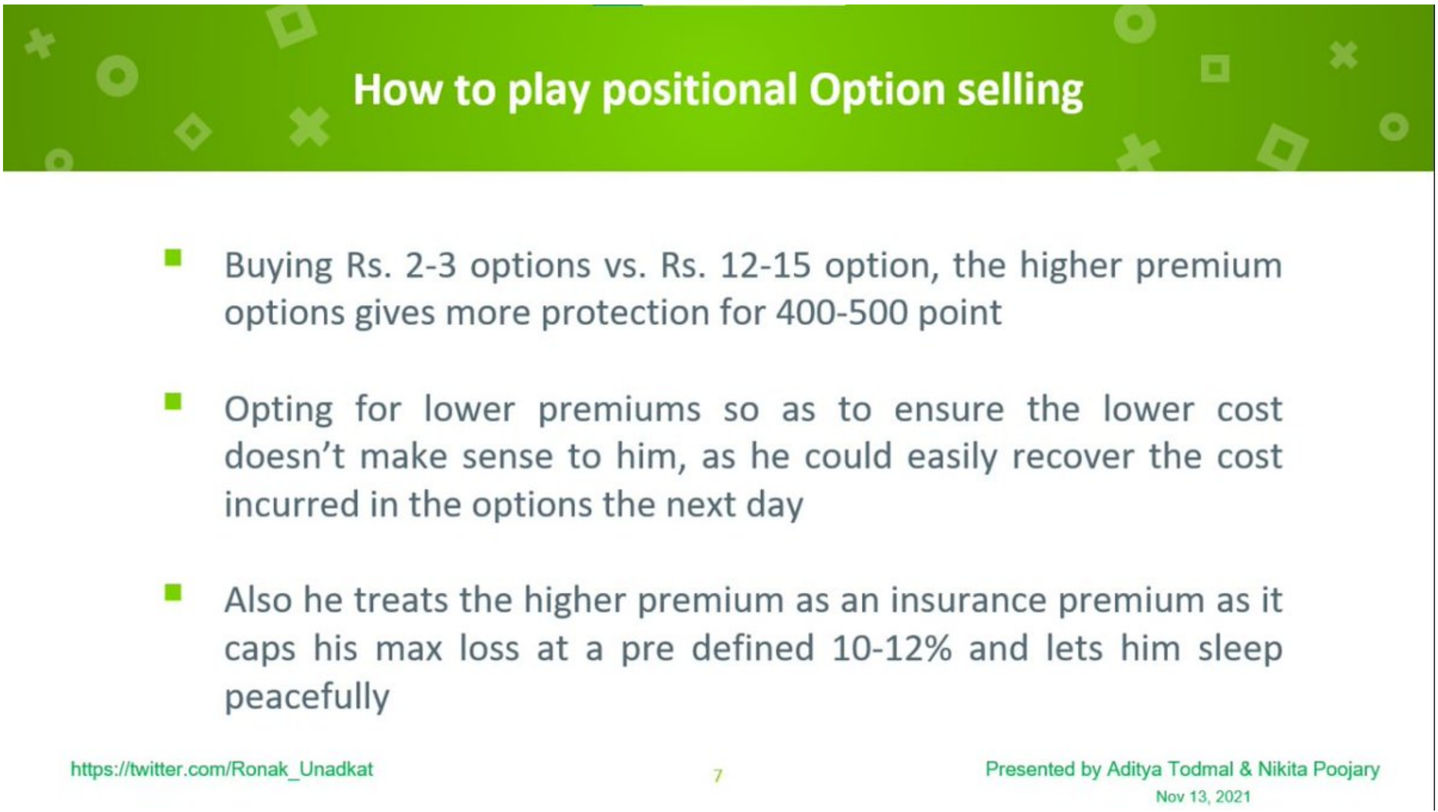
• just selling a naked Rs. 30 option

How to play Positional option selling while defining your risk

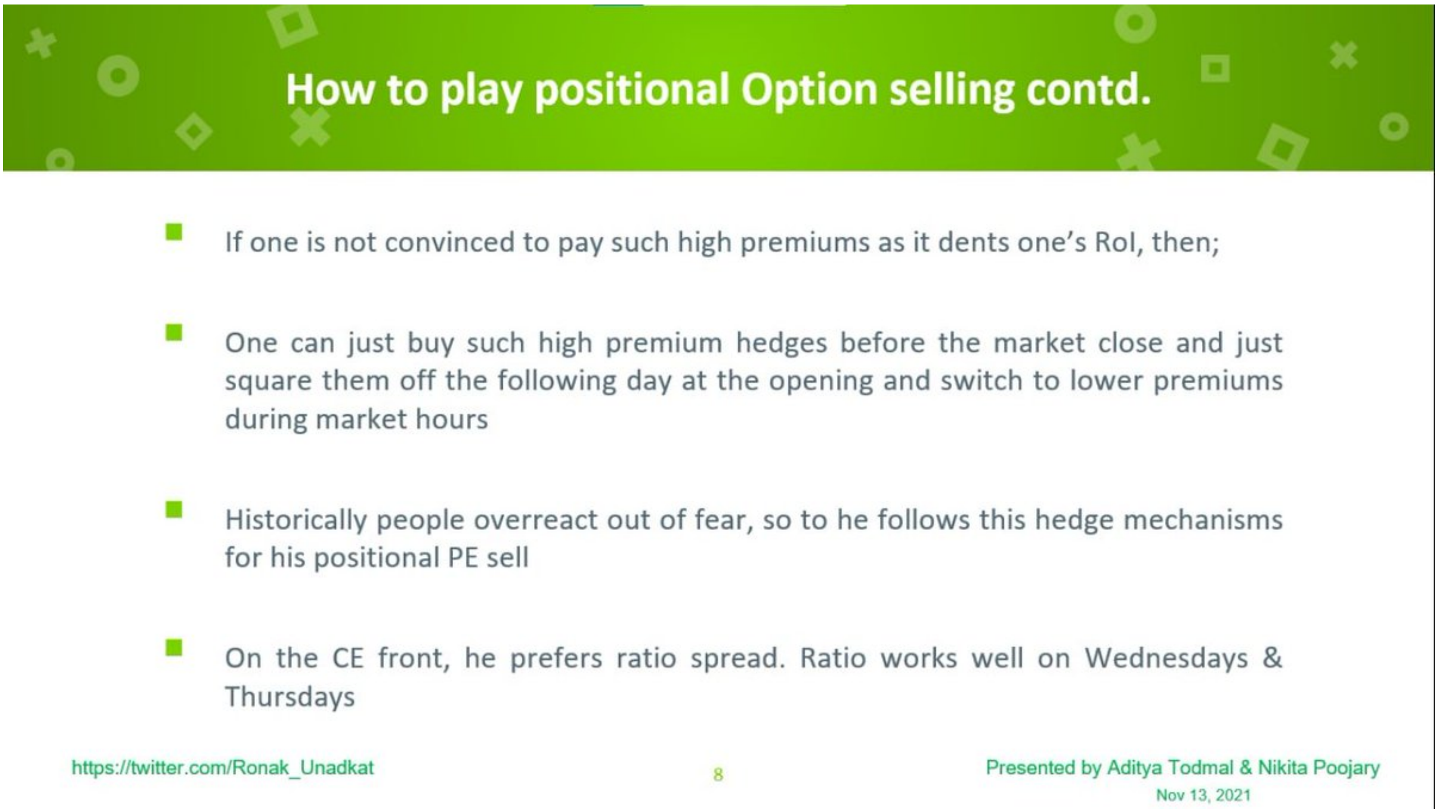
- On Wednesdays, prefer to sell usually Rs. 45 options and buy a hedge of Rs 15. Usually the difference in such strike prices is just 500 points away
- Compare this with another option seller who just sells Rs. 30 options on Wednesday as positional
- The benefit of the former strategy over the latter is that an option seller not only pockets in Rs. 30 but also caps his/her risk to a max of 10-12% of his/her capital

• Hedging is an insurance premium paid to get a good nights sleep ■

• And also to protect your capital from any extreme events ■



• If hedging is too expensive for you, then here’s a hack



• Ratio spread strategy when moderately bullish & expecting a gap up

Ratio Spread for scenario 1: Slight gap up

- When he is mildly bullish, and expecting a slight gap up the following day he would do a ratio spread
- Since he is mildly bullish he would buy 1 ATM CE & sell 2 OTM CEs
- Eg: Buy 1 lot of ATM CE usually ranging at Rs. 300 & sell 2 lots of OTM CEs in the range of Rs. 120, thereby going for a net debit of Rs. 60

• Ratio spread strategy when strongly bullish & expecting a huge gap up

Ratio Spread for scenario 2: Huge Gap Up

- When he is strongly bullish, and expects a huge gap up the following day he would do a ratio spread of 1:1
- Since he is strongly bullish, he would buy 1 ATM CE & sell 1 OTM CE
- Eg: Buy 1 lot of ATM CE usually ranging at Rs. 300 & sell 1 lot of OTM CE in the range of Rs. 120, thereby going for a net debit of Rs. 180

• Ratio spread strategy when neutral to slightly negative & expecting a flat to slight -ve opening

Ratio Spread for scenario 3: Flat to slight gap down

- When he is neutral about the market to mildly negative, and expects a flat to slight negative opening the following day he would do a ratio spread of 1:3
- Since he is neutral to mildly negative, he would buy 1 ATM CE & sell 3 OTM CE
- Eg: Buy 1 lot of ATM CE usually ranging at Rs. 300 & sell 3 lots of OTM CE in the range of Rs. 120, thereby going for a net credit of Rs. 60
- *Vice Versa for PE side in all three scenarios*

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• Always important to book the buy legs first as theta works against in option buying

How to manage the positions the following day when in profit Scenario 1: Gap up

- The following day, if there is a gap up and the buy leg is in profit
- He will book the buy leg as it would be ITM by then and buy a far OTM as time decay can come in the sell and in the worst case he can even convert it to a straddle and manage them
- He acknowledges that in option buying one needs to act fast to lock the profits

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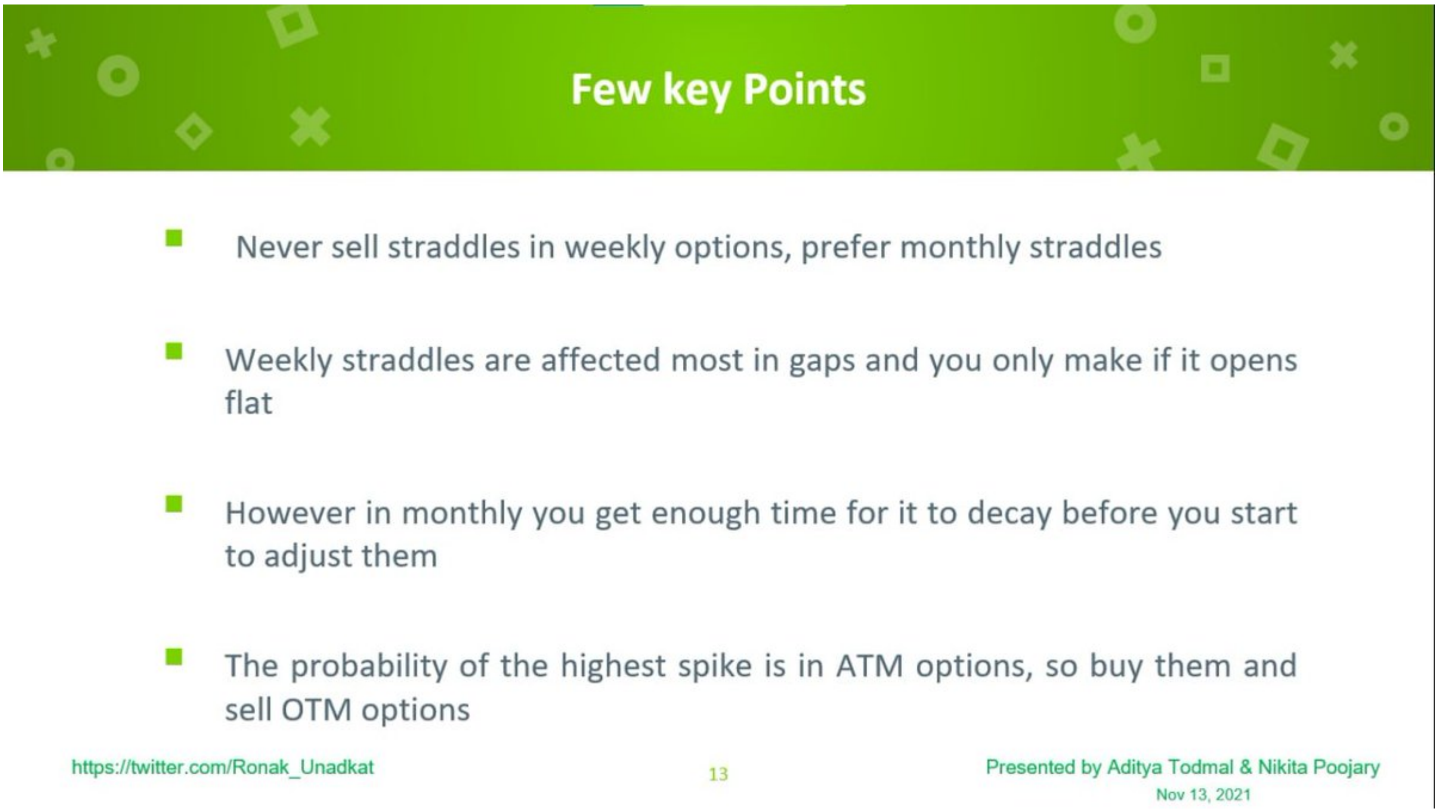
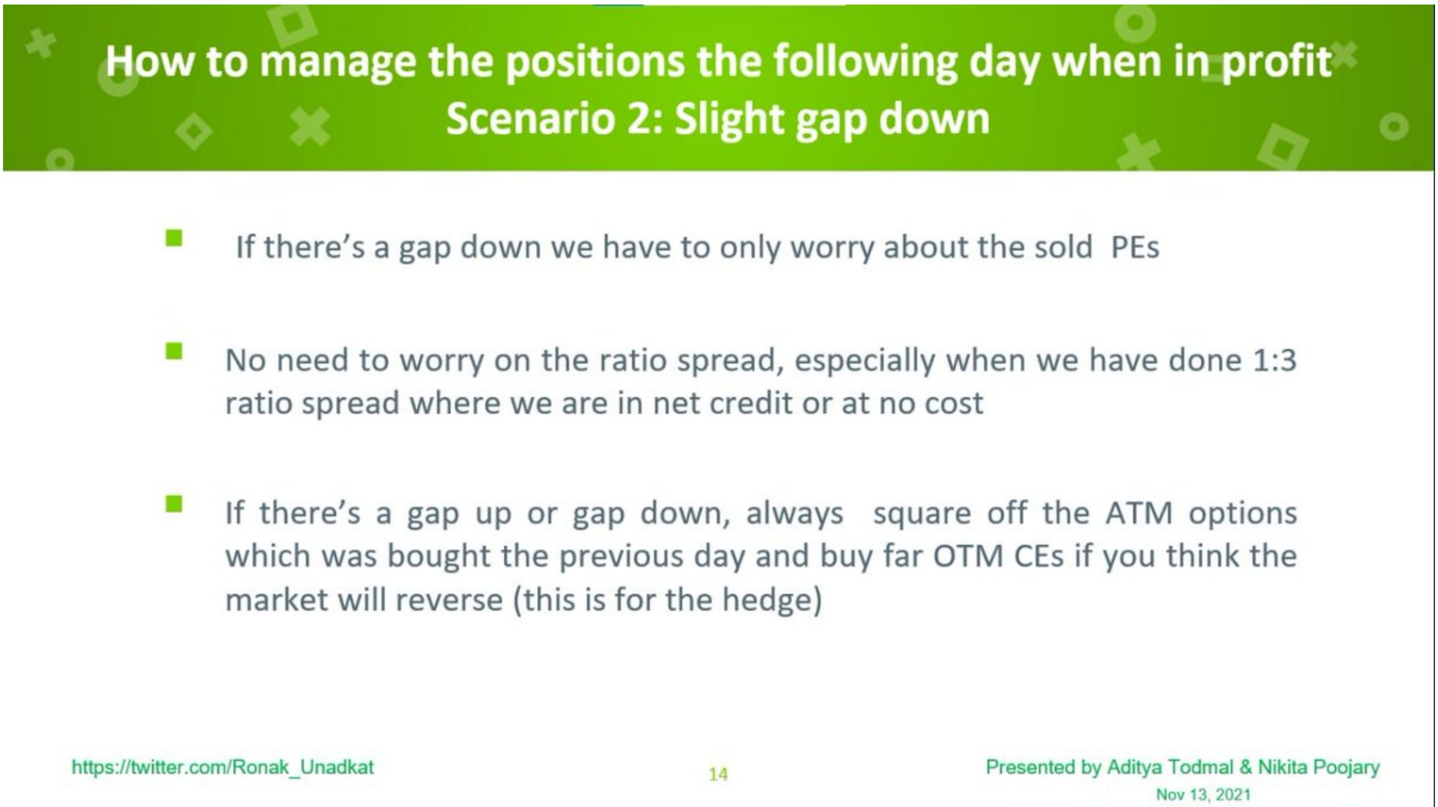
• Prefer to sell straddles in monthly over weekly as you have a huge range plus theta decay will work in your favour

• In weekly you will be caught adjusting due to gap up and gap down scenarios



• In case of gap down no need to worry on the spreads as they are in net credit or most likely at 0 cost



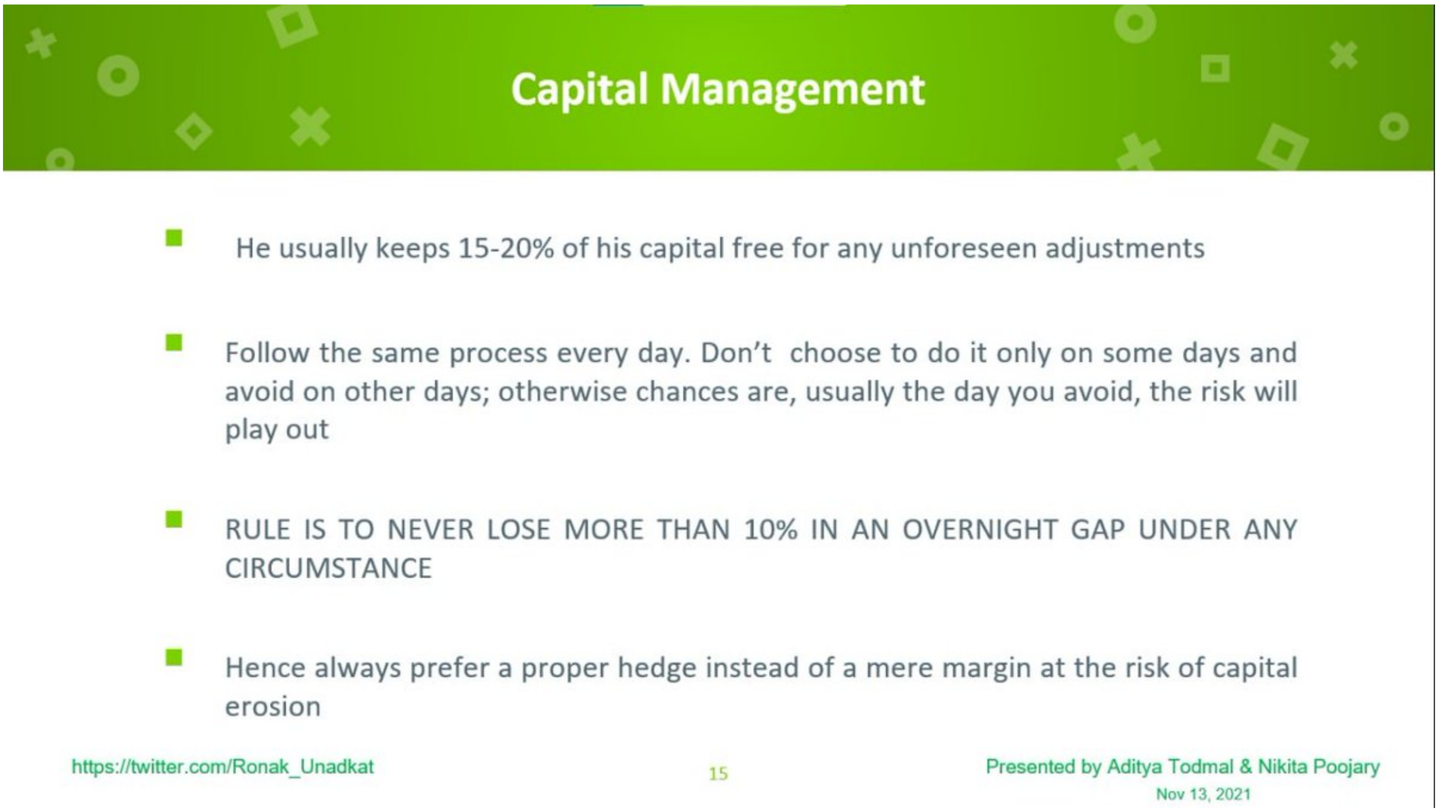
• Capital management is the key

• Keeping a buffer of 15-20% for any adjustments

• Always be aware of the total risk of your open positions

• Prefer a good nights sleep ■ over watching SGX Nifty & Dow in the night ■■■

• Never jeopardize your capital & mental peace■



This was a ■on @Ronak_Unadkat Sir's option selling strategies curated & presented by

@AdityaTodmal

&

@niki_poojary

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Happy learning ■ to everyone!