Twitter Thread by Subhadip Nandy

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My experiences in trading through various international locha events, high VIX and various events.
A thread

I follow the news, but never think of myself smart enough to predict what is finally going to happen. I am not a geopolitical expert, smarter brains than me are analyzing and acting on the news

Their actions are reflected on price, volume, OI. Following the data keeps me at par with the latest news

Be ready to cut your existing positions ruthlessly when data changes, be ready to absorb the loss and get out of the position.
Never hold onto with hope.
Never works

Reduce trading volumes. Higher the volatility, lower the trade size.
Use lower volumes and bigger stops to counter the volatility

A high VIX means a bigger expected daily range. A quick recap on VIX :
VIX is an annualised number. A 23.5 VIX means the market is expecting a 23.5% move on the Nifty from here in the next one year with 68% confidence

To make a daily calc, simply take the sqroot of the number of trading days in a year and divide the current VIX by this number

The number of trading days in a year is 252, sqroot of that is 15.87
(16 rounded, what we call rule of 16)

21/16 = 1.3

1.3% of current Nifty is tomorrow's implied move = 225 points

At say 14 VIX, 14/16 = 0.87 , implied move = 147

Remember, VIX updates in realtime so this implied move expectation also changes in real time

So, in high VIX, the intraday moves are large. One may not need to keep overnight positions and just trade intraday for large rewards, the moves are expected to be there

OI changes fast in realtime, both on futures and on the option chain. One will need to continuously reassess and make trading decisions as per current data. Doing so regularly during the trading session is a good practice

Option sellers operate on the assumption of mean reversion, that a high vol will be followed by low vol
But at high vol, another factor of volatility comes into play, PERSISTENCY
PERSISETNCY simply means if vol is high today, it will be high tomorrow also

Attempt mean reversion in vol (aka options selling) only after you are sure that the cycle has changed. Why is vol important? because as IV goes up, theta decay slows down

Lastly, this kind of fast newsflow markets with high VIX are rare. If uncomfortable, sit out and protect capital

But these kind of markets also provide a phd level education in handling high volatility and risk mgmt. Do trade with smaller volumes, even 1 lot.
"Smooth seas never made skillful sailors" - African Proverb

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Seems people did not know about Rule of 16, it's a well known fact. Read this :

https://t.co/bDjwnNt8D5