Twitter Thread by Aditya Trivedi



Aditya Trivedi
@itsAdityaT

How do I handle big overnight gaps?

As I mostly take neutral positions overnight, I've been asked this a lot. So here you go.

1 : Take the right position sizing:

If you have the correct position size then there's nothing to fear from big gaps.

I like to take positions in such a way that I don't lose more than 2-3: incase of a big gap. This provides mental piece.

2: Have a calm mind:

This is of prime importance and somethin where most of the guys have trouble. Constantly panicking is going to do no good. What's going to happen will happen.

Having a calm mind allows you to think and act more clearly.

3: The 3 way rule:
If the markets open a a big gap there are not just going to stay there. Three things can happen.

a) It can go up : In this case you can use the move to recover our money.

b)It can go down : Just like the previous point you can take good advantage of it.

c) It stays there: After a big gap, obviously the IVs will explode. If the market stays then, premiums will be high and it will provide excellent opportunity to play neutral and recover your losses or atleast some part of it.

4: 15 min rule:

After a big gap, always wait for 15 mins. Usually, It can reverse and spike in premiums doesn't sustain.

It's better to sit it out initially and let things calm down.

5: Booking a loss:

Even if after 15 mins, your losing leg doesn't cool down and it starts to spike up, it's better to book a loss and take other positions as per the market structure.

6: Hedge :

If you altogether want to avoid big gaps, then tightly hedge your positions and keep your position size in control. Taking overnight positions may not suit everyone.

7: Don't watch SGX Nifty :

Watching sgx nifty once or twice is okay but it's of no use constantly watching it, hoping for it to reverse.

Better to enjoy your time and live in the present. You can only exit your trades once the market opens, not before that.

8: Accepting the risk :

If you want to take overnight positions, accepting the risk makes it easier to handle. Before taking the positions, accept the worst case scenario on the payoff chart (i.e max loss).

Accept the worst will result in a calmer mind and better trading.

9: Never average :

Many guys will have the urge to average down on their losing legs after a gap open. This is something which I strictly avoid.

There is always a possibility of the losing leg spiking up higher and higher. Average a losing trade can result in blowing up.

That's it and I'll come up with more of my own trading experiences and learnings.

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