

Twitter Thread by Swapnil Kommawar



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NEUTRAL STRATEGIES

If market is sideways, These strategies can be deployed

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A Thread ■■■■

If our view is sideways or market is moving sideways, it is not good for option buyer. In that case we use this OPTION SELLING STRATEGIES to benefit from the sideways market

SHORT STRADDLE

In this strategy we sell ATM CALL OPTION and PUT OPTION with the same underlying INSTRUMENT, same STRIKE PRICE and same EXPIRY DATE

We receive premium, we benefit from the premium decay. Theta is our friend in this strategy.

The combined premium we receive, added to strike price becomes our upside break even

When the same premium is subtracted from the strike price becomes our downside break even

As long the underlying trades in this range, we benefit from the THETA DECAY and becomes our profit.

The huge risk is overnight carrying of the position. We never know when the market open LC because of BLACK SWAN events.

pay off chart for your reference

SHORT STRANGLE

In this strategy we sell OTM CALL OPTION and PUT OPTION with the same underlying instrument and the same EXPIRY

DATE

we receive a premium from selling two options, we get the benefit premium decay. Same theta is our friend in this strategy too.

The combined premium we receive, added to the CALL OPTION STRIKE becomes our UPSIDE BREAK EVEN

When the same premium we received, subtracted from the PUT OPTION premium becomes our DOWNSIDE BREAKEVEN

As long as the underlying trades in this range, we benefit from the THETA DECAY and it becomes our profit.

This strategy carries the same risk as short straddle, overnight risk of gap down or gap up.

Pay off chart for your reference

If we compare the overall pay-off charts of two strategies we will know which strategy has better R:R

For more strategies and market related updates

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