

Twitter Thread by Aditya Trivedi



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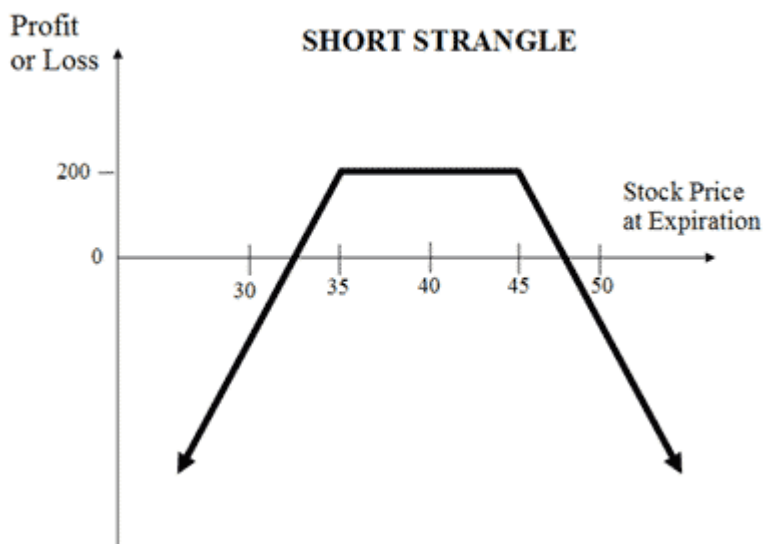


HOW TO ADJUST A SHORT STRANGLE?

Gone are those days where a short strangle used to expire worthless without any adjustments.

Adjustments are a must when your initial view goes wrong which it will.

Listing down all the ways to adjust a short strangle **WITH EXAMPLES** below.



1: Rolling up/down:

If you've sold a short strangle and one side premium spikes, you can book the profitable side and roll it up to match the premium of the other side.

eg: If you've sold a 60rs call and a 60rs put. If the 60rs call goes to 100. Then book profits in put and sell a 100 pt put.

This is the most basic way of adjustment.

2: Rolling the losing side:

It's very similar to the above adjustment however, we will consider shifting the losing side instead of profitable side.

eg: If you've sold 50pt call and 50pt put. If the 50pt put spikes up and goes to 120. Sometimes, I wouldn't want to sell a 120 pt call.

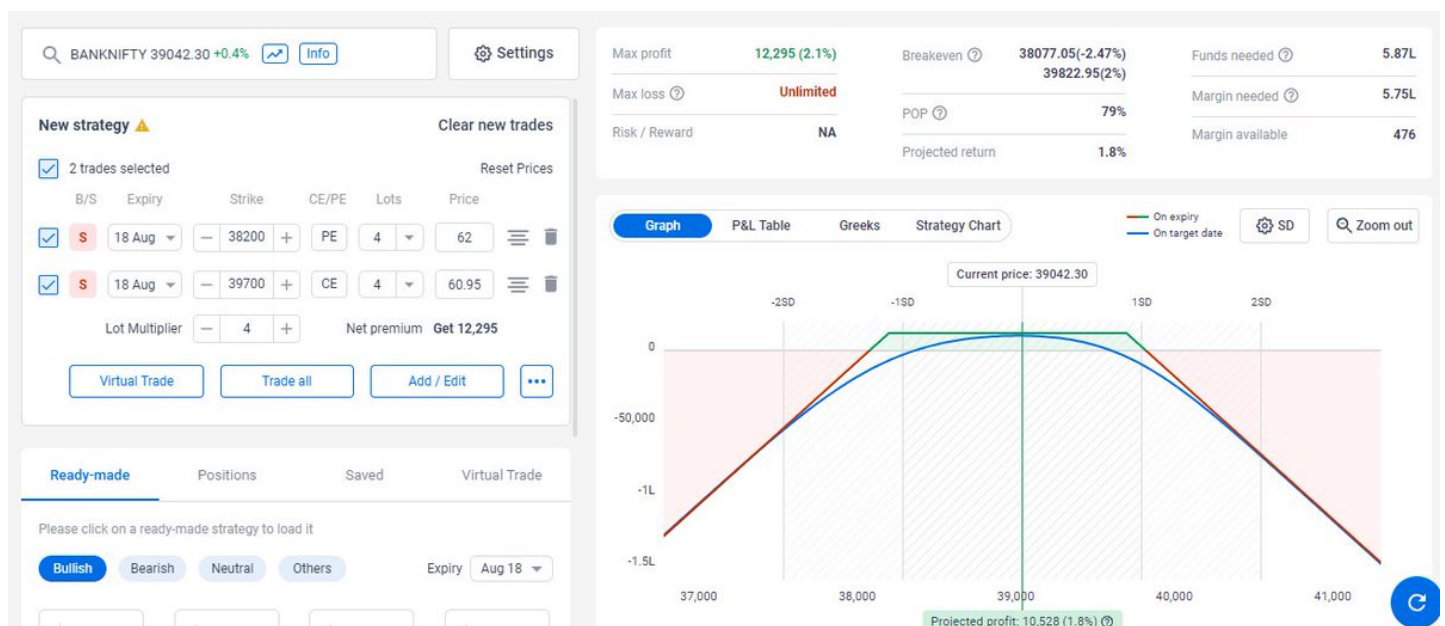
Hence, I simply book loss in the put and sell a new put worth 50pts which is farther away from the previous put.

3: Converting strangle into ratio spread.

It's a great way to adjust a strangle because you're buying an inside hedge which greatly increases the safety incase of a sharp move/gap.

Eg: I created a short strangle selling 60pt call and puts 4 lots.

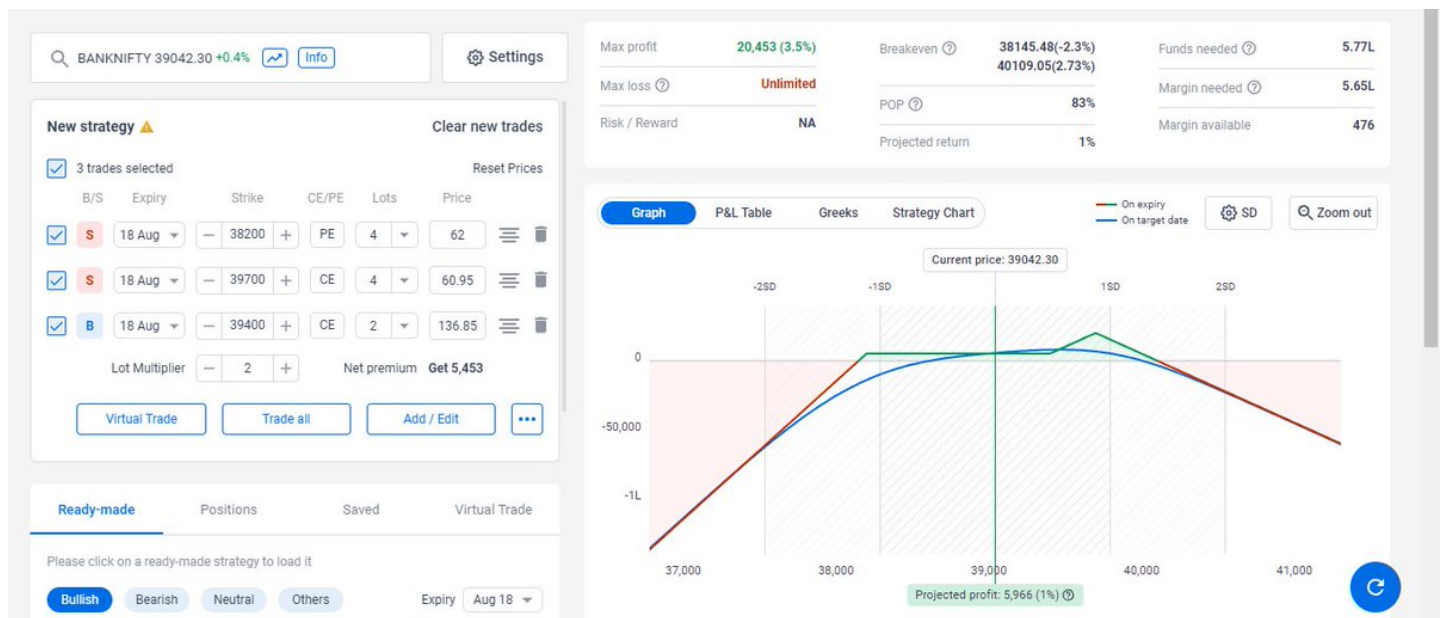
Let's say call premiums spike up/ or I want extra protection on the call side.



I will simply buy a 300pt inside hedge half quantity. i.e 39400ce 2 lots.

This greatly increase the range and reduces losses in the shorter term.

You can play around with strikes and quantities as per the payoff chart.



3: Pyramiding

Pyramiding involves going in with a small quantity at first and then creating new strangles slowly.

eg: You sell a 50pt short strangle with just half your size.

If any single side spikes, you create a new strangle with the remaining half of your capital. So now you have a new range.

This ensures you don't go all at once and also saves you from big IV spikes.

4: Shifting the short strangles.

You can easily shift short strangles as the market moves. This ensures you always stay with a market.

For eg: Banknifty is at 35000 and you sold 36000ce and 34000pe.

If banknifty goes to 35500. You will book your previous short strangle and initiate a new short strangle(36500ce and 34500pe).

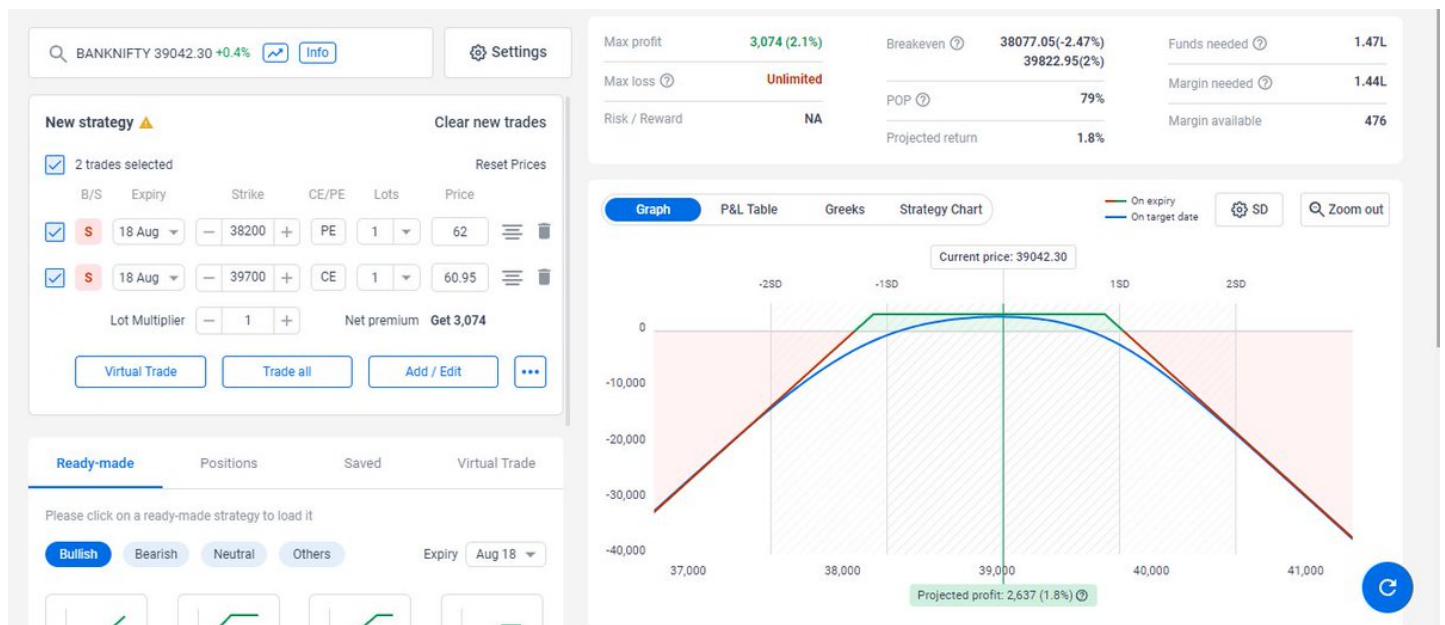
You can play around with the distance and strikes. This is just an example.

5: Making one side risk free:

This will include buying an otm option and selling other side(untested side) options in higher qty to make the tested side risk free.

This is a high risk strategy and has to be only done when you are very sure of the move else it can backfire.

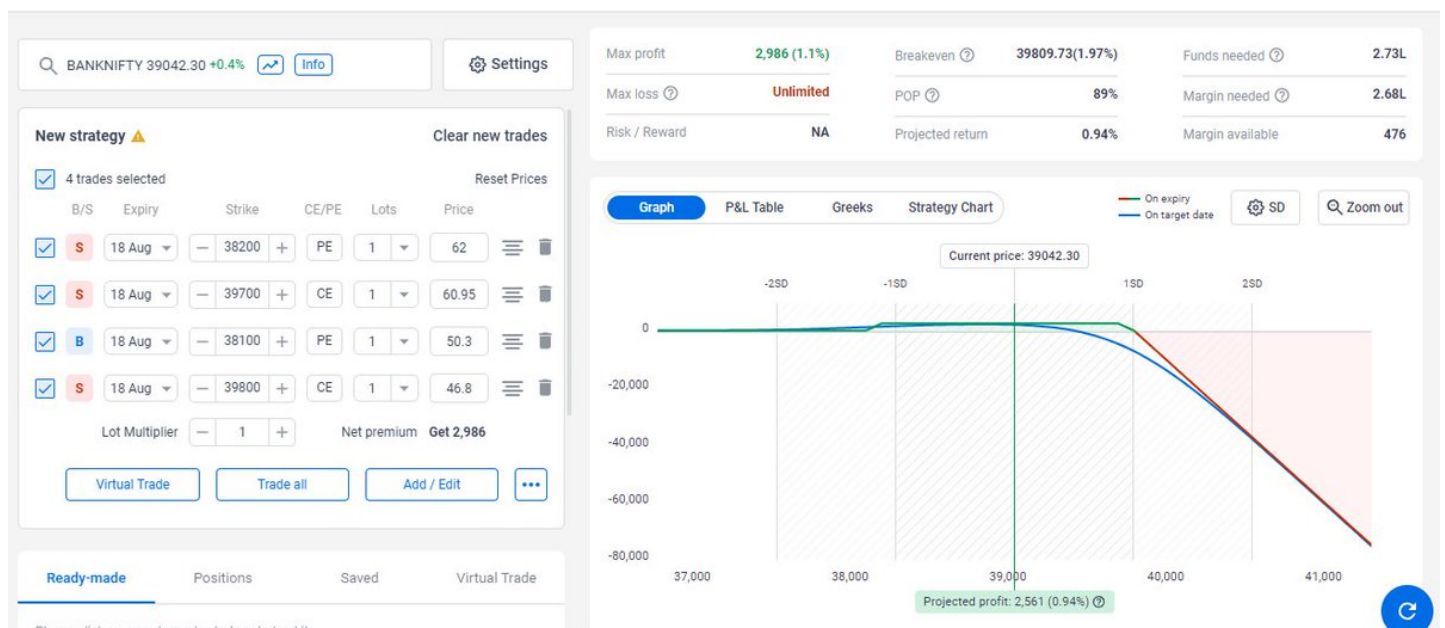
eg: You create a 60 pt short strangle. I.e Selling 38200pe and 39700ce.



If you want to secure the put side. You will simply buy 38100pe which is 100 pts away from 38200pe sold strike.

And on the opposite side sell 1 more lot call until it covers up the loss on the losing side. In this case I sold 39800ce at 46pt.

So you get a very wide range.



Ofcourse you can play around with quantities and strikes as per your trade and the payoff chart.

That's it for this thread and I hope you learnt something. Do subscribe to my youtube channel: <https://t.co/lhJDzB00ip>

and my instagram : <https://t.co/gUnim2hU3u>

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