

Twitter Thread by Aditya Todmal



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MEGA THREAD ON SHORT STRANGLES ■

This thread is a step-by-step guide on what I have learned trading Short Strangles.

Collaborated with [@niki_poojary](#)

Here's what you'll learn in this thread:

1. What is a Strangle
2. Benefits and Drawbacks
3. How to extract more profit through strangles?
4. How to adjust them when in loss?
5. Videos on Positional Strangles
6. Vix Correlation

Let's dive in ↓

1/ What is a Strangle?

Selling OTM CE & OTM PE of the same instrument you are trading.

Look at the picture below for an example of a short strangle in current weekly options.



2/ Why do traders like short strangles?

The highest probability of profit is there in a strangle.

By mastering this technique you can earn a consistent weekly income.

Most of the times we can predict the weekly range.

So sell options outside this range to profit consistently.

3/ Benefits of Short Strangles

Higher probability - More than 80% winning chance

Can turn directional too - If your SL hits on one side can sell on the opposite side and make it directional.

The biggest range of profit you'll get in options of any expiry.

Low SL - Can get out with a small stop loss if you trade based on premiums

Adjustments - Can increase your breakevens by shifting your strangle or by using futures

Jackpot - If you sell high premium options on both sides and it expires in your range, then you make big money

4/ Drawbacks of Strangles -

Gaps - If a big gap happens you are in for a big loss

Spikes - If you sell and if IV spikes, you'll be in loss

Don't know max loss - Unlike hedged strategies, you don't know your maximum losses upfront

Margins - Higher than flies or condors

5/ When to do a Strangle based on Price action?

If the market is trading in a range technically, it is the perfect time to do short strangles.

Also when you think the IV is very high.

Have a look at an example when the market is in a range.



6/ Falling Vix

Short strangles have given the highest returns when VIX is declining.

So whenever the vix is in an increasing mode, please avoid this strategy.

7/ How to extract more profit from strangles?

Lower SL - Don't have to react until your SL hits, can keep lowering the SL to lower your risk.

- Positional traders don't need to react till their level breaks.
- Until the market is stuck in a range nothing has to be done.

Lesser the reactions the more likely you will come out with more profit eventually.

Even a small stop gives you the chance to earn higher.

If you're in good profit, can shift both your options closer to the spot to extract more profit from them.

Explained in an example below:

Example:

For eg, 40 rs premium is needed in Bank Nifty to extract 1% profit on margin.

You can start with 40-40 rs strangles on both sides.

When these decay you can extract a further 30 points from each side.

So instead of earning 40, you at times earn 70 from both sides.

8/ How to adjust when in loss?

All adjustments depend upon your risk appetite and the view you take of the market.

The same adjustment method won't work every week as all weeks are different.

However, you must know all the ways so you can choose the right one accordingly.

9/ Roll the Untested option

Eg: If the market is going down, you may roll down your calls and roughly sell the same premium the loss giving put is trading at.

If the market reverses, the IV's will fall and the calls may not give you as big a damage as much as the put will fall.

10/ Roll the side in danger

You don't always want to deal with the hassle of converting your otm strangles to near OTM or ATM options.

If you feel your strike is in danger then book loss in the losing side and sell an option further away at a safe strike.

11/ Position Sizing:

Extremely important for high POP strategies.

Whenever you start trading short strangles there are going to be times where the vix will rise or the directional movement will cause you a loss.

So first rule is to keep position sizing very low to begin with.

Whenever there is one delta move in the expiry you're trading in you can adjust the initial strangle you've sold.

Once you've done that you may deploy some more quantity & again sell a High probability strangle.

This way the second batch of quantities you've sold are very safe.

12/ Convert Strangle to Straddle

You can keep booking the untested side of your strangle and bring it closer

Eventually by rolling too much, you will end up with a Short Straddle.

Then you must adjust the straddle in different ways

Click below to know

<https://t.co/1PSR246GUE>

The highest THETA strategy you aren't using:

The SHORT STRADDLE STRATEGY.

Knowing how to use it can potentially give you the highest profits if the market stays in a range.

Here's the step-by-step guide: \U0001f9f5

Collaborated with [@niki_poojary](https://twitter.com/kiha1d7asm) [pic.twitter.com/kiha1d7asm](https://twitter.com/kiha1d7asm)

— Aditya Todmal (@AdityaTodmal) [July 10, 2022](#)

13/ Strangles with different ratios

Traders usually add to the winning leg and sometimes play with ratios when it comes to their view.

For eg, if you have sold a strangle with a neutral view and your view is turning bullish.

They sell more OTM puts and vice versa for bearish.

14/ Tastytrade is perhaps the best channel to learn Strategies and their adjustments from.

Here is a video of them explaining Short Strangles.

<https://t.co/zM1Lv3y1Cd>

15/ Subhasish Pani from Power of Stocks is pretty good at identifying a range and the correct time to sell strangles.

Check out his excellent video to learn from him.

His method of dealing with Positional Strangles.

<https://t.co/BrcLw01eKe>

11/ Caution: Extremely Risky

Strangles are not all rosy, they can lead to significant losses if some overnight news comes or if it's not managed properly.

Develop some risk management rules & get out at a 0.5% or 1% loss to stay longer in the game.

Get better with practice.

Hope you discovered something new (because that's the point!)

If you did, share the thread

Hop back up to retweet the first tweet

See past threads here: [@AdityaTodmal](#) & [@niki_poojary](#)

If you enjoyed this, here's another one:

<https://t.co/l7vakmDdLB>

There are so many tools related to trading.

But very few provide any real value.

Here are 7 of the most valuable FREE Tools you're not using (but should be): \U0001f9f5

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— Aditya Todmal (@AdityaTodmal) [July 9, 2022](#)