

Twitter Thread by Nitish Narang



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Have you tried using Hedges for Margin Benefits?

Let's see how margin behaves with Hedges ■

RT if it helps.

Simple Short Straddle Without Hedge:

Strategy: Short ATM CE, Short ATM PE

Margin: 1.71L

POP: 57%

Backtest this strategy: <https://t.co/kC0hucRQEv>

Positions (02 Sep, 09:16)

Greeks

Payoff Chart

P&L: ₹0

Max Profit: ₹22,337 (13.1%)

Max Loss: Undefined

Breakevens: 38606(-2.3%) - 40393(2.2%)

Estimated Margin: ₹1.71L

Net Credit: ₹22,347.5

Prob of Profit (POP): 57.60%

Payoff: < Thu, Sep 08 >

Lots	Time	Strike	P&L	Exit <input type="checkbox"/> Entry <input type="checkbox"/>	
<input checked="" type="checkbox"/> S <input type="text" value="1"/>	02 Sep, 09:16	39500CE (08SEP)	<div>0</div> <div>(460.9 - 460.9 = 0.00) 0%</div>	<input type="text" value="460.9"/> <input checked="" type="checkbox"/>	
<input checked="" type="checkbox"/> S <input type="text" value="1"/>	02 Sep, 09:16	39500PE (08SEP)	<div>0</div> <div>(433 - 433 = 0.00) 0%</div>	<input type="text" value="433"/> <input checked="" type="checkbox"/>	
			₹0	Exit All <input checked="" type="checkbox"/>	

Let's start with Tight Hedge 200 points away

Strategy: Short ATM CE, Short ATM PE and Long ATM + 200 CE, Long ATM - 200 PE

Margin: 65K

Backtest this strategy: <https://t.co/mbs0hivyl8>

Positions (02 Sep, 09:16)				Greeks	Payoff Chart
P&L: ₹0		Max Profit: ₹4,566 (7.1%)		Max Loss: ₹-423 (-0.7%)	Breakevens: 39316(-0.5%) - 39683(0.4%)
Estimated Margin: ₹64,099		Net Credit: ₹4,577.5		Prob of Profit (POP): 12.90%	
				Payoff: < Thu, Sep 08 >	
Lots		Time	Strike	P&L	Exit <input type="checkbox"/> Entry <input type="checkbox"/>
<input checked="" type="checkbox"/>	S 1	02 Sep, 09:16	39500CE (08SEP)	0 (460.9 - 460.9 = 0.00) 0%	460.9 <input type="checkbox"/>
<input checked="" type="checkbox"/>	S 1	02 Sep, 09:16	39500PE (08SEP)	0 (433 - 433 = 0.00) 0%	433 <input type="checkbox"/>
<input checked="" type="checkbox"/>	B 1	02 Sep, 09:16	39300PE (08SEP)	0 (347.3 - 347.3 = 0.00) 0%	347.3 <input type="checkbox"/>
<input checked="" type="checkbox"/>	B 1	02 Sep, 09:16	39700CE (08SEP)	0 (363.5 - 363.5 = 0.00) 0%	363.5 <input type="checkbox"/>
				₹0	Exit All <input type="checkbox"/>

Let's go little far away 500 points away

Strategy: Short ATM CE, Short ATM PE and Long ATM + 500 CE, Long ATM - 500 PE

Margin: 66K

Backtest this strategy: <https://t.co/HwgYLMl6wN>

Positions (02 Sep, 09:16)			Greeks	Payoff Chart	
P&L: ₹0			Max Profit: ₹10,367 (15.7%)	Max Loss: ₹-2,124 (-3.2%)	Breakevens: 39084(-1.1%) - 39915(1.0%)
Estimated Margin: ₹65,848			Net Credit: ₹10,377.5	Prob of Profit (POP): 28.80%	Payoff: < Thu, Sep 08 >
Lots	Time	Strike	P&L	Exit <input type="checkbox"/> Entry <input type="checkbox"/>	
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500CE (08SEP)	0 (460.9 - 460.9 = 0.00) 0%	460.9 <input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500PE (08SEP)	0 (433 - 433 = 0.00) 0%	433 <input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	39000PE (08SEP)	0 (240.8 - 240.8 = 0.00) 0%	240.8 <input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	40000CE (08SEP)	0 (238 - 238 = 0.00) 0%	238 <input type="checkbox"/>	<input type="checkbox"/>
			₹0	Exit All <input type="checkbox"/>	<input type="checkbox"/>

Margins at 1000 points away Hedge

Strategy: Short ATM CE, Short ATM PE and Long ATM + 1000 CE, Long ATM - 1000 PE

Margin: 72K

Backtest this strategy:

<https://t.co/ltDAeNgj2i>

Positions (02 Sep, 09:16)			Greeks	Payoff Chart	
P&L: ₹0			Max Profit: ₹16,589 (23.2%)	Max Loss: ₹-8,399 (-11.7%)	Breakevens: 38836(-1.7%) - 40164(1.7%)
Estimated Margin: ₹71,554			Net Credit: ₹16,600	Prob of Profit (POP): 44.70%	Payoff: < Thu, Sep 08 >
Lots	Time	Strike	P&L	Exit <input type="checkbox"/> Entry <input type="checkbox"/>	
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500CE (08SEP)	0 (460.9 - 460.9 = 0.00) 0%	460.9 <input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500PE (08SEP)	0 (433 - 433 = 0.00) 0%	433 <input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	38500PE (08SEP)	0 (124 - 124 = 0.00) 0%	124 <input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	40500CE (08SEP)	0 (105.9 - 105.9 = 0.00) 0%	105.9 <input type="checkbox"/>	<input type="checkbox"/>
			₹0	Exit All <input type="checkbox"/>	<input type="checkbox"/>

Now you can clearly see above that on Fridays hedges at even 1000 points away are keeping us under 75K margins but Hedge Premiums are above 100 Rs.

Let's try some smaller premium hedges and see how margin behaves. ■■

Hedge of Closest to 75Rs Premium

Strategy: Short ATM CE, Short ATM PE and Long ■ ~75 CE, Long ATM ■ ~75 PE

Margin: 78K

POP is now closed to 50%

Backtest this strategy:
<https://t.co/i4Awsu7QjV>

Positions (02 Sep, 09:16)				Greeks	Payoff Chart	
P&L: ₹0				Max Profit: ₹18,704 (24.0%)	Max Loss: ₹-16,283 (-20.9%)	Breakevens: 38751(-1.9%) - 40248(1.9%)
Estimated Margin: ₹77,893				Net Credit: ₹18,715	Prob of Profit (POP): 49.60%	Payoff: < Thu, Sep 08 >
Lots	Time	Strike	P&L	SL / TP ⓘ	Exit <input type="checkbox"/> Entry <input type="checkbox"/>	
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500PE (08SEP)	0 (433 - 433 = 0.00) 0%	25% / -	433 <input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500CE (08SEP)	0 (460.9 - 460.9 = 0.00) 0%	25% / -	460.9 <input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	38100PE (08SEP)	0 (71.8 - 71.8 = 0.00) 0%	- / -	71.8 <input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	40700CE (08SEP)	0 (73.5 - 73.5 = 0.00) 0%	- / -	73.5 <input type="checkbox"/>	<input type="checkbox"/>
			₹0		Exit All <input type="checkbox"/>	<input type="checkbox"/>

Hedge of Closest to 50Rs Premium

Strategy: Short ATM CE, Short ATM PE and Long ■ ~50 CE, Long ATM ■ ~50 PE

Margin: 85K

POP is now closed to 50%

Backtest this strategy:
<https://t.co/Ia0JaB7MRa>

Positions (02 Sep, 09:16)			Greeks		Payoff Chart		
P&L: ₹0			Max Profit: ₹19,896 (23.8%)		Max Loss: ₹-22,590 (-27.0%)		Breakevens: 38703(-2.0%) - 40296(2.0%)
Estimated Margin: ₹83,734			Net Credit: ₹19,907.5		Prob of Profit (POP): 52.40%		Payoff: < Thu, Sep 08 >
Lots	Time	Strike	P&L	SL / TP ⓘ	Exit <input type="radio"/> Entry <input type="radio"/>		
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500PE (08SEP)	0 (433 - 433 = 0.00) 0%	25% / -	433 <input type="radio"/>	<input checked="" type="radio"/>	
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500CE (08SEP)	0 (460.9 - 460.9 = 0.00) 0%	25% / -	460.9 <input type="radio"/>	<input checked="" type="radio"/>	
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	37800PE (08SEP)	0 (47.1 - 47.1 = 0.00) 0%	- / -	47.1 <input type="radio"/>	<input checked="" type="radio"/>	
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	40900CE (08SEP)	0 (50.5 - 50.5 = 0.00) 0%	- / -	50.5 <input type="radio"/>	<input checked="" type="radio"/>	
			₹0		Exit All <input type="radio"/>	<input checked="" type="radio"/>	

Hedge of Closest to 25Rs Premium

Strategy: Short ATM CE, Short ATM PE and Long ■ ~25 CE, Long ATM ■ ~25 PE

Margin: 95K

Backtest this strategy:

<https://t.co/C9Sy2EWcTd>

Positions (02 Sep, 09:16)			Greeks		Payoff Chart		
P&L: ₹0			Max Profit: ₹21,129 (22.4%)		Max Loss: ₹-33,858 (-35.8%)		Breakevens: 38654(-2.2%) - 40345(2.1%)
Estimated Margin: ₹94,480			Net Credit: ₹21,140		Prob of Profit (POP): 55.10%		Payoff: < Thu, Sep 08 >
Lots	Time	Strike	P&L	SL / TP ⓘ	Exit <input type="radio"/> Entry <input type="radio"/>		
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500PE (08SEP)	0 (433 - 433 = 0.00) 0%	25% / -	433 <input type="radio"/>	<input checked="" type="radio"/>	
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500CE (08SEP)	0 (460.9 - 460.9 = 0.00) 0%	25% / -	460.9 <input type="radio"/>	<input checked="" type="radio"/>	
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	37300PE (08SEP)	0 (25.1 - 25.1 = 0.00) 0%	- / -	25.1 <input type="radio"/>	<input checked="" type="radio"/>	
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	41300CE (08SEP)	0 (23.2 - 23.2 = 0.00) 0%	- / -	23.2 <input type="radio"/>	<input checked="" type="radio"/>	
			₹0		Exit All <input type="radio"/>	<input checked="" type="radio"/>	

Hedge of Closest to 15Rs Premium

Strategy: Short ATM CE, Short ATM PE and Long ■ ~15 CE, Long ATM ■ ~15 PE

Margin: 1.07L (finally crossed 1L Margin)

Backtest this strategy:
<https://t.co/opKIPKYq5p>

Positions (02 Sep, 09:16)			Greeks		Payoff Chart	
P&L: ₹0			Max Profit: ₹21,614 (20.3%)		Max Loss: ₹-45,873 (-43.2%)	
					Breakevens: 38635(-2.2%) - 40365(2.2%)	
Estimated Margin: ₹1.07L			Net Credit: ₹21,625		Prob of Profit (POP): 56.00%	
					Payoff: < Thu, Sep 08 >	
Lots	Time	Strike	P&L	SL / TP ⓘ	Exit <input type="checkbox"/> Entry <input type="checkbox"/>	
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500PE (08SEP)	0 (433 - 433 = 0.00) 0%	25% / -	433 <input type="checkbox"/>	
<input checked="" type="checkbox"/> S 1	02 Sep, 09:16	39500CE (08SEP)	0 (460.9 - 460.9 = 0.00) 0%	25% / -	460.9 <input type="checkbox"/>	
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	36800PE (08SEP)	0 (14.4 - 14.4 = 0.00) 0%	- / -	14.4 <input type="checkbox"/>	
<input checked="" type="checkbox"/> B 1	02 Sep, 09:16	41600CE (08SEP)	0 (14.5 - 14.5 = 0.00) 0%	- / -	14.5 <input type="checkbox"/>	
			₹0		Exit All <input type="checkbox"/>	

Disclaimer: Above mentioned strategies in not a recommendation but a framework for you to see if Hedges can benefit you in some way or not.

Btw, If you wish to try Lot more combinations to see "Estimated Margin" you can easily get that in our Simulator:

<https://t.co/00OaYrm7KA>