Twitter Thread by Nikita Poojary



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Time for a Thread■On yesterday's "F&O Pe Charcha - Diary Of An Option Seller" with @Mitesh_Engr by @Paytm Money

Why Gain/loss ratio is important that the batting average
• More than the Win Loss ratio check the total Gain /loss ratio
• If your avg loss is 1% and avg gain is +5% then even if you are losing in 7 positions and winning in 3 out of 10 still you will be net profitable

Treat Trading as a business:
• Stick to a single strategy. Eg: A restaurateur usually wouldn't be changing his recipe on a daily basis
• Mitesh Sir only works on BO or BD strategy, as he is a versatile trader

• Any trader should atleast experience 3 scenarios i.e. bull, bear & consolidation
• Target 4% per month i.e. 48% p.a.
• Option buying requires skill, everyday there wont be huge momentum, so buying options won't yield good results, but high chances of falling into a bad habit

Stock Selection:
• In F&O segment there are ~150 stocks
• Not everyday all stocks will move
• Only 5-7 stocks move upside or downside
• Focus only these momentum stocks
• Check which one is moving
• Range BO/BD never disappoints. BO/BD from a rectangle (consolidation)

• Recent example: Hindalco, Tata steel & Sunpharma
• Trade only in trending stocks
• Mostly in the first hour itself movement can be seen
• Post market work is to check the range of the stock & whenever they are near the BO/BD one should add them into watchlist & monitor it

• Remember the levels of BO or BD of such stocks
• By 9:07 i.e. the pre-open one can get the pre-opening rates of the stocks

• Check the ones that are near BO or BD and then add them to watchlist

Focus only on High Momentum Stocks:
• Even if you lose on 7 out of 10 and make on 3, with max loss of 1% of total capital when you lose & make 5-7% on the winners you are still net profitable
• Stocks after BO or BD usually moves in the range of 5-7-10%

• Lets say if the entire capital is tied up to a single position then always hedge
• Traders having modest capital should always go with hedge or rather trade in cash to keep the risk under check
• In intra day one can stick to SL

• However for overnight positions, given the gap up /down risk SL won't protect
• Mitesh Sir never hedges his position as he is disciplined enough to take a position only post a BD or BO

Strangle/ Straddle in Stocks vs. Index
• In stocks never attempt straddle or strangle as the stock can move suddenly and unlike index stocks can move > 10% and beyond in F&O segment
• In such cases, one has to just exit with SL only

• Mitesh Sir prefers selling options without hedge as he is a directional player
• In index weekly or monthly options are preferable
• For learning, one can try only in cash given the position sizing & risk management

• The real litmus test is when a trader is profitable in all 3 scenarios i.e. Bull, Bear & Consolidation
• At the age of 38 years Mitesh Sir started as a full time trader after gaining experience for 3-4 cycles of the 3 situations (Bull, Bear & consolidation)

• He started with a target of 1% per week by focusing on weekly options
• He started in Dec 2017 with a capital of 45 lacs and made it to 70 lacs in a span of 3 months with a full time job

• Mitesh Sir's 90% of the capital is allocated for option selling (positional), balance 10% for adjustments or for future trading

For new traders having a small corpus fund of 2-5Lakhs
• Earlier there was a benefit of leverage,
• Now as per the norms leverage has been done away with
• So one is forced to play intraday

• Intraday trading in option selling means finding direction only as theta decay can be captured only in Positional/overnight
• Hence Better to opt for option buying instead of selling if one has a skill in finding direction
• Buy options with SL in intraday.

• If you want to play positional, then time value is your best friend
• Find the range in index. He would prefer index because in stocks whenever there is BO or BD stock moves by 5-7-10%

• In index he has witnessed 1 upper circuit and 2 lower circuits only so far

• During the Covid crash, Mitesh Sir had already found the direction during the lower circuits that's why he didn't have any puts that time and he got saved
• Probability of a big move is less in Index, unless any mega events i.e. elections, Demon, lockdown, 3rd wave (if any)

• If one is scared then go with hedge
• If you're satisfied with less profit but prefers more mental peace then hedge.
• Mitesh Sir doesn’t prefer hedges as his profit gets limited

Preference to Bank Nifty over Nifty
• Nifty adjustments are very difficult given the low premium. Bank nifty has multiple strikes so easy to adjust
• Nifty has less theta component in it
• In nifty you'll have to make a straddle and then inverted strangle it's that difficult

• Nifty has low probability of big move, however oflate, even Nifty is becoming volatile

Should an aspiring trader focus on one thing or should attempt everything?
• Some traders only sell options
• Some only buy
• Some only do intraday futures
• Everyone has different skill

• Mitesh Sir does everything as he is highly skilled, and this skill he has honed after paying huge sum to the market as fees
• He does everything
• His skill is more in selling than buying options, so whenever he buys options he only puts 2% of his capital

Whenever there is a BO what should be done from the list of options: buy fut, buy call, or write deep ITM PE?
• Preferably buy a future over buying a Deep ITM CE if one wants to gain 100% absolute as futures do not have a time value component, they move lock step vis-à-vis spot

• Check probability eg: sunpharma, if he gets 2% by put sell then he'll do that

How to sell in Bull and bear market & how to identify direction?
• Bull market means direction is clear. Wherever the fresh breakout starts one can sell that option with full capital also and make 2%.

• Lets assume market gaps up & crosses 35k under current scenario he'll prefer to sell 34600PE
• Next day again if it again gaps up and goes up he will sell last day closing price strike put to gain more after squaring off the previous put

• On the other hand, lets say the market again comes down after going above 35600 he would prefer to sell 35600 CE as that is the resistance

• And that’s how he identify the range
• With practice anyone can learn this, so practice is the only key to the success

Straddle or strangle which one to sell?
• Sell strangles as we're in a range
• If market goes up near the resistance you can try with straddle selling there as market may halt for 2-3 days there before taking the level out
• If resistance crossed then go single side only

• Intraday decay doesn't happen much
• Better play positional
• He doesn’t prefer Intraday straddle or strangle

In trading a trader also witnesses a loss phase how to overcome the losing streak.
• New traders should get disheartened in the learning phase, and hence start with a small capital
• Don’t risk more than a 1% of the total capital

• Focus on option selling as there is very low chances of loss unless a gap up or gap down scenario

How to manage gap up/ Gap down:
• In case he is holding a strangle and the next day there is a gap down
• For the First 15 mins he doesn't do anything, he analyses the price action:
i. Gaps down and comes up : don’t do anything(just keep the SL of the PE at day high+ 10points)

ii. Gaps down and flat : (theta decay will bail you out, just keep the SL of the PE at day high+ 10points
• Gaps down & continues down move: exit the PE’s as direction is clear & sell only CE’s aggressively(usually the expensive ones now)

Eg: 35000 put becomes ATM then previous day 35500 closing call strike can be sold
• If he sells for 100 and it opens at 300, he will either cut the option or straddle or sell future

How to overcome fear
• Fear only sets in, when the position size is not proper
• He doesn't recommend leverage if you want to become a professional trader.
• Either get huge capital or train your mind to see percentage return instead of absolute return

Fear & Psychology:
• If Mitesh Sir loses the current trading capital that he has in his account, it won't affect him as he's invested part of his wealth in other assets
• Also he is confident about his knowledge & skill which will always help him out.

• He strongly advocates not to bet your entire life savings in trading, only then there wont be any fear
• A trader with a small capital should only focus in Index

THE END!