

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 of late, 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!