Twitter Thread by Aditya Todmal

Aditya Todmal
@AdityaTodmal

A THREAD ON OPTIONS SYNTHETICS, LONG READ:

With synthetics you can increase your returns as the margin requirements/costs are less. Everyone wanting to become a top trader needs to know this and get their concepts cleared because many people don't know what they're doing

(1/11)

Synthetics are formed by the mixture/combinations of any two of the following three.
1. Calls
2. Puts
3. Futures/Stocks

You don't even need to touch futures/stocks. Whatever kind of payoff graph you want, you can get via options only.

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Fut buy + Put buy= Call buy
Fut buy + Call sell = Put sell
Fut sell + Call buy = Put Buy
Fut sell + Put sell = Call sell

Fut buy = Call Buy + Put Sell
Fut sell = Put Buy + Call Sell

Know this very well as this is must to know. Now I'll show you how to increase returns.

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Synthetics will be used to handle margin requirements better thereby increasing your leverage.

For eg, you want to buy a stock you have to pay huge margin.

Instead of that you can buy an ATM call and sell an ATM put. Margins are drastically lower via options.

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We cannot short stocks in India, we need to trade via futures. Some big traders like Sundar Sir, they don't like to trade in futures as they trade via collateral and mtm loss needs to be paid daily. Synthetics take care of that as u only have to pay the loss when booked.

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To achieve the collateral benefits plus lower margins, if you want to sell a stock just do the exact reverse of everything I wrote for buying a stock via synthetics.

Selling a stock = Buying puts + Selling Calls.

Payoff graph will be exact same.

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Some option sellers claim to understand options very well and they "HATE" option buying. This one's for them. ■

They say buy fut and buy put for "hedging".

What they fail to realise is actually they've just bought a call via synthetics.

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How do these guys have the audacity to say they "hate" option buying and are strictly against buying of options when they're doing the same via futures with their "hedge" ? ■

You do what you want but then you cannot be against option buying if you trade in fut and hedge

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If you buy a call profit is unlimited, but if no movement occurs then the option will deteriorate in value.

If you buy fut and buy put, and if stock doesn't move, the put goes to zero and fut doesn't give profit.

For Sell fut + buy call just do the reverse i.e. put buy

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One more thing irritates me too much. These "covered call" guys fail to realise that they can achieve the same via only selling puts.

They buy fut and sell call to "hedge" paying two margin requirements.

Selling a put requires only one margin.

Opp for covered puts.

(10/11)

I hope I helped you clear some misconceptions/doubts regarding synthetics. Feel free to find out any mistakes in my thread and correct me if I'm wrong. I'm happy to learn/be corrected.

THE END

(11/11)