Twitter Thread by Aditya Todmal



Aditya Todmal
@AdityaTodmal

A THREAD on . . . .

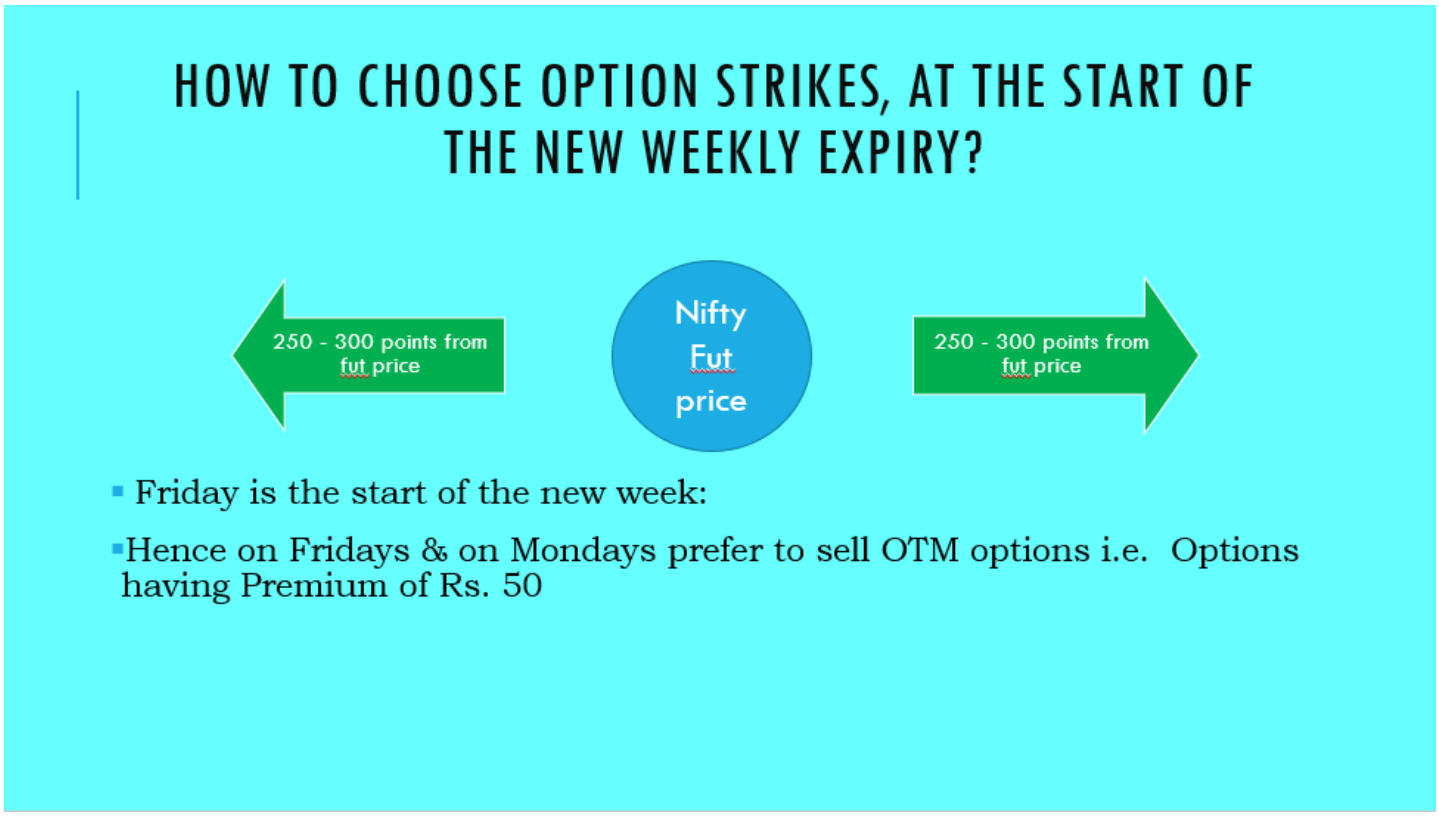
How @ITRADE191 selects strikes to trade in and how he follows risk management.

Short thread explained via pictures with the help of @niki_poojary.

1. At the start of the week

i.e. on Friday and Monday, DJ Sir prefers to sell OTM options of 50 rs premium in Nifty.

- ATM options won't decay a lot at the beginning
- With this premium reward is good
- Since these strikes are 4-5 strikes away they are relatively safer



2. On Tue/Wed/Fri

He prefers to trade in ATM or near OTM options.

- ATM options have the highest theta decay
- Since there are only 2-3 days to expiry options sellers by default have a higher probability of winning
- Huge reward if market stays flat



3. Directional/Trending days

- Capture huge profit via ATM option selling
- Futures only where he has good conviction
- Even if doesn't trend much decay will be huge
- Only on days Tuesday to Thursday

HOW TO CHOOSE OPTION STRIKES DURING TRENDING MARKETS?



- On days where there is a range BO, and the direction is clear and the market is expected to trend fast
- Sell opposite side ATM options as the decay will be faster
- Fast movement day whenever he feels the market will be trending that time also he trades in ATM. Prefers not to trade in futures but ATM options on these specific days.

4. Which series to trade options in?

- INTRADAY trades option selling is ONLY in weekly expiry
- Option buying for hedging is done MAJORLY in next week/monthly expiry
- This way we have time to adjust
- Theta decay slower than weekly

WHEN TO BUY & WHEN TO SELL OPTIONS

- Option selling: always do in current week as time decay will be your friend
- Option buying can be done for two reasons:
- To hedge the current position
- To capture the fast move whenever there is a range BO or BD

Pro Tip: in case of option buying always buy next week/ monthly options as the decay will be less



5. Positional trades of @ITRADE191

- Collects huge premiums in monthly options
- Lesser adjustments compared to weekly
- Better focus on Intraday trades in weekly
- Lot of time to be proved right/wrong in our trad



6. Target achieved/Loss Limit achieved

- If the target is fulfilled and he doesn't want to cut the position
- He books 70-80% of his profits and
- Keeps the remaining 20% or
- Just books all and sells safer options
- For higher probability on his side

HOW TO AVOID OVERTRADING /EXCESSIVE GREED

- First & Foremost set a target for yourself :
  - Target should be **realistic** & should be a % of your total trading capital that you have deployed for Options trading



- Once the pre-defined target gets fulfilled:

✓ Book 70-80% of the profits i.e. convert the screen profit to actual and balance 20% position can be risked albeit with a strict SL

OR

✓ Book 100% all and sell safer OTM options

7. First Trade

- Always should be a very high accuracy trade
- Resulting in a cushion in terms of profit
- Better psychology to take risk in other trades

THE POWER OF FIRST TRADE- SETTING THE TONE FOR THE DAY

- Prefers to take the first trade which has very high chances of going in favour, as that trade will not only give a cushion in terms of profit but also sets the right tone mentally that one can win this day
- The first profitable trade gives a winning attitude



8. What does he do with his Intraday trades EOD?

- Books whatever profit/loss
- Wants to take a fresh position the next day
- No wasting time firefighting

GRAB THE PROFITS & BOOK THE LOSSES OF INTRADAY BY EOD

- In Intraday close all your winning positions by EoD, because there is always a risk in carrying them overnight especially during high volatility period (the current one)
- In case the market open against one's existing position (which was carried overnight) the entire profit that was made yesterday just fades away in a flash and then right from 9.15 am one has to firefight which is a sheer waste of energy and it also drains mentally right at the start of the day, thereby setting a exhaustive tone for the day
- Similarly if the intraday positions are into losses, book that too by EoD, because market only rewards them who have the right discipline and always punishes them who TRADE ON HOPE



9. Biggest Secret/Strength

- Divides risk per day into 4 parts/trades
- When first trade in profit put sl at cost
- Again 4 lifelines restored
- Keep repeating with further trades

His primary focus is on his capital protection & secondary focus is on profit protection

BIGGEST SECRET UNVEILED

- Doesn't prefer to take all the risk in a single trade.
- Divides the risk in 4 equal buckets, thereby getting 4 chances to take a trade and to be right.
- If all the 4 trades ended up in a loss, stop trading for the day as it clearly means that one is not able to understand the market for that day
- Don't even try to recoup the lost money as bad understanding of the market with bad psychology is a perfect recipe for disaster
- These 4 lifelines will again be back as and when the first trade goes in profit and immediately trail SL to cost.
- Get out at cost or lose less while having high winning chances as the primary focus is on capital protection, making profits is secondary
- Pro Tip: Yes the biggest secret is not any strategy its purely about risk management



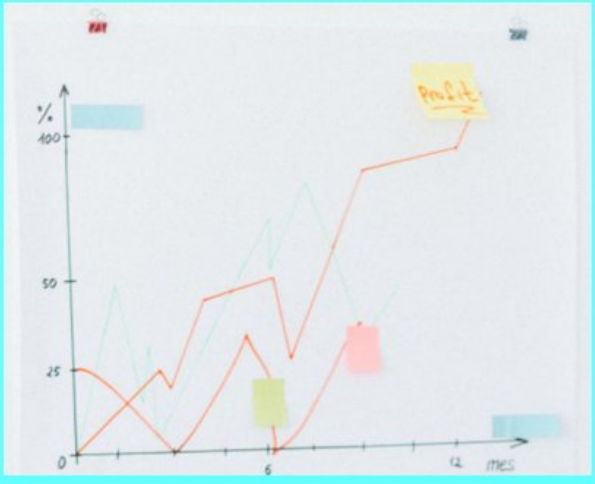
10. Uses portfolio stop loss

- Beginning risk appetite is of 20k loss
- When in 20k profit then sl is at cost
- For every 10k profit increase raise your sl by 10k

For eg, when in 30k profit stop loss is shifted to 20k (our target). When 40k then sl is 30k and so on. . .

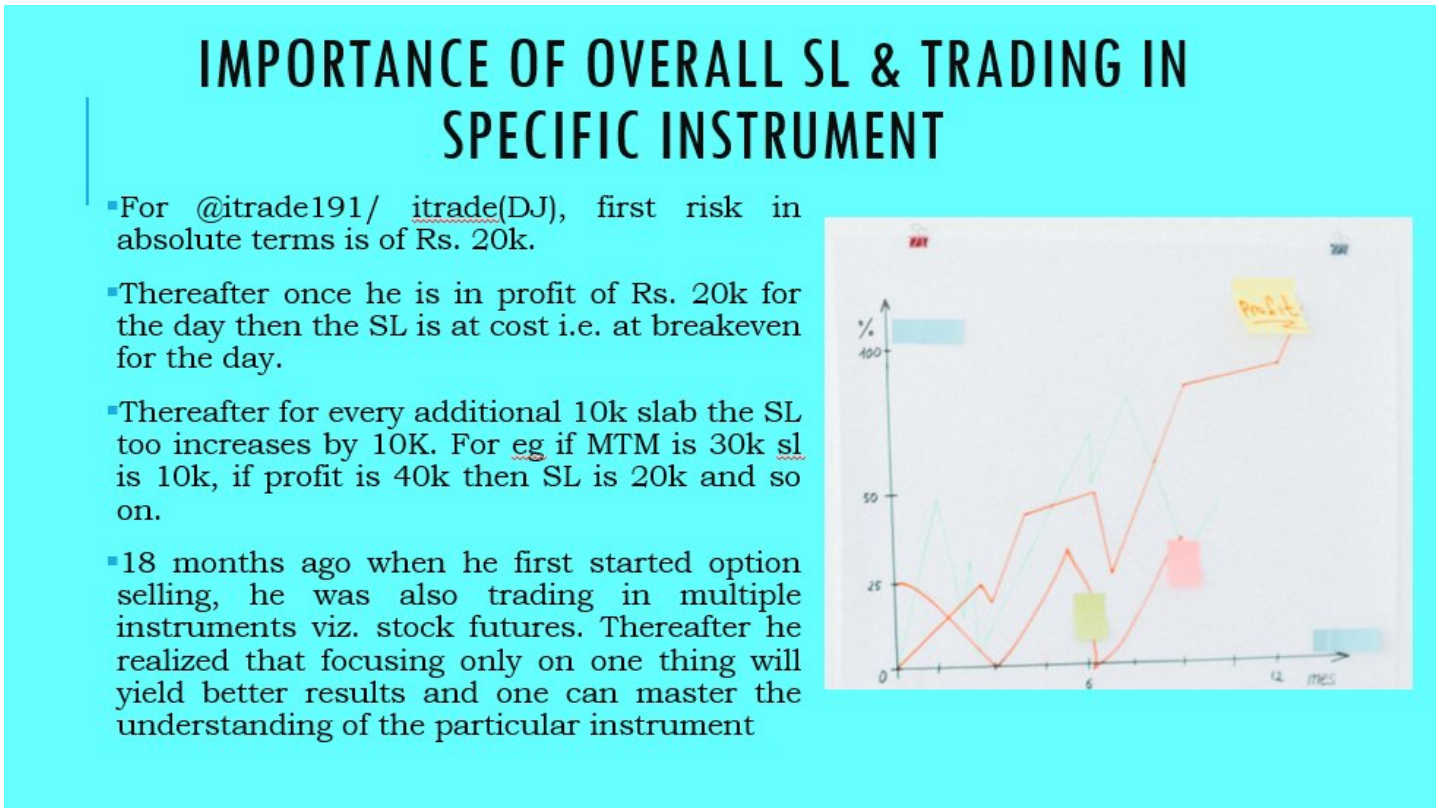
IMPORTANCE OF OVERALL SL & TRADING IN SPECIFIC INSTRUMENT

- For @itrade191/ itrade(DJ), first risk in absolute terms is of Rs. 20k.
- Thereafter once he is in profit of Rs. 20k for the day then the SL is at cost i.e. at breakeven for the day.
- Thereafter for every additional 10k slab the SL too increases by 10K. For eg if MTM is 30k sl is 10k, if profit is 40k then SL is 20k and so on.
- 18 months ago when he first started option selling, he was also trading in multiple instruments viz. stock futures. Thereafter he realized that focusing only on one thing will yield better results and one can master the understanding of the particular instrument



11. Focus on one instrument only

1 and a half year ago when he started option selling that time he was trying to trade multiple instruments but later he realized that focusing on one instrument yields better results and understanding of the instrument also increases a lot.



12. Hope this helps you in

- Choosing strikes
- Improving Risk Management
- Managing stop losses
- Focusing

Share if you learned something from this thread so that everyone can benefit.

THE END