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#Knowledge
#Options
Ever wondered y gamma is the enemy of straddle / strangle sellers and what it means?

Presume readers are aware of option Greeks meaning...

To understand , first ...

Relationship between delta, gamma, theta and option premium.
....

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Theta + (int Rate x Underlying price x Delta) + (0.5 x variance of underlying x Underlying price x Underlying Price x Gamma) = Int rate x Option premium.

Strangle and straddles are delta neutral setup;For a delta neutral setup, the second term becomes zero; Hence,
...

....

Theta +
(0.5 x variance of UL x UL price x Underlying price x Gamma)
= Int rate x option premium

Straddle and strangles have typically zero delta at initiation; they also have positive theta, meaning they gain over time assuming other components of option r constant ..

...
In a delta neutral portfolio, if theta is largely +ve , Gamma will be -ve by a large extent to satisfy the above relation

mathematically, which means that as expiry nears the strangles and straddles will have large -ve gamma; This is wat u see traders telling gamma effect.