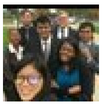
Twitter Thread by Aditya Todmal



Aditya Todmal
@AdityaTodmal

The best spreads trader on Twitter: @Ronak_Unadkat

He trades in Nifty & Bank Nifty via spreads majorly.

In the Jainam Broking Speech, he shared how he trades debit and credit spreads:

Here's a breakdown of his 10 step method: ■

Collaborated with @niki_poojary

1. Why trade via spreads?

Overnight risk will be always capped
Limited Risk will keep you cool
Hedge our position

Strictly not to do for margin, as that will lead to overleveraging.

Traders Sell option for 100 and buy 10 rs option.

That is for margin reduction, not a spread.

Why Spread ?

- **Risk defined approach**
  - Risk is limited by doing proper hedging.
  - Overnight Risk is limited so black swan event can be managed with defined loss.
- **Easy to do adjustment**
  - Position can be adjusted in a systematic manner till our SL got hit
- **Increase Holding Power**
  - Help us to hold position due to proper hedge so it ultimate help to control our emotion.

2. Circuit:

If the market opens at the lower circuit or upper circuit, then our loss should be limited.

Eg - Expiry Trading on the 24th Feb Expiry

The market gapped down & traders lost huge sums of money.

Some lost 15% or 20% of their capital in a 4% index move.

If in 4% people are losing so huge then imagine if Modi says black money is back, we will open at an upper circuit.

If India-Pakistan tension news comes again we will open at a lower circuit.

In a 4% index move, people lost 10%, so in the case of a circuit, they will lose 50%.

To recover a 50% loss on capital, you need to make 100% returns with the leftover capital to break even.

In these cases, spreads cover your risk.

Even he lost 3-4% of capital on 24th but it is easy to recover in 1-2 months.

3. Rules:

Shouldn't lose more than 15% of your capital in case of a lower circuit. (Worst scenario)

Adjustments become easy if the risk is capped.

Doesn't care for greeks but you should know if delta or gamma impacts you, what is our risk we should always be aware of it.

4. Adjustments:

If the market goes against you in a debit spread, you can adjust by selling more options to make it a ratio spread.

Debit Spreads adjustments he does by converting it to a ratio.
Credit spreads no adjustments only stop loss.

5. Holding power:

If you trade in debit spreads, your 100 comes down to 60 but the 40 rs sold one will come down to 25.

If you bought naked options, then your 100 rs when it comes to 50, you will get out due to 50% capital loss.

After some time it goes back to cost. (regret)

In the case of selling options:

Selling naked options at 100, you will get out when it becomes 200.

Imagine you've sold the 100 rs option and bought a 40rs one for 60 rs credit.

If the 100 becomes 200 then 40 will become 80 so you can hold.

The worst-case loss is fixed.

6. SL hitting without index level move

If you have an index level stop loss, you will get out in naked option s if it doubles without it even touching your level.

They will double and then come back to the price you sold it at.

Whereas in spreads, you can wait out the moves.

7. Overnight Risk:

In credit spreads, you will sell high premiums and buy lower premiums.

To counter this some people think to sell naked options whatever the credit you received in the credit spread.

But the overnight risk is huge in that case.

8. Risk Reward:

Risk reward is not in your favor in such trades.

But the probability is always there. So you will win 8/10 times.

This win rate ensures we make money.

Credit Spread – Calculation

- Spread size: (35500PE – 35000PE): 500 point
- Sold 35500 Put @ 292
- Bought 35000 Put @ 206
- Net Credit Received: (292 – 206) = 86
- Break even: Sold put (35500) – Net Credit(86) = 34414.
  - For call spread, Break even = Sold call + Net Credit
- Max Profit = Net credit = 86 point
- Max Loss = Spread size (500) – Net credit(86) = 414 point

9. When to use which strategy?

During Breakout/Breakdowns go for debit spreads.
You'll get quick money in such trades.

For reversal trades, use credit spreads.
Premiums vanish very quickly in this case.

When to Create Debit/Credit Spread

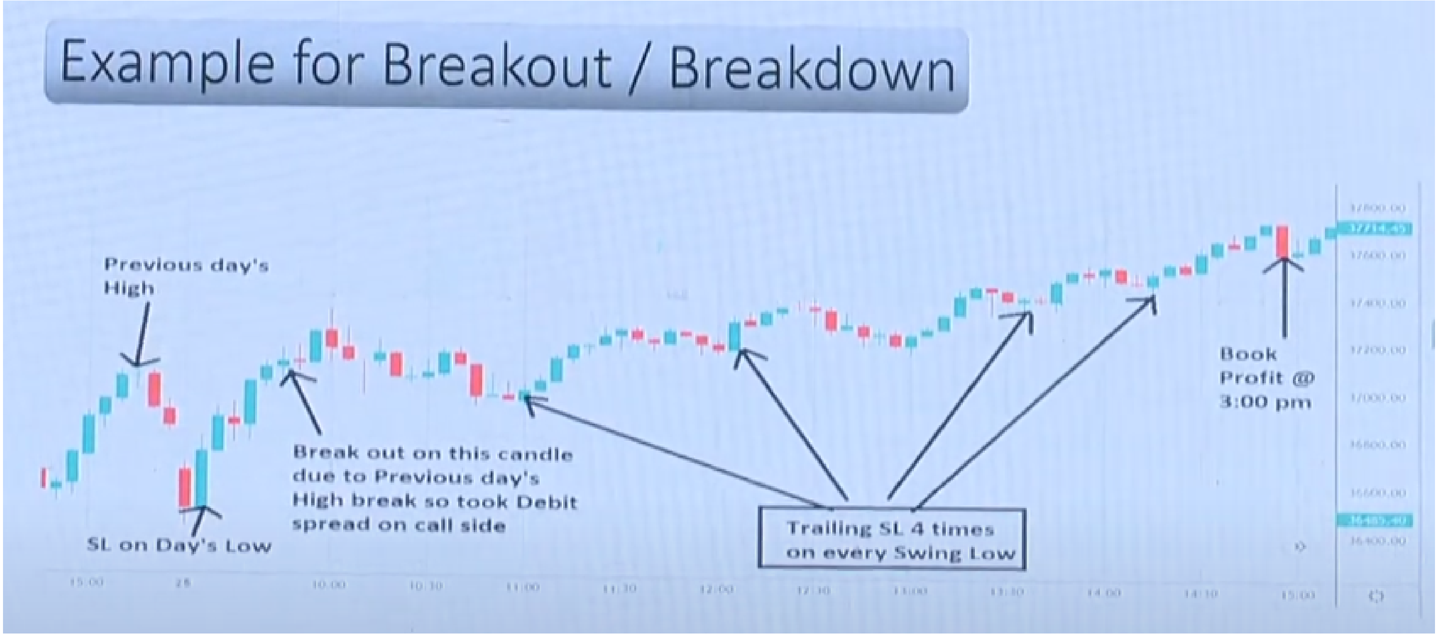
- If Market gives any **Breakout or Breakdown** than It's always better to go for **Debit spread** because IV normally spikes during break out or break down.

- If Market gives any **Reversal pattern** than It's always better to go for **Credit spread** because IV normally crushed during Reversal. Reversal could be on upside or down side.

10. Setup for debit spreads

When PDH breaks trade a call debit spread, keep the current day low as stop loss and trail via swing lows.

When PDL breaks trade a put debit spread, then keep the current day high as stop loss and trail via swing highs.



During Reversals:

Sell Credit spreads during reversals as they help you in case of IV spike

You are protected from IV spikes if you play reversals.

Debit Spreads won't make sense in reversals due to IV crush.

This is the only thread you'll need on spreads trading.

Watch out for @niki_poojary's thread on Mitesh Sir, which she will post today.

If you found this useful, please do RT first tweet.

Follow to never miss them.

See past threads here:
@AdityaTodmal & @niki_poojary