Twitter Thread by Aditya Trivedi



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BENEFITS OF OPTION SELLING

Most of the successful traders here are option sellers.

Ever wondered why?

Why we have chosen option selling?

How to decide what strategies to use?

THIS IS THE ONLY THREAD YOU'LL EVER NEED!

Find out below

1: Theta decay

The biggest reason and one of the prime reasons is the theta decay.

Option sellers always have an advantage because the as time passes, the option premium falls even if the underlying instrument doesn't move.

2: Being wrong and still making money.

We as option sellers can be wrong with our market view and still end up making money because of the power of theta decay and adjustments to some extent,

3:Playing directional view

Option selling also enables us to take a directional view. Infact, directional view along with theta decay makes it a solid combination.

Debit spreads and credit spreads works great for a directional view.

4: Playing Neutral view

We can make money in option selling even if the market doesn't move as the otm options will go to 0 with the help of theta decay. It's the most fascinating thing.

This is what attracted many into option selling. Strangles, straddles, ironfly, iron condor works extremely well for playing out neutral view,

5: Lower transaction costs

Option selling has extremely low transaction costs as compared to futures and other instruments.

The STT which has to be paid in option selling is drastically low making it an excellent option for many.

6: Hedging

Hedging is an excellent tool in option selling. It protects you from losses and also makes you more money than the original trade itself in some cases.

Hedging also makes sure you stay in the trade and prevents you from being thrown out in small spikes.

7: Limited risk

Usually naked option carries unlimited risk.

But hedging your risk ensures limited risk on your positions.

You can also deploy limited risk strategies which protects you from any big spike and also big gaps.

8: Trading volatility.

Option trading is all about trading volatility. Option selling can be used to take advantage of rising and falling volatility.

Best strategy for rising volatility : Calendar spreads

Best strategy for falling volatility : Strangles, straddles, iron condor, ironfly, butterfly.

9: Adjustments

Adjustments is the heart of option selling.

The ability to adjust your trades and coming out in profit even when your view goes wrong is one of the prime reason why

option selling is amazing.

Adjustments can be done in "n" number of ways as per one's style.

10: Lower margin compared to futures

Option selling requires very low margin as compared to futures because of hedging. You can also make your option selling position behave like futures by going with itm options, although I personally don't recommend it to newbies.

11: Playing long/short/neutral view

In option selling,you can play ALL directions

If you're bullish you can play long, If you're bearish you can play short and if you think the market will be rangebound, you can deploy neutral strategies

The flexibility it offers is unmatched!

12: Probability of profit

Close to 80% of the options expire worthless. So the probability is always on your side.

You don't have to be intelligent to make money. Only trade the most high probable setups and you're good to go.

13: Good for consistent returns.

Option selling is an amazing tool for making consistent returns and compounding your money at a decent pace with least drawdown.

You just have to make 2% a month.

2% a month can turn 20 lakhs into 244crs in 10 years!

14: Scalability

Often buying options, futures, etc has a problem of scalability.

But selling options can be done at a scale! It can be done with huge capital and there's seriously no limit as to how much capital one can scale!

15: Portfolio hedging

Option selling is not only used for trading but also for hedging your long term investment portfolio.

Covered calls is an excellent way to collect premiums from option selling as long as your stock is flat/going down and bring down the average price.

16: Cash secured puts

Cash secured puts is an amazing way to buy stocks at your desired price provided you have enough cash to take the delivery of the stock.

17: Psychology

Option selling requires patience by default since it doesn't give you money instantly like other instruments.

It cultivates the habit of patience and also makes you less prone to take unnecessary risks.

That's it for this thread and thanks for reading! I hope you learnt something and make my efforts count!

For more learnings/analysis during live markets join our telegram channel : https://t.co/uNIrqq5aDP