# Twitter Thread by Sheetal Rijhwani



**Sheetal Rijhwani**
@RijhwaniSheetal



**If you are new to F&O, you can start with Vertical Spreads (Debit and Credit spreads) instead of buying options in Stocks and Indices.**
**Here are some ways how you can do it, when you can do it and the right position sizing for doing it... ■ (1/25)**

Traders who are trading in cash and want to explore options generally start with options buying without much knowledge. They buy OTM strikes and trade with wrong position sizing. With no idea about the perfect entry, they end up feeling that F&O is risky. (2/25)

After losses in F&O buying, this is how I approached it and it rewarded me pretty well in initial phase. I find this strategy easy to start things off. And then, you can explore other strategies too and find what works for you. (3/25)

Vertical spread is a directional, defined risk options trading strategy:
1. Bull call spread (Debit spread)
2. Bull put spread (Credit spread)
3. Bear call spread (Credit spread)
4. Bear put spread (Debit spread)

Read about these strategies in the below articles. (4/25)

https://t.co/KQvYOsu9kv

While going through these strategies, you must have thought you have to wait till expiry for profits/loss. (5/25)

Yes, this strategy is about where a particular stock or index expires at a certain level on expiry day and accordingly we get profits. However, if you initiate the trade at the right time you can book profits in 3-4 days or in a week too. (6/25)

In Index, you can do that in weekly expiries and exit in just 2 days - once you achieve your target or the SL triggers.
Let's understand how, when and what strategy to use with a few examples:
(you should have knowledge of price action for this) (7/25)

There are two ways to trade - Breakout and Reversal
A recent example - since Oct 21 markets started falling, initially we assumed that it could be a pullback but many stocks started falling with good volumes, started making tops and giving false breakouts. (8/25)

When it comes to selling, you always start with the weakest sector. This time IT sector started falling first, then banks and finance and a few other stocks started showing weakness too.
In options, you got to be mindful of choosing stocks with good liquidity in options.(9/25)

1. Reversal Trades
When stocks/Index started rejecting from their major resistance areas.. mark that level. In reversal trades, you can trade via Credit Spread.
Sell ATM call and buy OTM call. (10/25)

Let's take the example of TechMahindra here. It got rejected 1800-1820 many times around 29th Dec and then volumes began increasing in bearish candles. You could initiate a trade after 6th Jan. Now we know resistance was 1800 it's not important to sell ATM.. (11/25)

You could sell OTM or 1800 above strikes as there were high chances of below 1800 expiry towards month end (if it continues downtrend). SL would be 1820. Could initiate Credit Spread - Sell 1850 call and buy 1950 call. 1650 was good support it was broken too with volumes.(12/25)

2. Breakout/Breakdown Trades
When any stock/Index breaks support and give a breakout, we can trade via Debit Spread as the move is fast in breakouts.
Buy ATM/ITM put and Sell OTM put
In TechM, we could buy 1650 put and sell 1550 put. (13/25)

In debit spreads, we don't buy OTM options, always ATM or ITM.
Check the chart for reference. (14/25)




In credit spreads, even if the stock remains sideways and doesn't cross the resistance, we can make profits as premiums decay. I prefer credit spreads more over debit in both scenarios and roll down strikes if stock/Index continues the move in my favour. (15/25)

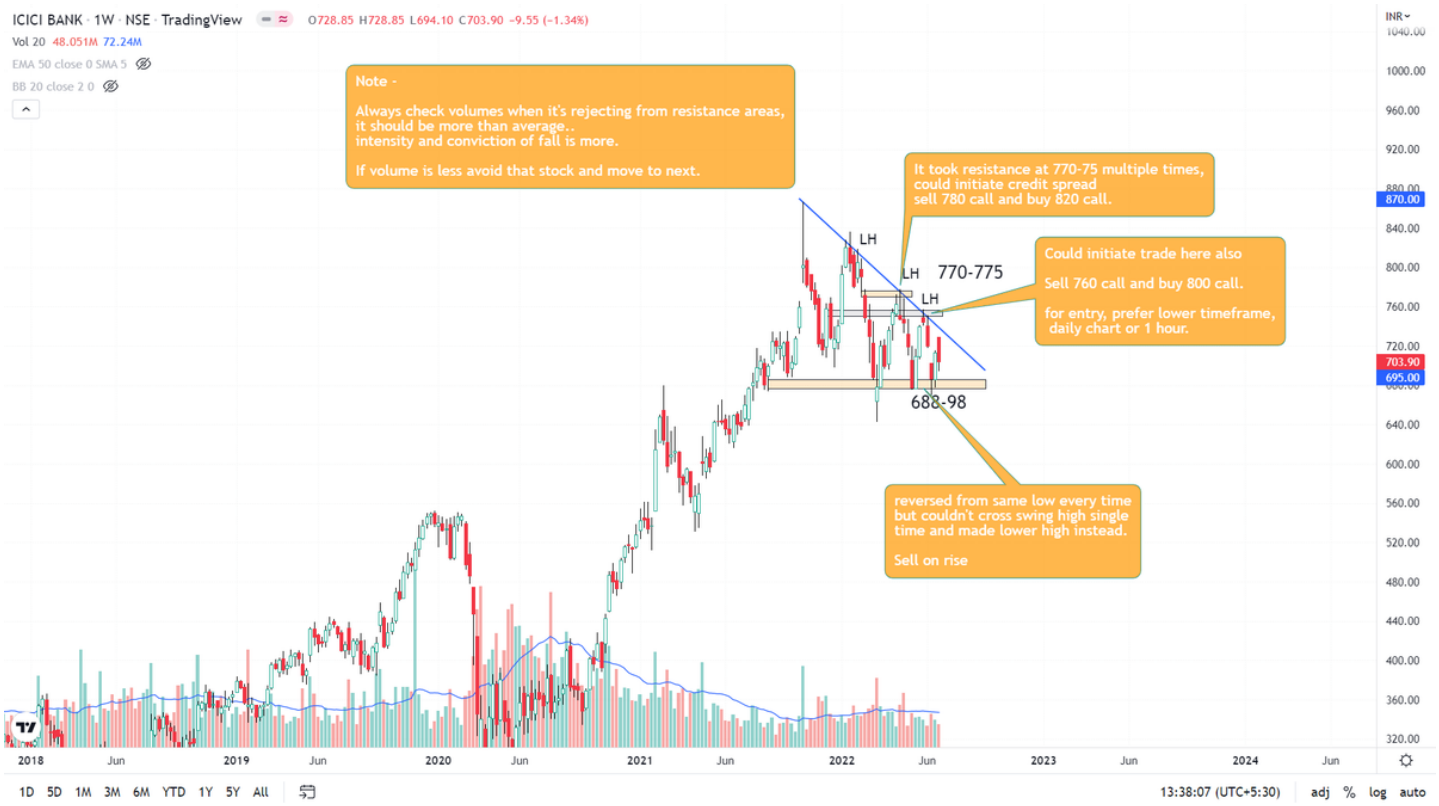
One thing is important here - the timing of initiating a trade.
When you should initiate a trade?
First, you need to find out the major trend of instrument you are trading either Index or stocks.
At present, we know it's a bearish trend or sell on rise market.. (16/25)

..so you focus more on bear call spread (credit spread) and bear put spread (debit spread).
Every week you need to check the large cap stocks (if you are trading in stocks) and Index charts if you are trading Nifty/Banknifty. (17/25)

1. See if there is any pattern forming
2. Check if it's near any resistance area
3. If it gave a rejection candle near imp. resistance (mark the level)
4. Or if it's breaking any imp. support

For entry, check the daily chart next day. (18/25)

Let's say we got 2nd point in one chart.. let's take an example of ICICI Bank here.
Check the chart for your reference: (19/25)




Some Important Points:
If stock/Index is near major support, don't sell call, as chances of reversal will be more from there. Even if it closes below resistance strike at expiry, in reversal, premiums will spike. You will see immediate loss which is tough to handle. (20/25)

Sell call (bear call spread) when it's near resistance and sell put (bull put spread) when it's near support (if your view is bullish) - Timing Is Important.

Let's check the charts of Nifty/Banknifty for trading weekly expiries(directional trading) via spreads: (21/25)




Position Sizing:

Vertical spreads are risk defined strategies. Keep sizing such that you don't lose over 3-4% in max loss or use 2L for 1 lot.

I think one should have at least 15L-20L for F&O.

In naked selling or in futures, the sizing should be fixed on notional exposure.(22/25)

For eg.

Sell Banknifty 33200 put @ 210

Buy 32700 put @ 100

Spread difference - 500 points

Net credit (max profit ) - 210-100= 110

Max loss = Spread (500)- Credit(110)= 390

Notional exposure - contract size * underlying price.
Initially, you must not take more than 2x exposure.
Suppose the Notional value is 6L, you can take 1 lot using 3L or in simple language if you carry a naked selling option or futures, use 3-4L for one lot initially.. (23/25)

..as there is tail risk involved when you carry positions and can increase exposure once you are comfortable with the risk. You can refer to tasty trades YouTube videos for this. It's explained well in those videos.

https://t.co/TVesQ0xnDe (24/25)

Once you are comfortable with vertical spreads, you can try naked selling/buying, ratio spreads, iron fly, and condor as per your comfort zone. Just go step by step.
Hope this long thread added some value to your learning. Happy Trading! (25/25)