Twitter Thread by Sarang Sood



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Understanding HIGH & LOW VIX

VIX at 16: If you check today's IV behaviour, they were not spiking much even with decent delta move in BNF. The movement was subtle, giving some time to adjust. So someone having good adjustment mechanism can stay in the game longer.

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VIX at 20: The same delta move will be more fierce, coupled with rise in premiums. When premiums rise with movement, then the adjustment cost increases exponentially. The premiums can fall back at EOD, but the damage is done if caught in the spike.

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After talking to few traders, their backtest result was in favor of high VIX of 2020, rather than 2017-19. The key flaw in the backtest were the adjustments which are not easy to calculate. Combination of high theta & fixed SL during high VIX, the IV crush is cashed at EOD.

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Neutral option sellers who don't adjust & have fixed SL on a static straddle will not be able to benefit highly in low VIX. The straddle which moves away from ATM will increase no matter what. But if we keep on rolling our strikes, then we get good realisation of theta.

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I have made majority of my profits in option selling when VIX was at 13-15, mostly just relying on my adjustments. Since 2020 with high VIX, adjustments stopped working because of increase in the frequency of delta + IV spike combos & so had to shift to directional trading.

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Still we have to respect rising premiums in any scenario, but when VIX is low the frequency of spikes will reduce significantly. Many traders have started option selling in 2020, so they are expecting random volatility spikes daily. Their system is developed around that only.

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Key takeaway here is to focus on adjustments more during low VIX. Don't shy away from giving extra cost to the broker.

Maybe VIX explodes soon & things normalise for traders who started option selling in 2020. But till then you can also see low VIX in a positive way.

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