Twitter Thread by Madan

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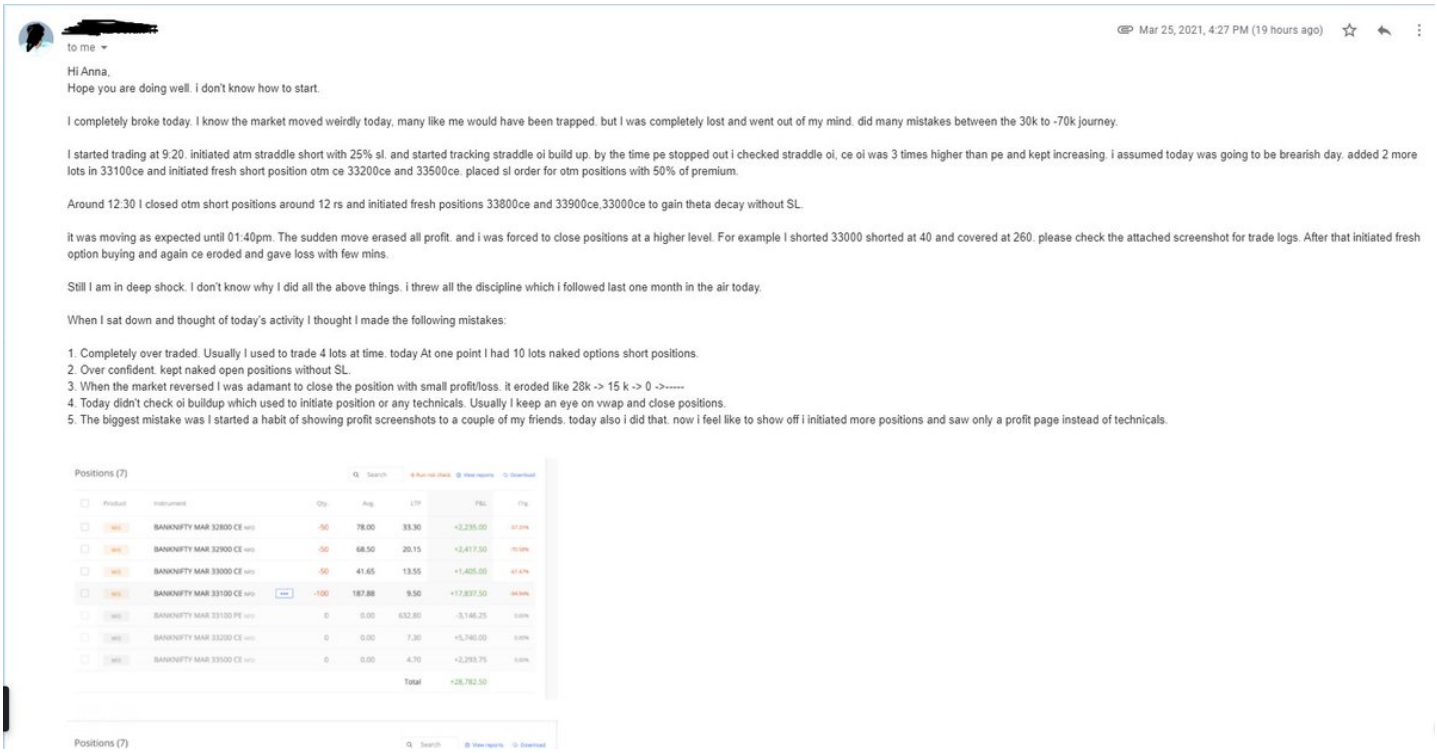
Thread on 'no stop loss', 'adjustments' and 'Risk'

Wanted to share my thoughts on this topic for a long time but this email sent by someone yday woke me up from slumber

Pls read the email 1st before delving into thread

(1/n)


[redacted]
to me

Mar 25, 2021, 4:27 PM (19 hours ago)

Hi Anna,
Hope you are doing well. i don't know how to start.

I completely broke today. I know the market moved weirdly today, many like me would have been trapped. but I was completely lost and went out of my mind. did many mistakes between the 30k to -70k journey.

I started trading at 9:20. initiated atm straddle short with 25% sl. and started tracking straddle oi build up. by the time pe stopped out i checked straddle oi, ce oi was 3 times higher than pe and kept increasing. i assumed today was going to be brearish day. added 2 more lots in 33100ce and initiated fresh short position otm ce 33200ce and 33500ce. placed sl order for otm positions with 50% of premium.

Around 12:30 I closed otm short positions around 12 rs and initiated fresh positions 33800ce and 33900ce,33000ce to gain theta decay without SL.

it was moving as expected until 01:40pm. The sudden move erased all profit. and i was forced to close positions at a higher level. For example I shorted 33000 shorted at 40 and covered at 260. please check the attached screenshot for trade logs. After that initiated fresh option buying and again ce eroded and gave loss with few mins.

Still I am in deep shock. I don't know why I did all the above things. i threw all the discipline which i followed last one month in the air today.

When I sat down and thought of today's activity I thought I made the following mistakes:

1. Completely over traded. Usually I used to trade 4 lots at time. today At one point I had 10 lots naked options short positions.
2. Over confident. kept naked open positions without SL.
3. When the market reversed I was adamant to close the position with small profit/loss. it eroded like 28k -> 15 k -> 0 ->-----
4. Today didn't check oi buildup which used to initiate position or any technicals. Usually I keep an eye on vwap and close positions.
5. The biggest mistake was I started a habit of showing profit screenshots to a couple of my friends. today also i did that. now i feel like to show off i initiated more positions and saw only a profit page instead of technicals.

Positions (7)

Product	Instrument	Qty.	Avg.	LTP	P&L	Chg.
MIS	BANKNIFTY MAR 32800 CE NFO	-50	78.00	33.30	+2,235.00	57.31%
MIS	BANKNIFTY MAR 32900 CE NFO	-50	68.50	20.15	+2,417.50	70.58%
MIS	BANKNIFTY MAR 33000 CE NFO	-50	41.65	13.55	+1,405.00	67.47%
MIS	BANKNIFTY MAR 33100 CE NFO	-100	187.88	9.50	+17,837.50	94.94%
MIS	BANKNIFTY MAR 33100 PE NFO	0	0.00	632.80	-3,146.25	0.00%
MIS	BANKNIFTY MAR 33200 CE NFO	0	0.00	7.30	+5,740.00	0.00%
MIS	BANKNIFTY MAR 33500 CE NFO	0	0.00	4.70	+2,293.75	0.00%
				Total	+28,782.50	

Positions (7)

In the past 1-2 years, there has been a sudden surge of traders who just talk about theta decay, option selling, adjustments and stuff like that..

It is all fair as long as the trader knows what he's doing. But the reality is far from what we see/perceive...

(2/n)

Many of these folks were told that one can 'adjust' their way out of any situation. Any sane options trader know that you cannot come out of any situation by adjustment

One of my friend used to do that(he is famous in options selling desi fintwit) for a long time until..

(3/n)

..he realized that one cannot possibly do that and its gonna burn him one day. He's pretty smart and hence, he put a portfolio level SL & when that hits, he will stop dancing, gets out and calls it a day

So, risk is managed at account level and he is quite clear about it

(4/n)

Unfortunately, 1000s of traders who does option selling(with adjustment) dont have this risk mgmt in place.

They think (i dont know if i had to call it false confidence or ignorance) their skills in 'adjusting' will take them ashore ■

(5/n)

Let me admit here - i dont know the ABCs of options but i do know this. If one trades the markets without having a backdoor(SL) to exit when things go south, he/she is bound to blow up. Its a matter of 'when'

Folks who do the adjustment trading for sometime know that

(6/n)

My point is have a SL level for even adjustment kind of trading. You can fight against the market for sometime and market might even give you opportunities to come out scratch-less many a times...but, not 'every' single time.

Let me try to give an analogy here -

(7/n)

Lets say market is an elephant and we are 5 year olds teasing/playing with the elephant just looking at elephant's tail (assume we have never seen the elephant)

Tail is so small that we think the size of the animal is in proportion to the tail's size ■■

(8/n)

Elephant will let you play with it many times without showing its size. When it shows his actual size, the prudent ones will run away at the 1st sight. But the uninitiated, will keep teasing the elephant and we all know the repercussions ■

Think about it for a second

(9/n)

So, never get fooled by the pardoning/innocuous nature of the natural ebb and flows of the market.

I believe the traders without SL (at account level) are trading the markets thinking that the animal is small looking at the tail's size. BIG MISTAKE ■

(10/n)

I recently witnessed few traders trading live during expiry & i was so surprised to see the way things went by ■

Two traders were there - one exclusive option buyer and one exclusive option seller

Pls understand that my intention here is to convey something important (11/n)

Option seller - he was selling 5-10 rs options from morning when mkt was tanking & he was pretty jubilant until 1:30pm..when mkt reversed fiercely, no noise from him for sometime.

He dint know what to do while his options went from 4 to 25/30 rs. and was fighting it (12/n)

Mkt moved another 100 pts up & you can literally see his face go grim

Guys, I am seeing this adjustment/firefighting live for the 1st time & the trader was tensed for 1+ hrs.

Maybe 1 month of stress taken in 1 hr

Little did we know that he was averaging(?) his positions (13/n)

and thank God mkt did not go up more & eventually it came to Re.1

But before going from Rs. 5 to re.1, it went to to 25-30.

Had the mkt went up another 100 pts, i can guarantee you that he would have lost 30-50% of his account as he was never intending to cut his loss (14/n)

He was thinking that he can muscle his way out of his mounting loss by adjusting or doing nothing.

Trust me - am so glad that he dint lose 50% of the account.

Lets see the option buyer drama in the meantime (15/n)

Option buyer - he bought some put options for Rs.500 and kept averaging it down until all the way to 100-200 (when mkt was clearly going against him).

After some point, he cut the position & bought some calls (when mkt moved up significantly).

Story is not over yet ■ (16/n)

When mkt moved up with small pullbacks,he kept averaging his price in options..just typing max lots/order on every PB & thank god, the mkt went another 100 pts up...voila, he 'recovered' his 1st trade loss

I could not believe what i witnessed - from both the buyer&seller

(17/n)

Had the market tanked from his max position size, am sure sizeable chunk would have been lost by the option buyer as well.

There are several KEY takeaways from these two traders and the way they trade.

Pls understand that both are influencers in trading community (18/n)

1. Risk appetite differs from one person to another. So, it is not a wise idea to compare yourselves with anyone w.r.t returns, drawdown, M2M and stuff

2. Adjustment might suit many but dont get fooled by the tail size of the animal. We are dealing with an Elephant here

(19/n)

So, keep SL even for adjustment type of trading. Very important

3. The biggest problem with option buyers is the absolute apathy shown towards risk management as it does not take lot of money to load up on options (compared to futures or options selling)

(20/n)

4. Averaging down might seem like a viable strategy but it is like going on a roller coaster ride without safety belts...You can try to hang on but once the speed(mkt momentum) goes out of hand, we will be thrown out.

This is a very important point, in my opinion (21/n)

5. Leverage is going away from Sept1 and hopefully, this adjusting without SL stops as one needs leverage to dance this way.

6. Icing on the cake is the BNF option freezes and nobody can do anything about it. Its like the gap against you in positional trading ■

(22/n)

7. Dont want to sound like a broken record, but our job in mkts is to just handle risk. Name of the role is 'Risk manager' ..thats all it is...

8. Last but not the least, please put that friggin' stoploss ■

Happy trading all (23/23)