Twitter Thread by Mohit Sharma

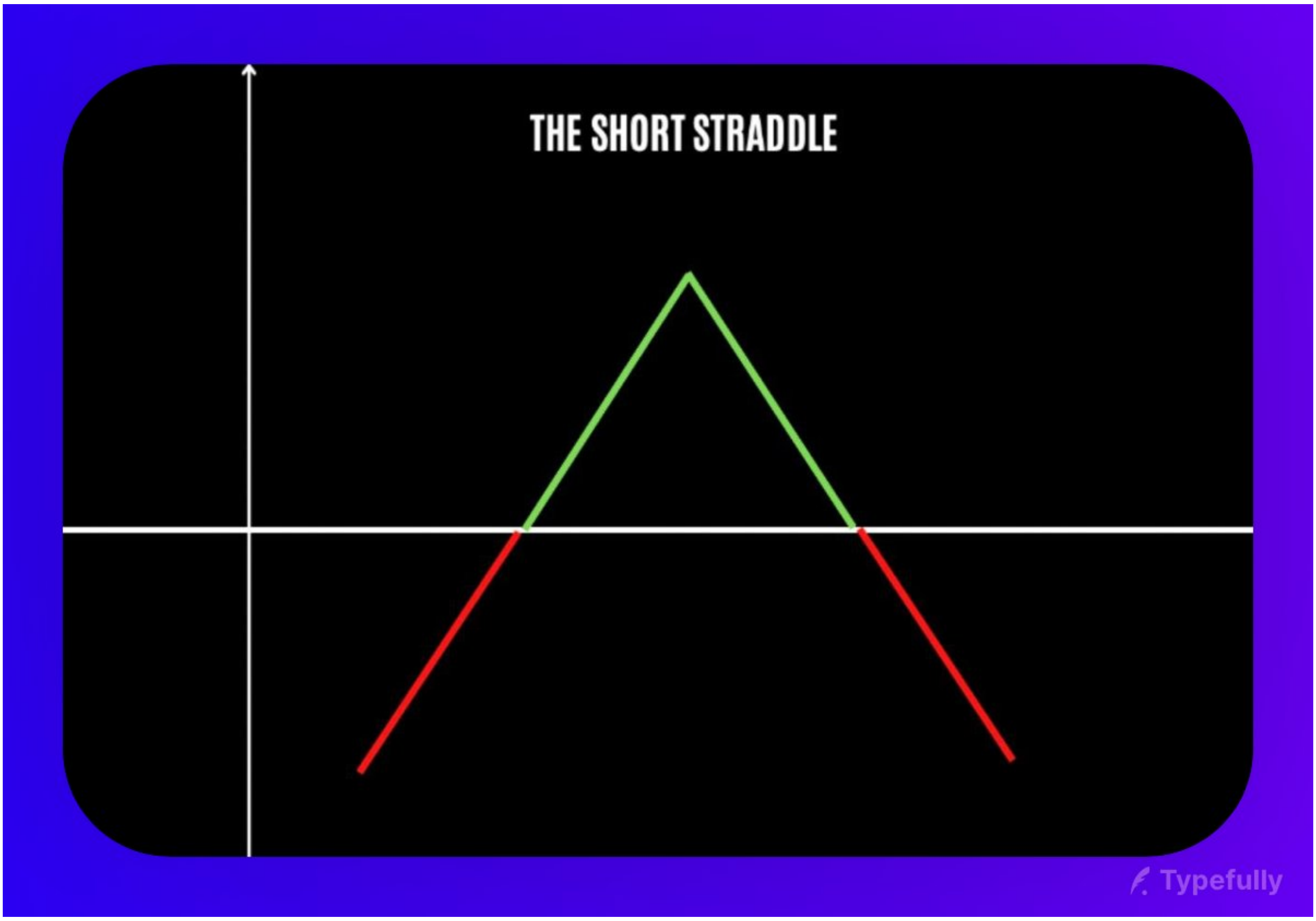
Mohit Sharma
@mohitsharmadl

Traders often overlook the SHORT STRADDLE due to its simplicity.

It remains the TOP strategy to make money when the market is not trending.

Here's how you can make money using only the short straddle in various market conditions

■■ A comprehensive thread■



A short straddle is the most basic neutral options strategy.

Where a call option and a put option are sold at the same strike price.

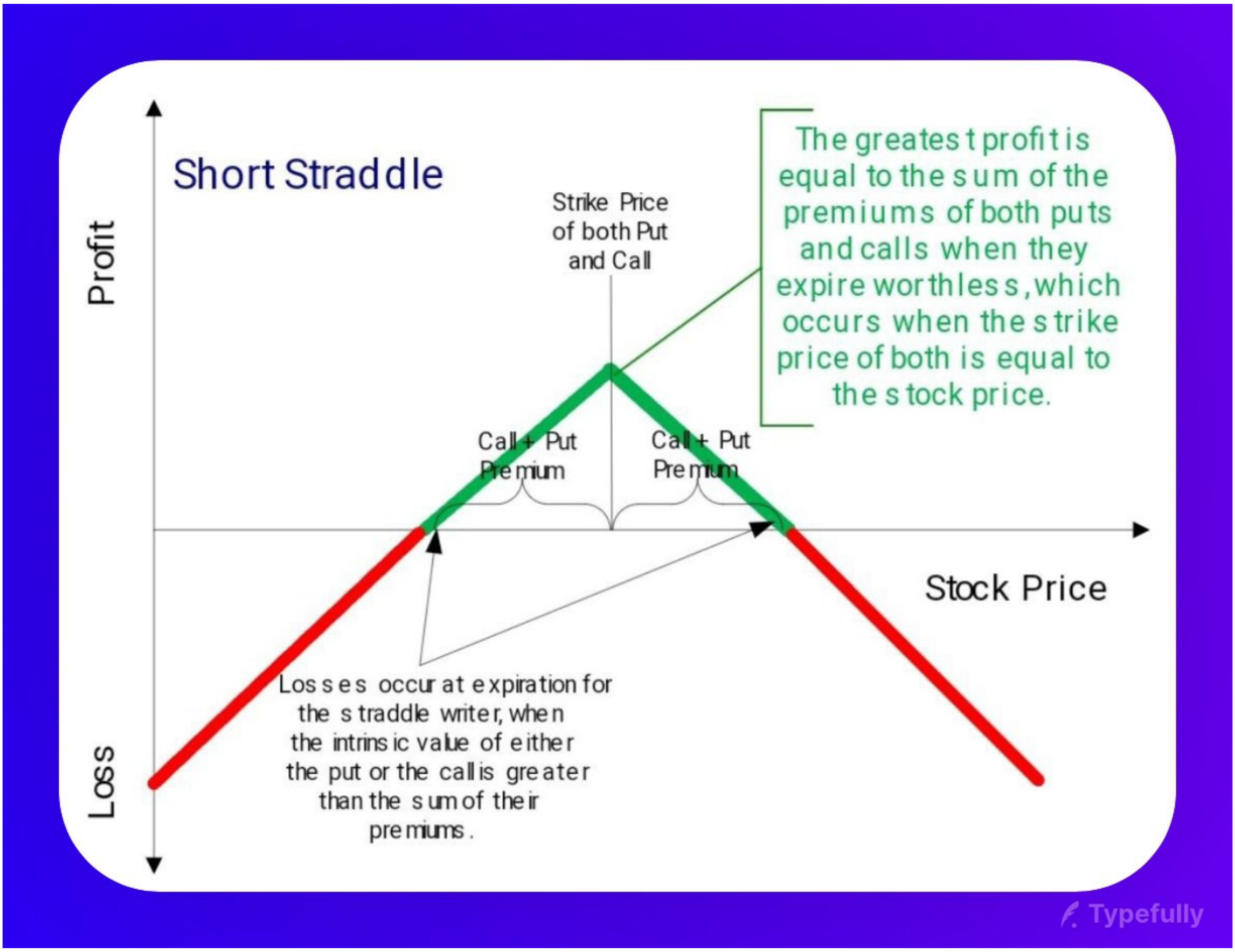
Max profit = Total premium received (call leg + put leg)

Max risk = Unlimited

(using SLs would be wise)

Upper breakeven = Strike price + Total Premium received

Lower breakeven = Strike price - Total Premium received



Essentially short straddles are initiated when the trader is confident about the market staying in a certain range (between the breakevens of the straddle)

Long-term short straddles usually require fewer adjustments since the range is wide.

Since unlimited loss is a component of the strategy, the trader has to adjust the strategy to increase profit/ mitigating risk

• ADJUSTMENTS

You will have to define your criteria based on your risk appetite and the gap between the breakevens.

Ex:- gap between the breakevens is 360 points, so I would prefer making adjustments on every 50-point move.

NOTE - one shouldn't enter short straddles with all their capital. Some capital should be allocated only for adjustments

1. Creating a second straddle

Suppose the straddle is initially made at 18700 strike price, then,

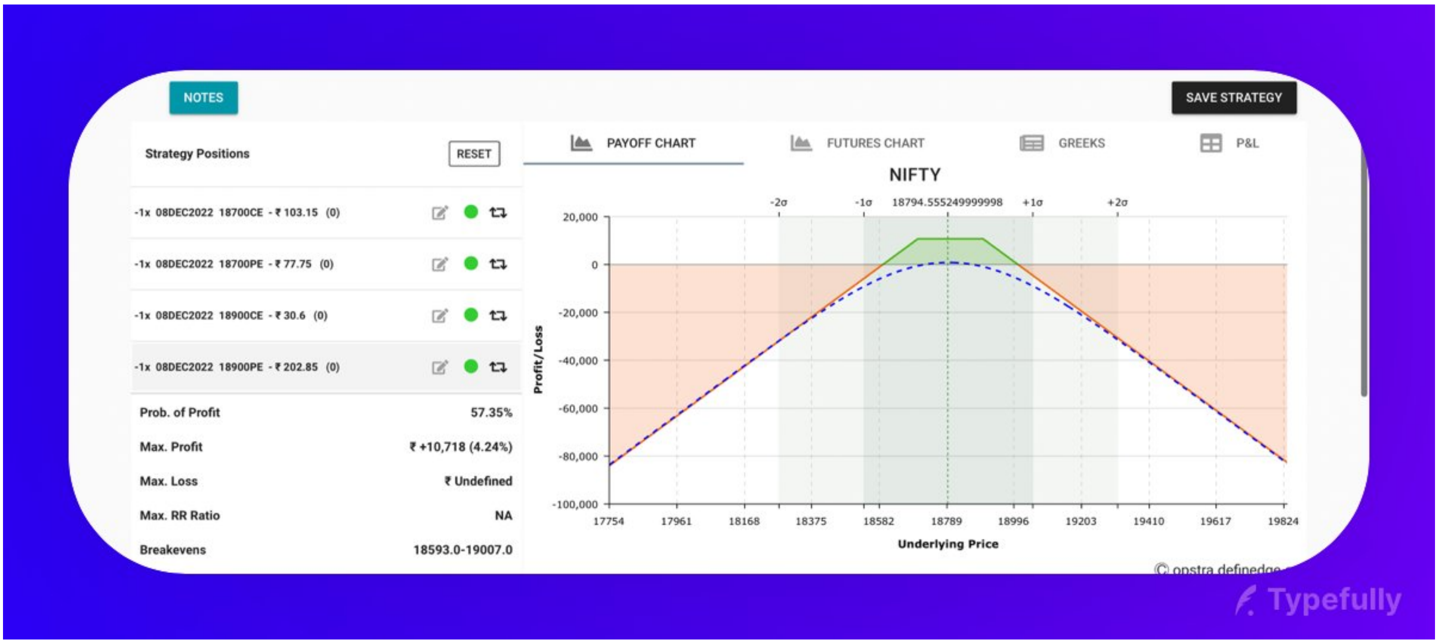
NIFTY moves up to 18794 (94 points from our strike price/ max profit point)

The trader can now create a new straddle at 19000 strike price.

Which provides a larger range

If one wants to have equal space for movement on both sides, he can sell the new straddle at,

Initial strike price ± 2*(Movement)

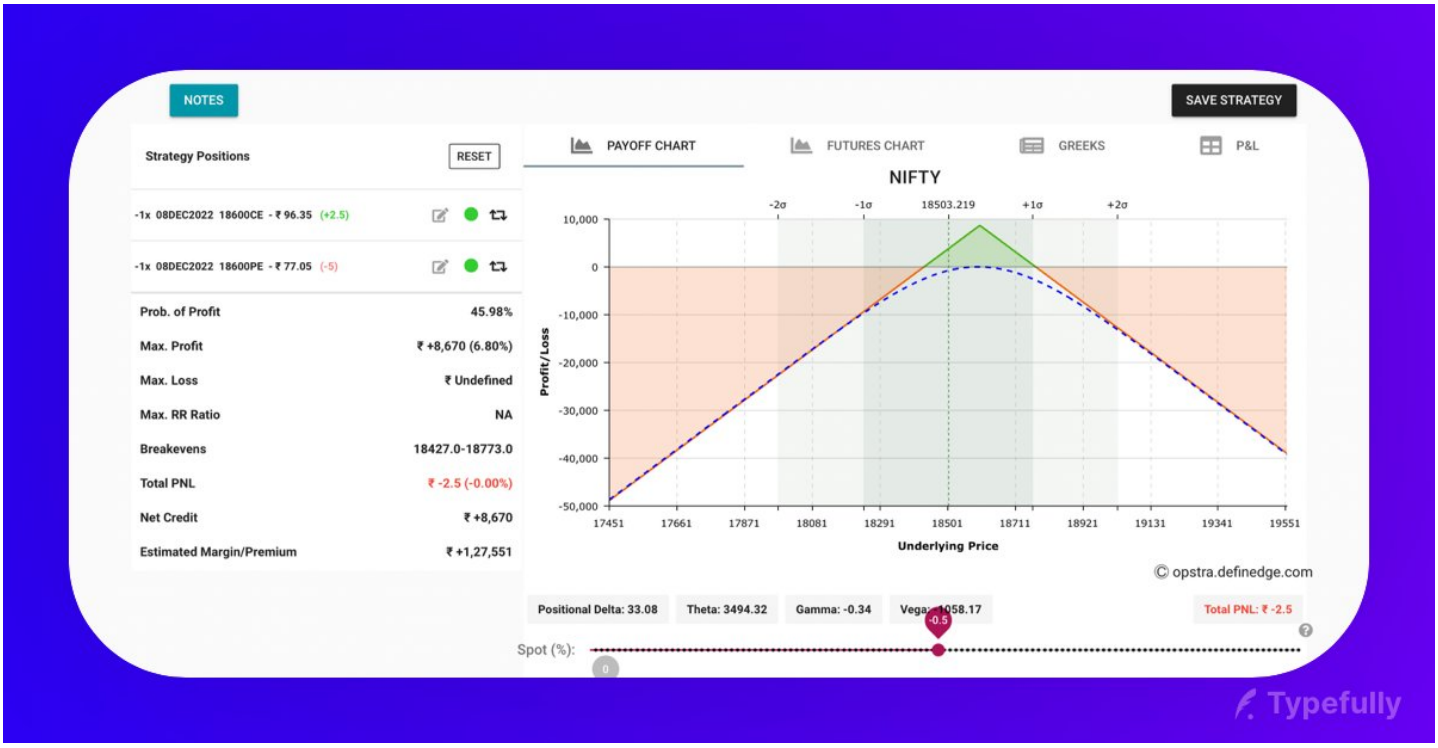


2. Adding 3rd position in the direction of the trend

In the given example,

NIFTY has shifted to 18499 from our strike price of 18600 (101 points)

The trader can sell a call option for wider range



3. Shift the straddle

If the underlying moves drastically in any direction,

The trader can book his profit/loss in the straddle and initiate a new one after the market is relatively calm

In the given example, the NIFTY has moved from 18600 to 18412
(188 points from the strike price)

4. Exit the losing leg and create a strangle

NIFTY has moved up by 86 points

We can keep the square off the short call option(at a loss)

and we can
1) Put an SL on the put leg (this would make it a directional trade)

or

2) We can sell a 18850 CE to create a strangle

5. Buying in the direction of the trend

In the below example,

NIFTY has moved 92 points from our strike price

We can buy 18850 CE to reduce the risk on the upper side.

We can also bring the buying side closer to make the upper side loss-free.

TERMINATING THE STRATEGY

• For profit booking, trailing stop loss is suggested so that maximum points can be extracted from the straddle

On the other hand,

• If one has lost over 2% of his/her total capital, he/she should probably terminate the strategy and book the loss.

That's all for this thread. If you like this, I'm sure you would also like my telegram channel. ❤■

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https://t.co/GHfoJevtw1

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> — Mohit Sharma (@mohitsharmadl) December 9, 2022