Twitter Thread by Sarang Sood



Sarang Sood
@SarangSood

THREAD ON DELTA (The most important GREEK)

Many traders don't indulge in understanding GREEKS because they think they are very complicated.

There are 4 primary greeks:

Delta
Gamma
Theta
Vega

In my experience, understanding DELTA is enough to take benefit of greeks.(1/n)

Delta measures the rate of change of options price based on the directional movement of the underlying.

So this means we can know in advance (theoretically) how much an option will move with the underlying & so we can prepare our strategies accordingly. (2/n)

Value of delta varies between 0 & 1 for calls and -1 & 0 for puts. This figure tells how much an option price will change, when the underlying moves 1 point. So example a delta of .2 of call indicates that for every 1 point change in the underlying, the price will move .2 (3/n)

For option writers who want to trade in neutral strategies like straddle, strangle, ratios, calendar etc, delta can be very helpful. So be it any complex strategy, knowing the NET DELTA can give you an idea of how your strategy will perform in different scenarios. (4/n)

Net delta is just the sum of the deltas of all the bull options (call+ & put-) minus the bear options (call- & put+).

So if we can track this, we will always be in the know of how much exposed our position is. It makes it easier then to adjust

our position. (5/n)

Even for directional option traders trading in risk defined strategies, it can be very useful because the net delta can give a fair idea of how much risk a trader is taking. Same goes for deep otm naked option sellers. It can tell exactly how much delta they are exposed to. (6/n)

We can also know if an option is spiking or falling through delta. So for example a call option has .4 delta & nifty moves 100 points. If it moves more than 40 points then the call is spiking & if it has moved only 30 points then it is falling. (7/n)

Even experienced option traders get confused of whether options have increased or decreased when underlying moves in high volatile moves. So with the help of this we can form a view of whether the premiums are falling or not. (8/n)

With options, premiums aren't everything. There is this crutial factor of distance of strike from the spot.
That's where it becomes complicated & delta takes that into account. Many times calls & puts have same premiums, but the distance from spot is different. (9/n)

Many traders think that their position is neutral because the premiums in both sides is equal, but infact it's not. So if the underlying moves towards the option which is closer to the spot, then the same priced option will move way faster than the other option. (10/n)

So a trader just needs to focus on the net delta of his position & how will he manage it if it breaches whatever predefined level. This will allow him to focus more on other important stuff, while the logistics of his position is objectively taken care of. (11/n)

Will make a thread on Gamma (the 2nd most important greek & more difficult to master) in the future, but if you follow delta for few months & actively manage it, you automatically can get the grasp of other greeks as well. (12/n)