Twitter Thread by Sarang Sood



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FINDING EDGE IN OPTIONS

24/08/15: Nifty gap down 250 points & another 250 after that. Previous few months return gone, but since I'm quick to take my losses, was saved from ruin. Before that my only edge in option selling was adjustments & my forever edge of following PA. (1/n)

I soon realised that theta decay with sound adjustments is not an edge, which i earlier thought was & which gave me good returns over the years. After that i went deeper in understanding volatility behaviour, how/where it manifests & all the discrepancies in option chain. (2/n)

With finding edge in logistics i mean how to keep the greeks in check, SL in place & optimum ways of adjustments with minimum slippages. So the main aim here is to write theta without following vol behaviour & having any actual knowledge of what's going on in the markets. (3/n)

A dedicated trader can learn all this in few years & it is something which is 'obvious' to become successful. But majority can't reach this level, as this also requires consistent hustle in live markets. All the seminar/webinar business teaches you till this level only.(4/n)

If you get passed this level though, the real work starts, when you have to find your real edge. This can't be taught in a webinar. It needs serious introspection of your trading skills, psychology & strategies in use, which ultimately allow you to book excellent profits. (5/n)

So you need to know when to use which strategy & use adjustments to fully extract it's potential or if view goes wrong then minimize damage or even come out profitable. If later happens back to drawing board, because you've been proven wrong in the crutial first step. (6/n)

Do this everyday, year after year & you have something. Putting all efforts in backtesting a strategy where maximum crowd is (like a straddle) & finding perfect entry/exits with a click of a button will not give an edge. In this process we miss on the bigger picture. (7/n)

Markets change so quickly that even if some strategy was doing well 2 years ago, most likely it will stop acting soon. If a trader is making consistent money in the same strategy year after year, his edge lies somewhere else not in the strategy itself. (8/n)

New option traders don't even know that there is more required other than knowing strategies & adjustments. Webinars are sold promising of giving an advantage, but majority of those selling can't really profit from it. Their real edge lies in finding those who seek an edge. (9/n)