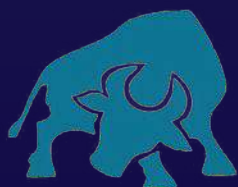


STRATEGIC HEDGING: ESSENTIAL TECHNIQUES FOR OPTION TRADERS



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Strategic Hedging:

Essential Techniques for Option Traders

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Thank you for choosing **BULLSMOVES** for your trading education. We are thrilled to have been a part of your journey towards mastering the art of trading. Your dedication and commitment have brought you to this point, and we are proud to have supported you along the way.

Enclosed within this booklet are the strategies and insights you've learned during the course, meticulously designed to guide you in your future trading endeavors. Each section aims to reinforce your knowledge and provide practical tools to enhance your trading skills.

Remember, our support doesn't end here. You are always welcome to reach out to us for assistance, whether you have questions about specific strategies or need general guidance. Our trading hub is open for you anytime, offering resources, community support, and expert advice to ensure you remain on the path to success.

Your success is our priority, and we are committed to helping you every step on the way. Don't hesitate to leverage our resources and reach out whenever needed. We believe in your potential and look forward to celebrating your future achievements.

Wishing you successful trading ahead!

BULLSMOVES Team

Importance Of Investing In The Indian Stock Market

Investing in the Indian stock market is a strategic financial decision that can offer substantial benefits. Here are key reasons why investing in this dynamic market is crucial:

Capitalizing on Economic Growth: India is one of the fastest-growing economies in the world. By investing in the Indian stock market, you can benefit from the country's economic growth. As businesses expand and new opportunities arise, the value of your investments can increase, leading to significant financial gains.

Beating Inflation: Inflation erodes the value of money over time, reducing your purchasing power. Investments in the stock market have historically provided returns that outpace inflation, helping to preserve and grow your wealth. By investing wisely, you can ensure that your money works for you, generating returns that not only keep pace with inflation but also surpass it.

Diversification: The Indian stock market offers a wide range of investment opportunities across various sectors and industries. This allows investors to diversify their portfolios, reducing risk and enhancing potential returns. Diversification can help mitigate losses in one sector with gains in another, leading to more stable and consistent investment performance.

Systematic Investment Plan (SIP): SIPs are an excellent way to invest regularly in the stock market. By investing a fixed amount at regular intervals, SIPs allow you to benefit from rupee cost averaging and compound interest. This disciplined approach can help build a substantial corpus over time, making it an ideal option for long-term wealth creation.

Mutual Funds: Mutual funds pool money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities. Managed by professional fund managers, mutual funds offer an easy and efficient way to invest in the stock market. They provide access to a diversified portfolio with relatively lower risk, making them suitable for both novice and experienced investors.

Wealth Creation and Financial Independence: Investing in the stock market can significantly contribute to long-term wealth creation. With the right strategies and a disciplined approach, you can achieve financial independence, fund your retirement, and meet other financial goals such as buying a house, funding education, or traveling.

Tax Benefits: Certain investments in the Indian stock market, such as Equity-Linked Savings Schemes (ELSS), offer tax benefits under Section 80C of the Income Tax Act. By investing in these schemes, you can reduce your taxable income while growing your wealth.

In summary, investing in the Indian stock market is a powerful tool for capitalizing on economic growth, beating inflation, and achieving long-term financial goals. Through systematic investment plans and mutual funds, you can benefit from professional management and diversification, making stock market investing accessible and rewarding for everyone.

To ensure you make the most of these opportunities, the Bullsmoves team is here to help you with all your financial planning needs. Our experts provide personalized guidance and support, helping you navigate the complexities of the stock market and achieve your financial aspirations

Introduction To Option Hedging

Option hedging is a crucial strategy for investors looking to mitigate risks in their portfolios. Here are key reasons why option hedging is essential and how it benefits investors:

Reducing Risk Easily: One of the primary advantages of option hedging is its ability to reduce risk effectively. By using options as a hedge, investors can protect their positions against adverse market movements, thereby minimizing potential losses. This makes option hedging a valuable tool for preserving capital and ensuring more stable returns.

No Need to Predict Market Directions: Unlike other trading strategies that rely on predicting market directions, hedging allows investors to manage risk without having to forecast where the market is headed. This is particularly useful in volatile markets, where predicting short-term movements can be challenging. Hedging provides a safety net, enabling investors to remain invested without the constant worry of market fluctuations.

Adjusting Risk Through Option Greeks: Option hedging strategies can be fine-tuned using option Greeks, which are measures of the sensitivity of an option's price to various factors. For instance, Delta measures the sensitivity to changes in the underlying asset's price, Gamma indicates the rate of change of Delta, Theta represents time decay, and Vega measures sensitivity to volatility. By understanding and utilizing these Greeks, investors can make precise adjustments to their hedges, optimizing their risk management strategies.

Versatile Risk Reduction: Hedging offers a variety of methods to reduce risk. Investors can use strategies like covered calls, protective puts, straddles, and strangles, among others. Each strategy serves different purposes and can be tailored to an investor's specific risk tolerance and market outlook. This versatility ensures that investors can always find a suitable hedging strategy, regardless of market conditions.

In Kerala, Bullsmoves is the premier destination for learning advanced option hedging concepts. Our comprehensive training programs are designed to equip investors with the knowledge and skills needed to effectively implement sophisticated hedging strategies. With Bullsmoves, you can master the art of hedging, ensuring that you are well-prepared to navigate the complexities of the options market and protect your investments.



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Open Interest in Trading
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UNIT 1 - BASICS OPTIONS

What are options !!

1. Options are known as derivatives because it derives their value from an underlying asset.
2. An option is a contract giving the buyer the right, but not the obligation, to buy (in the case of a call) or sell (in the case of a put) the underlying asset at a specific price on or before a certain date.

Why options..

1. Income
2. Hedging
3. Trading

Income

Income-based option hedging strategies are designed to generate consistent returns by leveraging options contracts while mitigating risk. These strategies typically involve selling options contracts to collect premiums, thereby generating income, while simultaneously implementing hedging techniques to protect against adverse market movements. By strategically selecting options with appropriate strike prices and expiration dates, investors aim to capitalize on market volatility while limiting potential losses. Income-based option hedging strategies require a thorough understanding of options pricing, market dynamics, and risk management principles to effectively execute and optimize returns over time.

Hedging

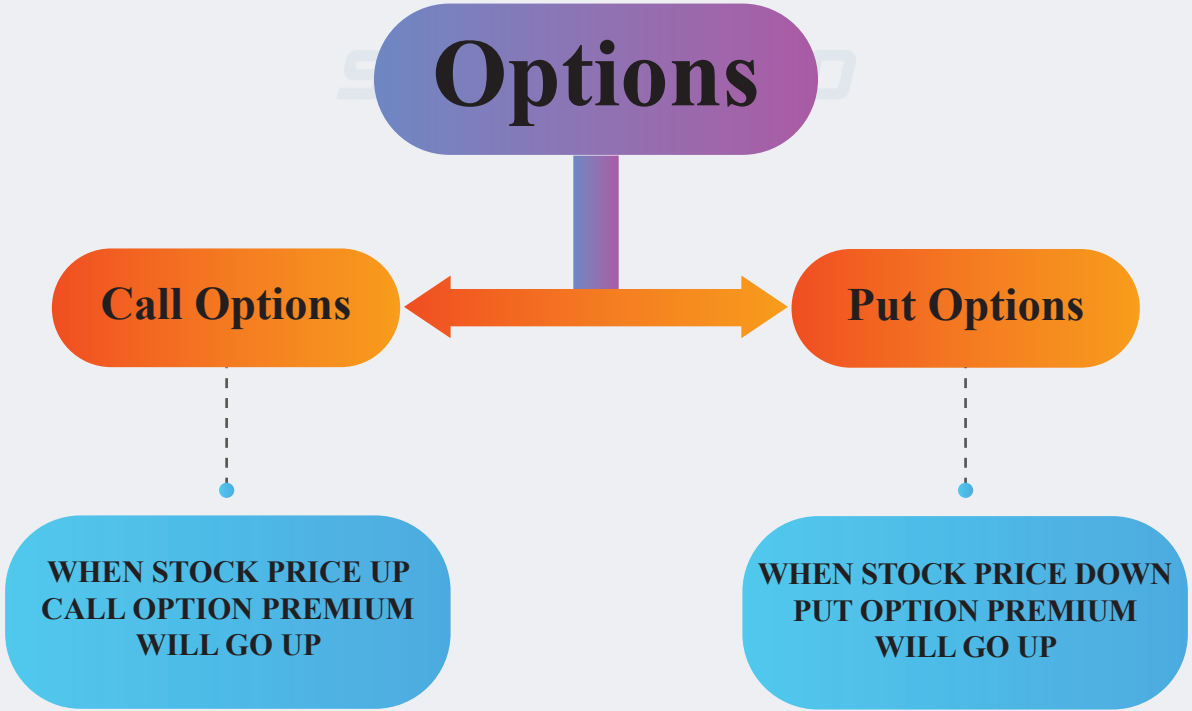
Options for hedging and protecting a portfolio offer investors the ability to mitigate downside risk while maintaining exposure to potential upside gains. By purchasing options contracts, investors can secure the right to buy or sell underlying assets at predetermined prices within specified timeframes. Put options can safeguard against declines in asset prices, allowing investors to sell assets at predetermined prices, while call options enable investors to benefit from potential price increases.

Additionally, strategies like protective puts and collars combine buying options with holding existing positions to limit losses or generate income. Options for hedging and protecting portfolios provide flexibility and customization to tailor risk management approaches according to individual investment objectives and market conditions.

Trading

Combining income trading and hedging for daily income involves executing options strategies that generate consistent returns while simultaneously protecting against market risks. One approach is to employ strategies like covered calls or cash-secured puts to generate income through premium collection while holding underlying assets. These strategies involve selling options contracts against existing holdings, thereby generating income on a regular basis.

Structure Of Call And Put Option



Call Options

Call option is a derivative contract between two parties. The buyer of the call option earns a right (it is not an obligation) to buy a particular asset from the call option seller for a stipulated period of time.



Expiry Date



Lot Size



Underlying Asset



Buyer & Seller

What is a derivative?

In everyday terms, a derivative is something that is based on or derived from something else. For instance, in cooking, a sauce might be considered a derivative of a basic stock. In finance, a derivative is a financial contract or instrument whose value is based on the performance of an underlying asset, index, or entity. It's like a side bet on the future value of something else.

Eg : Coconut oil and Coconut

Coconut oil price is intrinsically tied to the price of coconuts themselves. When coconut prices rise, the cost of coconut oil follows suit, and conversely, if coconut prices fall, so does the price of coconut oil. In this relationship, coconut oil acts as a derivative, deriving its value from the underlying asset, which is the coconut.

COCONUT OIL : DERIVATIVE
COCONUT : UNDERLYING ASSET

CRUDE OIL AND PETROL

"Crude oil serves as the foundational asset for the pricing of petrol. When the price of crude oil increases, the cost of petrol tends to rise accordingly. Conversely, if the price of crude oil decreases, petrol prices typically follow suit, reflecting this change. In this scenario, petrol functions as a derivative, its value directly influenced by fluctuations in the underlying asset, which is crude oil."

Current price of wheat per 1 Ton = 10000



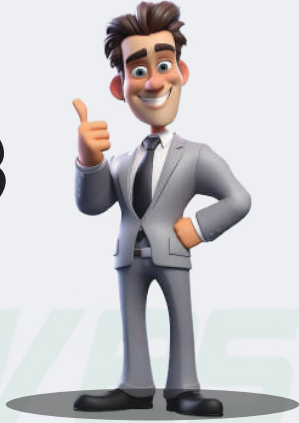
Vishnu is business man and wheat is the raw material of his business



Raju is a Wheat farmer

Not sure there is a chance price move to more than 10300 but Not ready to invest more on this because chance is low.

Price not move more than 10300, because some reason



Vishnu is business man and Wheat is the raw material for his business .Let us say he running a bread company and Raju is wheat farmer Both are very experienced in their field As per view of Raju (farmer) the Wheat price will not move more than 10300

As per Vishnu (Business man) view if price move above 10300 it will move further up drastically

If that happen (Vishnu's view) he will occur huge loss . If he buy @10000 the current price and then if it move down he will occur huge loss . . He is thinking what will he do ?

Current price of wheat per 1 Ton = 10000



Vishnu is business man and wheat is the raw material of his business



Raju is a Wheat farmer

I am ready to buy 1 ton wheat at 10300 On next month end .Keep the 100 as Token .And if I wish to exit from The contract i will

Ok no problem . If you exit From the trade i will not Return the token amount. And if you want to buy 1 ton Wheat at 10300 at that time i Ready to give you



Here Vishnu made an agreement with Raju

“I Am Ready To Buy 1 Ton Wheat At 10300 On Next Month End . Keep Rs 100/ As Token . But If I Wish To Exit From The Contract, I Will”

Raju agrees to this. He says

“Ok No Problem . If You Exit From The Trade I Will Not Return The Token Amount. And If You Want To Buy 1 Ton Wheat At 10300 At That Time I Am Ready To Give You”

Scenario Analysis

WHEAT PRICE AT MONTH END	VISHNU (Buyer)	REMARK	RAJU (Seller)	REMARK
9700	Will exit the trade, and book Rs.100 loss	Because current price of the wheat 9700 then why he buy this wheat at 10300+100=10400?	Do nothing and keep the Rs.100 and enjoy	As per the contract if Vishnu exit from the agreement Raju can keep the token
9800	Same as above	Same as above	Same as above	Same as above
9900	Same as above	Same as above	Same as above	Same as above
10000	Same as above	Same as above	Same as above	Same as above
10100	Same as above	Same as above	Same as above	Same as above
10200	Same as above	Same as above	Same as above	Same as above
10300	Same as above	Same as above	Same as above	Same as above
10400	Will buy wheat at 10300	No loss and No profit because his cost of the business 10300+100=10400	Will sell wheat to Vishnu at 10300. but no loss because first he got rs.100 token	No loss and No profit
10500	Will buy wheat at 10300	Will gets Rs.100 profit	As per the agreement, he has to sell. So he will sell wheat to Vishnu at 10300 when the market at 10500	Loss of Rs.100
10600	Will buy wheat at 10300	Will gets Rs.200 profit	As per the agreement, he has to sell. So he will sell wheat to Vishnu at 10300 when the market at 10600	Loss of Rs.200
10700	Will buy wheat at 10300	Will gets Rs.300 profit	As per the agreement, he has to sell. So he will sell wheat to Vishnu at 10300 when the market at 10700	Loss of Rs.300
10800	Will buy wheat at 10300	Will gets Rs.400 profit	As per the agreement, he has to sell. So he will sell wheat to Vishnu at 10300 when the market at 10800	Loss of Rs.400
10900	Will buy wheat at 10300	Will gets Rs.500 profit	As per the agreement, he has to sell. So he will sell wheat to Vishnu at 10300 when the market at 10900	Loss of Rs.500

At the end of the month Wheat price @ 9700

What will Vishnu do ?

He will exit from the contract because now wheat price is only Rs. 9700 in the market and he can buy it there . So he exit the contract and lost token amount of Rs.100.

What will Raju do ?

Do nothing. Because of Vishnu's exit he will enjoy Rs.100 profit
At the end of the month Wheat price @ 10000

What will Vishnu do ?

He will exit from the contract because now wheat price is only Rs.1000 in the market.

Then why should he buy wheat at 10300 from Raju . So he exit and also he lost Rs.100 token

What will Raju do ?

Do nothing Because of Vishnu's exit he will enjoy Rs.100 profit

At the end of the month Wheat price
@ 10300

What will Vishnu do ?

If he buy wheat from Raju at the agreed price Rs 10300/ , when market price of wheat is also

Rs.10300 , you may think it is a No profit No loss situation but Vishnu will still lose Rs.100 , which he gave as token at the start of the agreement

What will Raju do ?

Raju will sell as per the agreement price Rs.10300 . You may think it is a No profit No loss situation . But Raju will still gain Rs.100 profit , the token amount he received at the time of agreement .

At the end of the month Wheat price
@ 10400

What will Vishnu do ?

If he buy wheat from Raju at the agreement price 10300 , wheat market price is 10400 , Vishnu bought this from Raju at 10300 , It will show a profit of Rs.100? .That is $10400 - 10300 = 100$. But Vishnu had spend Rs.100 initially as token. So there is No profit No loss

What will Raju do ?

Raju will sell as per the agreement price Rs.10300 , now market price is 10400 so $10300 - 10400 = -100$ (100 loss) but he already received Rs.100 so no zero profit zero loss

At the end of the month Wheat price @ 10800

What will Vishnu do ?

If he buy wheat from Raju at the agreement price 10300 , wheat market price is 10800 ,

Vishnu bought this from Raju at 10300 , it showing $10800 - 10300 = 500$ profit but first Vishnu he spent Rs.100 as token so $500 - 100 = 400$ profit

What will Raju do ?

Raju will sell as per the agreement price 10300 , now wheat is 10800 so $10300 - 10800 = -500$ (500 loss) but he already received Rs.100 so $500 - 100 = 400$ loss

Coming To Call Options

Example Names	Real Name In Options
Vishnu	Option Buyer
Raju	Option Seller
10300	Strike
100	Premium
Month End	Expiry Date
1 Ton	Lot Size

Here Vishnu gave Rs. 100 to Raju that is the transaction we saw here, Vishnu gave Rs.100 to Raju and got the right to buy wheat at 10300 and Raju by receiving Rs.100 is selling this right to Vishnu .

Coming to options

Vishnu is called as “**Option Buyer**” because he is spending money to get the buying right at a specific price .

Raju is called as “**Option Seller**” because he is receiving money and selling that right to the buyer

10300 (The agreement price) is called as “**Strike Price**”

100 (token) is called as “**Premium**”

Month end is called as “**Expiry Date**”

1 Ton (Qty)is called as “**Lot Size**”

View Of Vishnu And Raju

Vishnu (Call Option Buyer)	Want The Wheat/Stock Price To Go Up
Raju (Call Option Seller)	Want To Wheat/Stock Price To Go Down
Call Option Buyer	Want Stock Price To Go Up
Call Option Seller	Want Stock Price To Go Down

What are the common things you can see from the table

WHEAT PRICE AT MONTH END	VISHNU (Call Buyer)	RAJU (Call Seller)
9700	-100	100
9800	-100	100
9900	-100	100
10000	-100	100
10100	-100	100
10200	-100	100
10300	-100	100
10400	0	0
10500	100	-100
10600	200	-200
10700	300	-300
10800	400	-400
10900	500	-500

Here you can see call Option Buyer lose only Rs.100 even if market goes too far against his view and he will get unlimited profit when his view is right
In call option seller's case it is just the opposite of call option buyer
Seller will get only Rs.100 when market goes in his favour but the Seller will incur unlimited loss when his view is wrong .

Maximum loss of Vishnu	100
Maximum profit of Vishnu	Un Limited
Maximum loss of Raju	Un Limited
Maximum profit Raju	100

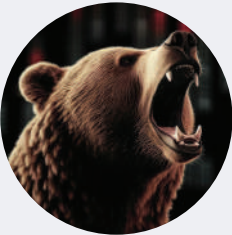
Call Option Buyer	Limited Loss And Unlimited Profit
Call Option Seller	Limited Profit And Unlimited Loss

Call Option Summery

- **If stock go up** : call option buyer will get profit
- **If stock go down** : call option seller get profit
- Option premium is always positive. No negative figures.
- Call option buyer has limited loss and unlimited profit
- Call option seller has unlimited loss and limited profit

Put Options

Put option is a derivative contract between two parties. The buyer of the put option earns a right (it is not an obligation) to exercise his option to sell a particular asset to the put option seller for a stipulated period of time.



Expiry Date



Lot Size



Underlying Asset



DEAL
Seller & Buyer
Buyer & Seller

Like call option, Put option is also a derivative and all derivative contract has Expiry date, Lot size, Underlying asset, and of course Buyer and Seller

Current price of ABC STOCK is 100



Vishnu : Trader



Raju : Trader

As per my analysis Price of the stock will not go below 80

I am holding 1000 Qty ABC stock, I heard rumor stock price will go below 80 this month end. but no idea how my manage this scenario?



Here ABC Stock is Trading now at 100 and Vishnu and Raju both are trader and investors

As we said earlier both are very experienced in their field. So both have their own view about stocks .

Here Raju thinks that ABC stock may go down but it will not go below 80 . But vishnu's case things are little different

He is holding 1000 qty of ABC STOCK and he is thinking that if market go below 80 it will go further down. For that reason he is a bit worried .

He is not ready to sell stock now because his view(stock price will go down) may be wrong and it goes up then he will lose money if he sold shares today. If stocks goes up he will gain. (upside potential) . Conversely if ABC stock go too low than he expected he will incur huge loss. .That's why he bit worried



Here vishnu made an agreement with raju such that Vishnu said “ i am ready to sell 1000 qty abc stock at 80 at this month end . Keep the 10 rupees as token .And if I wish to exit from the agreement i will, but you can't

Raju said “ ok no problem . If you exit from the trade i will not return the token amount. And if you wont sell 1000 qty abc stock i will buy on expiry As per raju’s view stock won’t go below 80 that’s why he agreed for this deal

ABC STOCK PRICE AT EXPIRTY	VISHNU ACTION	REMARK	RAJU ACTION	REMARK
40	Vishnu will sell his stock at 80	Market price is 80 and he sold 40 So $80-40-10=30$ profit	As per the agreement Raju bought ABC stock at 80	$40-80-10= -30$ Loss
50	Vishnu will sell his stock at 80	Market price is 80 and he sold 50 So $80-50-10=20$ profit	As per the agreement Raju bought ABC stock at 80	$50-80-10= -20$ Loss
60	Vishnu will sell his stock at 80	Market price is 80 and he sold 60 So $80-60-10=10$ profit	As per the agreement Raju bought ABC stock at 80	$60-80-10= -10$ Loss
70	Vishnu will sell his stock at 80	Market price is 80 and he sold 70 So $80-70-10=0$ No profit and loss	As per the agreement Raju bought ABC stock at 80	$70-80-10= 0$ No profit and No loss
80	Vishnu will exit from the agreement	Beuase stock price of ABC is 80 but he paid 10 Rs token, $10*1000=10000$ Loss	So Raju keep the token amount and enjoy	10 Profit
90	Vishnu will exit from the agreement	Stock price higher than agreed price so he will not So 10 loss	So Raju keep the token amount and enjoy	10 Profit
100	Vishnu will exit from the agreement	Stock price higher than agreed price so he will not So 10 loss	So Raju keep the token amount and enjoy	10 Profit
110	Vishnu will exit from the agreement	Stock price higher than agreed price so he will not So 10 loss	So Raju keep the token amount and enjoy	10 Profit
120	Vishnu will exit from the agreement	Stock price higher than agreed price so he will not sell. Therefore Rs 10 loss	So Raju keep the token amount and enjoy	10 Profit
130	Vishnu will exit from the agreement	Stock price higher than agreed price so he will not sell. Therefore Rs 10 loss	So Raju keep the token amount and enjoy	10 Profit
140	Vishnu will exit from the agreement	Stock price higher than agreed price so he will not sell. Therefore Rs 10 loss	So Raju keep the token amount and enjoy	10 Profit
150	Vishnu will exit from the agreement	Stock price higher than agreed price so he will not sell. Therefore Rs 10 loss	So Raju keep the token amount and enjoy	10 Profit

Abc stock at 40 at the expiry day of the agreement

What Will Vishnu do ?

He will sell his shares to Raju at 80 (agreement price) now market price is 40 so he made profit of this transaction $80 - 40 = 40$ profit and he spend 10 as token so net profit is $40 - 10 = 30$

What will Raju do ?

Because of the agreement he will buy abc shares at 80 when abc trading at 40 so he made loss of $80 - 40 = 40$ he already received 10 so net loss is 30

Abc stock at 60 at the expiry day of the agreement

What will Vishnu do ?

He will sell his shares to Raju at 80 (agreement price) now market price is 60 so he made a profit from this transaction $80 - 60 = 20$ profit and he spend 10 as token so net profit is $20 - 10 = 10$

What will Raju do ?

Because of the agreement he will buy abc shares at 80 when abc trading at 60. So he made loss of $80 - 60 = 20$ he already received 10 so net loss is 10

Abc stock at 80 at the expiry day of the agreement

What will Vishnu do ?

He will sell his shares to Raju at 80 (agreement price) now market price is 80 so he made profit from this transaction $80 - 80 = 0$ profit or loss ,and he spend 10 as token so net loss is 10

What will Raju do ?

Because of the agreement he buy abc shares at 80 when abc trading at 80 so he made loss of $80 - 80 = 0$. He already received 10 so net profit is 10

EXAMPLE NAMES	REAL NAME IN OPTIONS
Vishnu	Put Option Buyer
Raju	Put Option Seller
80	Strike Price
10	Premium
Month End	Expiry Date
1000	Lot Size

Here Vishnu gave Rs.10 to Raju and buying a right to sell abc stock at 80 so here we call Vishnu as put option buyer

Here Raju is receiving Rs.10 and sell this right to Vishnu so we call Raju as put option seller

80 (agreement price) we call as strike price, 10(token) we call as premium,Month end we call as expiry date and 1000(qty) we call as lot size.

View Of Raju And Vishnu

VISHNU (PUT OPTION BUYER)	WANT STOCK PRICE TO GO DOWN
RAJU (PUT OPTION SELLER)	WANT STOCK PRICE TO GO UP

PUT OPTION BUYER	WANT STOCK PRICE TO GO DOWN
PUT OPTION SELLER	WANT STOCK PRICE TO GO UP

What are the common things you can see the table

ABC STOCK PRICE AT EXPIRY	VISHNU PNL (PUT OPTION Buyer)	RAJU PNL (PUT OPTION Seller)
40	30000	-30000
50	20000	-20000
60	10000	-10000
70	0	0
80	-10000	10000
90	-10000	10000
100	-10000	10000
120	-10000	10000
130	-10000	10000
140	-10000	10000
150	-10000	10000
Maximum Loss of Vishnu		-10000
Maximum Profit of Vishnu		Unlimited
Maximum Profit of Raju		10000
Maximum Loss of Raju		Unlimited

like call option here also The buyer (put) has very limited loss and unlimited profit, while put option seller has very limited profit and unlimited loss .

Call Option Put Option Summery

Option Type	Stock price up	Option Type	Option Type
Call Option	Premium up	Premium Down	Buyer: Limited Seller : Unlimited
Put Option	Premium down	Premium Up	Buyer: Limited Seller : Unlimited

1. **When stock price go up what will be your choose ?**
 - a. Buy put option
 - b. Buy call options

2. **When Stock price go up what will you choose ?**
 - a. Sell call option
 - b. Sell put option

3. **What is the maximum loss of call option buyer?**
 - a. Unlimited
 - b. Premium amount
 - c. 1000

4. **When Stock price go down , what will you choose ?**
 - a. Buy put options
 - b. Buy call options

5. **When Stock price go down , what will you choose ?**
 - a. Sell call options
 - b. Sell put options

6. **Maximum profit of put option seller**
 - a. Unlimited
 - b. Premium amount
 - c. 1000

7. **What is market view when a trader sell a call options**
 - a. Bullish
 - b. Bearish

UNIT 2 - OPTIONS PRICING

In derivative trading, pricing is a critical factor. Understanding the pricing of a product involves determining whether its cost is high or low at the time of buying or selling. To make informed decisions, it is essential to know the exact or theoretical price of the product. In this course, we will learn about the pricing of Call and Put Options.

Call Option Pricing

To calculate the pricing of a call option, you need to use the following formula:

$$\text{Call Option Pricing} = \text{Stock Price} - \text{Strike Price}$$

Here, the stock price refers to the underlying asset price, also known as the spot price. Let's explore some examples to understand this concept better.

Example 1

- Stock Price: 23,000
- Strike Price: 22,500

Using the formula:

$$\text{Call Option Price} = 23,000 - 22,500 = 500$$

Therefore, the theoretical price of a 22,500 call option is 500.

Example 2

- Stock Price: 23,000
- Strike Price: 22,800

Using the formula:

$$\text{Call Option Price} = 23,000 - 22,800 = 200$$

Therefore, the theoretical price of a 22,800 call option is 200.

Example 3

- Stock Price: 23,000
- Strike Price: 22,900

Using the formula:

$$\text{Call Option Price} = 23,000 - 22,900 = 100$$

Therefore, the theoretical price of a 22,900 call option is 100.

Example 4

- Stock Price: 23,000
- Strike Price: 23,300

Using the formula:

$$\text{Call Option Price} = 23,000 - 23,300 = -300$$

In this case, we obtain a negative value. In the derivatives market, premiums cannot be negative. Thus, we consider the premium to be zero.

Therefore, the price of a 23,300 call option is 0.

Example 5

- Stock Price: 23,000
- Strike Price: 23,400

Using the formula:

$$\text{Call Option Price} = 23,000 - 23,400 = -400$$

Similarly, we obtain a negative value, which we consider as zero.

Therefore, the price of a 23,400 call option is 0.

Stock Price Now 23500

Strike Price	Premium
22800 CE	
22900 CE	
23500 CE	
23800 CE	
23900 CE	
24500 CE	
22000 CE	

Now what are things you notice in option premium in different strike?

- All CE Strike prices above stock price has zero value
- All CE Strike price below the stock price has value!

Put Option Pricing

To calculate the pricing of a put option, you need to use the following formula:

$$\text{Put Option Pricing} = \text{Strike Price} - \text{Stock Price}$$

Here, the stock price refers to the underlying asset price, also known as the spot price. Let's explore some examples to understand this concept better.

Example 1

- **Stock Price** : 23,000
- **Strike Price** : 23500

Using the formula:

$$\text{Put Option Price} = 23500 - 23000 = 500$$

Therefore, the theoretical price of a 23500PE option is 500.

Example 2

- **Stock Price** : 23,000
- **Strike Price** : 23200

Using the formula:

$$\text{Put Option Price} = 23200 - 23000 = 200$$

Therefore, the theoretical price of a 23200 PE option is 200.

Example 3

- **Stock Price** : 23,000
- **Strike Price** : 23100

Using the formula:

$$\text{Put Option Price} = 23100 - 23000 = 100$$

Therefore, the theoretical price of a 23100 PE option is 100.

Example 4

- **Stock Price** : 23,000
- **Strike Price** : 22700

Using the formula:

$$\text{Put Option Premium} = 22700 - 23000 = -300$$

In this case, we obtain a negative value. In the derivatives market, premiums cannot be negative. Thus, we consider the premium to be zero.

Therefore, the price of a 22700PE option is 0.

Example 5

- **Stock Price** : 23,000
- **Strike Price** : 22600

Using the formula:

$$\text{Put Option Premium} = 22600 - 23000 = -400$$

In this case, we obtain a negative value. In the derivatives market, premiums cannot be negative. Thus, we consider the premium to be zero.

Therefore, the price of a 22600 PE option is 0.

Stock Price Now 23000

Strike Price	Premium
22800 CE	
22900 CE	
23500 CE	
23800 CE	
23900 CE	
24500 CE	
22000 CE	

Now what are things you notice in option premium in different strike?

- All PE strike prices Below stock price has zero value
- All PE Strike price Above the stock price has value!

Understanding the Break Even Point in Options Trading

In the realm of options trading, grasping the concept of the break-even point is paramount. It serves as a beacon guiding traders to discern the most optimal strike prices for their option strategies and adjustments. Understanding the break-even point empowers traders to make informed decisions, potentially maximizing profits and minimizing losses.

Let's delve into the intricacies of the break-even point through a series of illustrative examples, focusing on call option buyers.

Call Option Buyer Break Even

Example 1

Consider a scenario where a call option buyer purchases a 21000 CE (Call European) option at a premium of 100. Upon expiration, if the stock price settles at 21500, the calculation unfolds as follows:

Call Option Pricing = Stock Price – Strike Price

$$= 21500 - 21000$$

$$= 500$$

Since the option was acquired at 100 and now stands at 500, the profit is computed as:

$$500 - 100 = 400 \text{ Profit}$$

Example 2

Continuing with the same call option, if the stock closes at 21200 upon expiration, the PNL calculation evolves as follows:

Call Option Pricing = Stock Price – Strike Price

$$= 21200 - 21000$$

$$= 200$$

Hence, the profit equals:

$$200 - 100 = 100 \text{ Profit}$$

Example 3

In a scenario where the stock expires at 20900 ,the calculation transpires as follows:

Call Option Pricing = Stock Price – Strike Price

$$= 20900 - 21000$$

$$= -100 = 0$$

This leads to a loss equivalent to the initial premium paid:

$$0 - 100 = 100 \text{ loss}$$

Example 4

Should the stock close exactly at the strike price of 21000 upon expiration, the calculation yields:

Call Option Pricing = Stock Price – Strike Price

$$= 21000 - 21000$$

$$= 0$$

Resulting in a loss equivalent to the premium paid:

$$0 - 100 = 100 \text{ loss}$$

Example 5

When the stock expires at 21100, the calculation demonstrates no profit or loss:

Call Option Pricing = Stock Price – Strike Price

$$\begin{aligned} &= 21100 - 21000 \\ &= 100 \end{aligned}$$

Hence, $100 - 100 = 0$ No Profit No loss

Example 6

In the scenario where the stock closes at 21101 upon expiration, the calculation unfolds as:

Call Option Pricing = Stock Price – Strike Price

$$\begin{aligned} &= 21101 - 21000 \\ &= 101 \end{aligned}$$

Resulting in a profit of:

$$101 - 100 = 1 \text{ Profit}$$

Break-even Point Analysis

From the examples provided, we discern a critical insight: the break-even point for a call option buyer is determined by adding the strike price and the option premium.

Illustratively

Break-even Point = Strike Price + Option Premium

By employing this formula, traders can identify the threshold above which the call option buyer realizes profits upon expiration. Any scenario below this level implies a loss for the call option buyer.

Call Option Seller Break Even

Example 1

Consider a scenario where a call option Seller Sold a 21000 CE (Call European) option at a premium of 100. Upon expiration, if the stock price settles at 21500, the calculation unfolds as follows:

Call Option Pricing = Stock Price – Strike Price

$$\begin{aligned} &= 21500 - 21000 \\ &= 500 \end{aligned}$$

Since the option was sold at 100 and now stands at 500, the PNL is calculated as:

$$100 - 500 = 400 \text{ loss}$$

Example 2

Continuing with the same call option, if the stock closes at 21200 upon expiration, the PNL calculation evolves as follows:

Call Option Pricing = Stock Price – Strike Price

$$\begin{aligned} &= 21200 - 21000 \\ &= 200 \end{aligned}$$

Hence

$$100 - 200 = 100 \text{ Loss}$$

Example 3

In a scenario where the stock expires at 20900, the calculation transpires as follows:

Call Option Pricing = Stock Price – Strike Price

$$\begin{aligned} &= 20900 - 21000 \\ &= -100 = 0 \end{aligned}$$

Here we get full premium profit
 $100 - 0 = 100$ Profit

Example 4

Should the stock close exactly at the strike price of 21000 upon expiration, the calculation yields:

Call Option Pricing = Stock Price – Strike Price

$$= 21000 - 21000$$
$$= 0$$

Here we get full premium Profit :
 $100 - 0 = 100$ Profit

Example 5

When the stock expires at 21100, the calculation transpires as follows:

Call Option Pricing = Stock Price – Strike Price

$$= 21100 - 21000$$
$$= 100$$

Hence

$$100 - 100 = 0$$

So No Profit No loss

Example 6

In the scenario where the stock closes at 21101 upon expiration, the calculation unfolds as:

Call Option Pricing = Stock Price – Strike Price

$$= 21101 - 21000$$
$$= 101$$
$$100 - 101 = 1 \text{ loss}$$

"In analyzing the dynamics of call options, it becomes evident that both the buyer and the seller share a common break-even point, calculated as the sum of the strike price and the option premium. However, their profit and loss trajectories diverge significantly.

For the call option buyer, profitability is contingent upon the stock price exceeding this combined threshold. Conversely, the call option seller faces potential losses should the stock price surpass this level at expiration, despite favorable outcomes under other circumstances, leading to a net loss.

Crucially, the inflection point where the call option buyer begins to profit coincides with the point where the call option seller starts incurring losses, marking a pivotal juncture in their respective positions."

Put Option Buyer Break Even

Example 1

Consider a scenario where a Put option buyer purchases a 20000 PE (Put European) option at a premium of 100. Upon expiration, if the stock price settles at 19500, the calculation unfolds as follows:

Put Option Pricing = Strike price – Stock Price

$$\begin{aligned} &= 20000 - 19500 \\ &= 500 \end{aligned}$$

Since the option was acquired at 100 and now stands at 500, the profit is computed as:

$$500 - 100 = 400 \text{ Profit}$$

Example 2

Continuing with the same Put option, if the stock closes at 19800 upon expiration, the profit calculation evolves as follows:

Put Option Pricing = Strike price – Stock Price

$$= 20000 - 19800$$

$$= 200$$

Hence, the profit equals:

$$200 - 100 = 100 \text{ Profit}$$

Example 3

In a scenario where the stock expires at 19900, , the calculation transpires as follows:

Put Option Pricing = Strike price – Stock Price

$$= 20000 - 19900$$

$$= 100$$

$$= 100 - 100 = \text{No profit No Loss}$$

Example 4

Should the stock close exactly at the strike price of 20000 upon expiration, the calculation yields:

Put Option Pricing = Strike price – Stock Price

$$= 20000 - 20000$$

$$= 0$$

$$0 - 100 = 100 \text{ loss}$$

Example 5

When the stock expires at 20100, the calculation demonstrates no profit or loss:

Put Option Pricing = Strike price – Stock Price

$$= 20000 - 20100$$

$$= -100 = 0$$

$$0 - 100 = 100 \text{ Loss}$$

Example 6

In the scenario where the stock closes at 20899 upon expiration, the calculation unfolds as:

Put Option Pricing = Strike price – Stock Price

$$= 2000 - 20899$$

$$= 101$$

Resulting in a profit of:

$$101 - 100 = 1$$

Break-Even Point Analysis

From the examples provided, we discern a critical insight: the break-even point for a Put option buyer is determined by subtracting the strike price and the option premium.

Illustratively

Break-even Point = Strike Price - Option Premium

By employing this formula, traders can identify the threshold Below which the Put option buyer realizes profits upon expiration. Any scenario below this level implies a loss for the Put option buyer.

Put Option Seller Break Even

Example 1

Consider a scenario where a Put option Seller Sold a 20000 PE (Put European) option at a premium of 100. Upon expiration, if the stock price settles at 19500, the calculation unfolds as follows:

Put Option Pricing = Strike price – Stock Price

$$= 20000 - 19500$$

$$= 500$$

Since the option was sold at 100 and now stands at 500, the PNL is calculated as:

$$100 - 500 = 400 \text{ loss}$$

Example 2

Continuing with the same call option, if the stock closes at 19800 upon expiration, the PNL calculation evolves as follows:

Put Option Pricing = Strike price – Stock Price

$$= 20000 - 19800$$

$$= 200$$

Hence, the profit equals:

$$100 - 200 = 100 \text{ Loss}$$

Example 3

In a scenario where the stock expires at 19900, the calculation transpires as follows:

Put Option Pricing = Strike price – Stock Price

$$= 20000 - 19900$$

$$= 100$$

$$100 - 100 = 0 \text{ No profit No loss}$$

Example 4

Should the stock close exactly at the strike price of 20000 upon expiration, the calculation yields:

Put Option Pricing = Strike price – Stock Price

$$= 20000 - 20000$$

$$= 0$$

This leads to get full premium Profit :

$$100 - 0 = 100 \text{ Profit}$$

Example 5

When the stock expires at 20500 , the calculation transpires as follows:

Put Option Pricing = Strike price – Stock Price

$$\begin{aligned} &= 20000 - 20500 \\ &= -500 = 0 \end{aligned}$$

This leads to get full premium Profit :

$$100 - 0 = 100 \text{ Profit}$$

Example 6

In the scenario where the stock closes at 19899 upon expiration, the calculation unfolds as:

Put Option Pricing = Strike price – Stock Price

$$\begin{aligned} &= 20000 - 19899 \\ &= 101 \\ 100 - 101 &= 1 \text{ loss} \end{aligned}$$

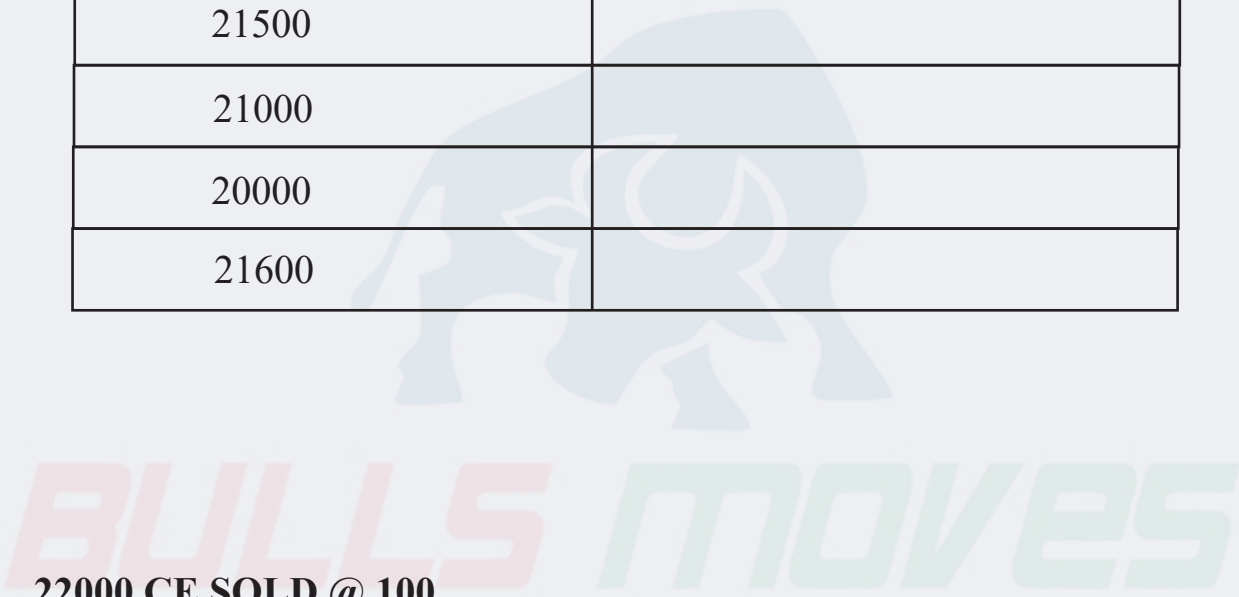
The above examples offer valuable insights, particularly regarding the break-even formula shared by both put option buyers and sellers: calculated as the difference between the strike price and the option premium. However, the implications diverge significantly between the two parties.

Break Even : Strike Price – Option Premium

For the put option buyer, profitability is contingent upon the stock price falling below this calculated threshold at expiration. Conversely, unfavorable outcomes prevail in all other scenarios, resulting in losses for the buyer. In contrast, for the put option seller, losses are incurred solely if the stock price expires below the agreed-upon threshold, while all other outcomes yield profits for the seller.

21500 CE BOUGHT @ 100

Stock Price Expired @	PNL
21800	
21900	
21500	
21000	
20000	
21600	



22000 CE SOLD @ 100

Stock Price Expired @	PNL
21600	
21500	
22200	
22500	
21550	
22500	

22000 PE BOUGHT @ 100

Stock Price Expired @	PNL
22200	
22100	
22300	
21900	
21800	
21700	
21850	

22000 PE Sold100

Stock Price Expired @	PNL
22200	
22100	
22300	
21900	
21700	
21950	

Case Studies



I Bought 450 call option at 4.5

Theoretical breakeven price = $450 + 4.5 = 454.5$



STAY HEDGED

Biocon 450 call option sold at 9.2 on 16/09/2020, Biocon price at 437

Profit = $9.2 - 4.5 = 4.7 * 2300$ (lot size) = 10810

Theoretically profit start (Breakeven price of call option) : Strike price + option premium

So $450 + 4.5 = 454.5$

But we booked profit before the breakeven price. This is due to the increased demand of the call option when Biocon stock price went up.

All Theoretical Price Match Only On The Expiry Day

"Minimize risk, maximize reward."



STAY HEDGED

Option Buyer Breakeven Summery

- Call option buyer breakeven price theoretically $\text{Strike Price} + \text{Option Premium}$.
- Put option buyer breakeven price theoretically $\text{Strike Price} - \text{Option Premium}$
- All theoretical calculation match only on the expiry day.



Strike Price Types

In the world of options trading, there are three primary types of strike prices: At The Money (ATM), Out of The Money (OTM), and In The Money (ITM). Each of these strike prices behaves differently based on their relationship to the stock price.

ATM (At The Money)

An ATM strike price is the one closest to the current stock price.

Example 1

Stock Price : 23,000

ATM Call Option : 23,000 Call Option

ATM Put Option : 23,000 Put Option

Generally, ATM strike prices have little to no intrinsic value. Occasionally, they may have a small intrinsic value.

Example 2

Stock Price : 23,005

ATM Call/Put Option : 23,000

Intrinsic Value of 23,000 Call Option : $23,005 - 23,000 = 5$ points

OTM (Out of The Money)

OTM strike prices differ for call and put options:

Call Options:

All strike prices above the current stock price.

Example 3

Stock Price : 23,000

OTM Call Options : 23,100, 23,200, 23,300, 23,400, etc.

OTM call options have zero intrinsic value and only possess time value.

Put Options

All strike prices below the current stock price.

Example 1

Stock Price : 23,000

OTM Put Options : 22,900, 22,800, 22,700, 22,600, etc.

OTM put options also have zero intrinsic value and only possess time value.

ITM (In The Money)

ITM strike prices also differ for call and put options:

Call Options:

All strike prices below the current stock price.

Example 2

Stock Price : 23,000

ITM Call Options : 22,900, 22,800, 22,700, 22,600, etc.

ITM call options have both intrinsic value and time value, which is why they have higher premiums compared to ATM and OTM options.

Put Options:

All strike prices above the current stock price.

Example 3

Stock Price : 23,000

ITM Put Options : 23,100, 23,200, 23,300, 23,400, etc.

ITM put options also have both intrinsic value and time value, contributing to their higher premiums compared to ATM and OTM options.

Understanding these strike price types and their behaviors is crucial for effective options trading strategies.

STOCK PRICE 23000		
CE	STRIKE	PE
ITM CALL	22100	OTM PUT
	22200	
	22300	
	22400	
	22500	
	22600	
	22700	
	22800	
	22900	
ATM CALL	23000	ATM PUT
OTM CALL	23100	ITM PUT
	23200	
	23300	
	23400	
	23500	
	23600	
	23700	
	23800	

Option Trading Concepts

Call Option Buy

Example

- **Market Outlook :** Bullish
- **Stock Price :** 100
- **Strategy :** Purchase a Call Option (100 CE) at approximately 2

Financial Implications

- **Maximum Loss :** 2 (Premium Paid)
- **Maximum Profit :** Unlimited

Call Option Sell

Example

- **Market Outlook :** Bearish
- **Stock Price :** 100
- **Strategy :** Sell a Call Option (100 CE) at approximately 2

Financial Implications

- **Maximum Loss :** Unlimited
- **Maximum Profit :** 2 (Premium Received)

Put Option Buy

Example

- **Market Outlook :** Bearish
- **Stock Price :** 100
- **Strategy :** Purchase a Put Option (100 PE) at approximately 2

Financial Implications

- **Maximum Loss :** 2 (Premium Paid)
- **Maximum Profit :** Unlimited

Put Option Sell

Example

- **Market Outlook** : Bullish
- **Stock Price** : 100
- **Strategy** : Sell a Put Option (100 PE) at approximately 2

Financial Implications

- **Maximum Loss** : Unlimited
- **Maximum Profit** : 2 (Premium Received)

Summary Of Option Basics

This section summarizes the fundamental concepts of options trading, with all calculations based on the expiry of the options.

- **Call Option Premium** : $\text{Stock Price} - \text{Strike Price}$
- **Put Option Premium** : $\text{Strike Price} - \text{Stock Price}$
- **Option Premium** : Always a positive number
- **Call Option Buyer Break-Even Point** : $\text{Strike Price} + \text{Option Premium}$
- **Put Option Buyer Break-Even Point** : $\text{Strike Price} - \text{Option Premium}$
- **At-The-Money (ATM) Strike** : $\text{Stock Price} - \text{Strike Price} \approx 0$
- **Out-of-The-Money (OTM) Call Option Strike** : Any strike price above the ATM strike
- **Out-of-The-Money (OTM) Put Option Strike** : Any strike price below the ATM strike
- **In-The-Money (ITM) Call Option Strike** : Any strike price below the ATM strike
- **In-The-Money (ITM) Put Option Strike** : Any strike price above the ATM strike

UNIT 3 - OPTION PAYOFF

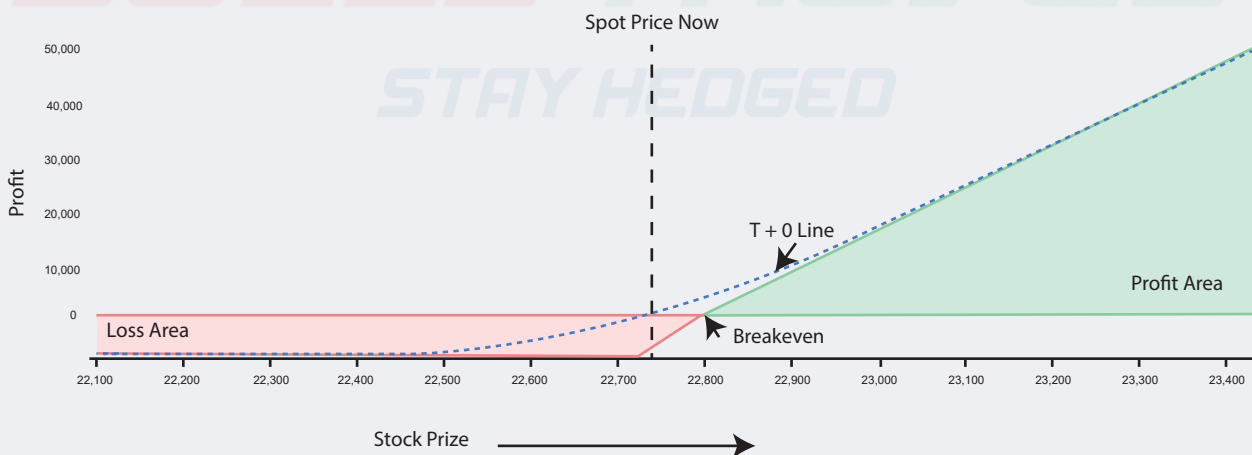
An option payoff chart plays a crucial role in executing multi-leg (hedging) trades. It provides comprehensive information, such as risk, reward, and the risk-reward ratio over different time periods.

Like all other charts, the option payoff chart has two axes: the X-axis and the Y-axis.

- **Y-Axis** : Represents profit and loss. The zero point on this axis indicates a break-even point, where there is neither profit nor loss.
- **X-Axis** : Represents the stock price. Moving from left to right, the stock price increases. At the center of the X-axis, there is a vertical dotted line called the price line, indicating the current stock price (underlying asset).

Additionally, the chart features a dotted curved line known as the T+0 line. This line provides approximate live calculations, showing potential profit or loss if the stock price moves to a specific point.

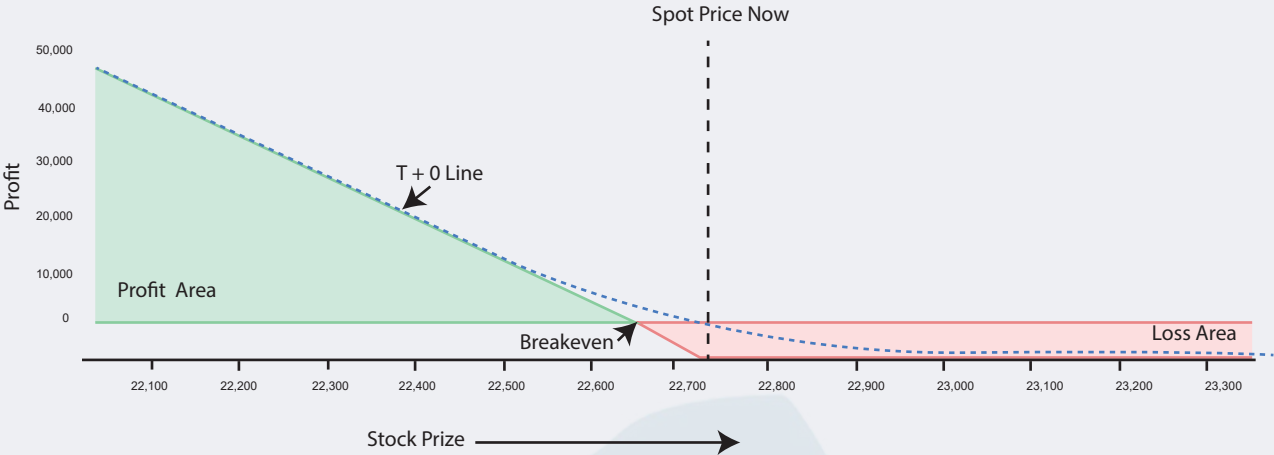
Call Option Buy Pay Off



In this scenario, when the market rises, a call option buyer can achieve unlimited profit, while a market decline results in a limited loss, equal to the premium paid. This relationship between profit and loss for a call option buyer is illustrated graphically.

The dotted line (T+0) on the chart provides an approximate representation of profit and loss before the option's expiry.

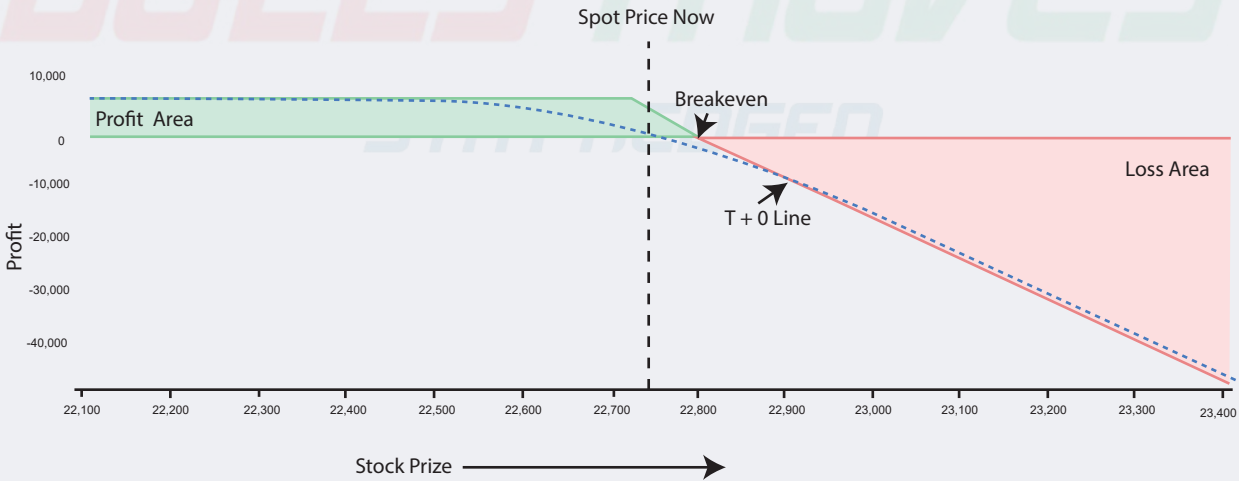
Put Option Buy Pay Off



In this scenario, when the market decline, a Put option buyer can achieve unlimited profit, while a market rises results in a limited loss, equal to the premium paid. This relationship between profit and loss for a call option buyer is illustrated graphically.

The dotted line (T+0) on the chart provides an approximate representation of profit and loss before the option's expiry.

Call Option Sell Pay Off



For a call option seller, an increase in the stock price can lead to unlimited losses. Conversely, if the stock price declines, the call option seller earns a profit, limited to the premium received.

The dotted line (T+0) on the chart provides an approximate representation of profit and loss before the option's expiry.

Put Option Sell Pay Off



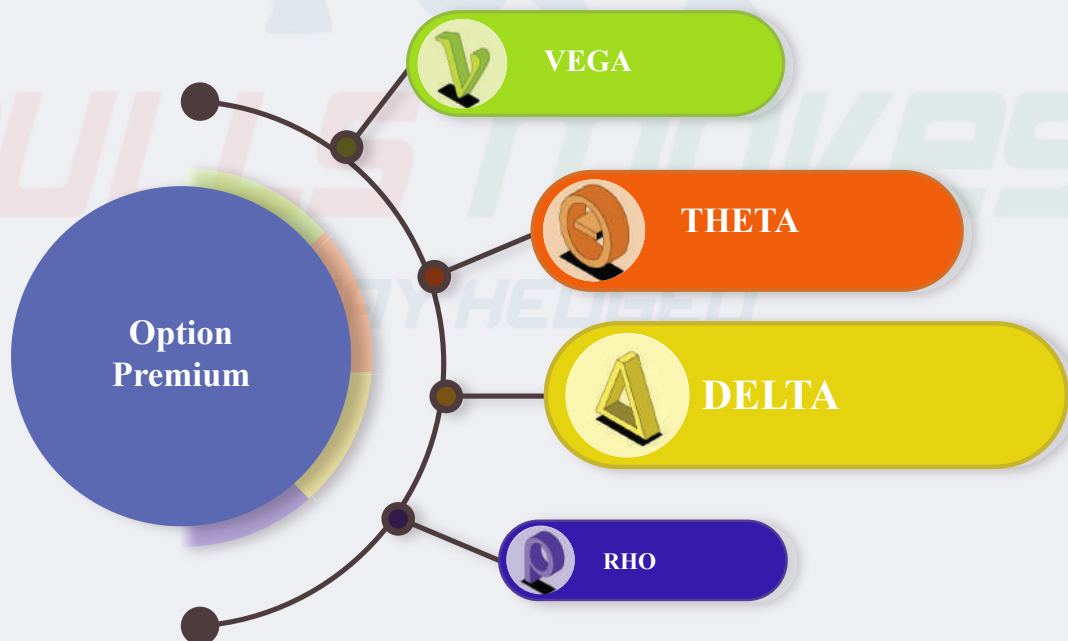
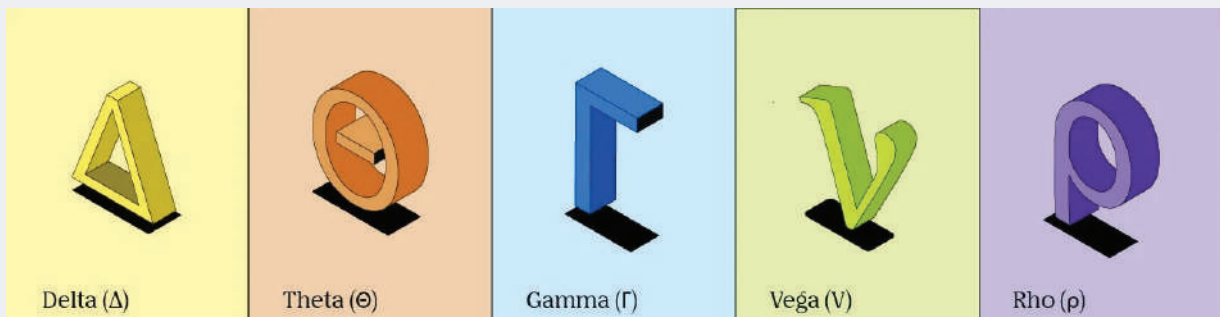
For a Put option seller, Decrease in the stock price can lead to unlimited losses. Conversely, if the stock price Rise, the call option seller earns a profit, limited to the premium received.

The dotted line (T+0) on the chart provides an approximate representation of profit and loss before the option's expiry.



UNIT 4 - OPTION GREEKS

"Greeks" is a term used in the options market to describe the different dimensions of risk involved in taking an options position. ... Traders use different Greek values, such as delta, theta, and others, to assess options risk and manage option portfolios



Factors Affecting Option Premium

The illustration above depicts the various factors influencing the option premium. The size of each circle indicates the magnitude of each factor's impact.

- **Delta**

Delta is the value change in option premium when there is a 1 point upward movement in the underlying stock.

Delta of a Call Option ranges from 0 to 1 and Delta of a Put Option ranges from -1 to 0

Why Do Call Options Have Positive Delta and Put Options Have Negative Delta?

Answer

Delta is defined as the value change in option premium when there is a 1 point upward movement in the underlying stock. When the stock price (underlying price) moves up, the premium of a call option typically increases, indicating a positive delta. Conversely, when the stock price moves down, the premium of a put option typically decreases, reflecting a negative delta. This relationship theoretically justifies why call options have a positive delta and put options have a negative delta.

Call option delta

Example 1

Stock price : 100

Strike price (CE) : 110

Premium : 5

Delta : 0.3

What is the meaning of this "Delta = 0.3"

It means that when stock price move 1 point up, option premium will move up 0.3 points and when stock price move down 1 point the option premium will go down 0.3 points as per delta

Stock price moved 5 up points , then what will be 110 call option premium
Approximately

Change in price : 5 point

$$\text{So } 5 * 0.3 = 1.5$$

$$\text{Premium} = 5 + 1.5 = 6.5$$

Example 2

Stock price : 100

Strike price (CE) : 100

Premium : 8

Delta : 0.5

Stock price moved 5 points up , then what will be premium for call option of 100 Approximately.

Change in price : 5 point

$$\text{So } 5 * 0.5 = 2.5$$

$$\text{Premium} = 8 + 2.5 = 10.5$$

Example 3

Stock price : 100

Strike price (CE) : 90

Premium : 10

Delta : 0.7

Stock price moved 5 points up , then what will be premium for option of 90 Approximately.

Change in price : 5 point

$$\text{So } 5 * 0.7 = 3.5$$

$$\text{Premium} = 10 + 3.5 = 13.5$$

Stock Price	Strike Price	Premium	Delta	Change in Price	New Premium	Any Remark
100	120	4	0.3	10 Point Up		
100	110	5	0.3	10 Point Down		
100	100	7	0.5	10 Point Up		
100	100	7	0.5	10 Point Down		
100	90	11	0.7	10 Point Up		
100	90	11	0.7	10 Point Down		



BULLS MOVES
STAY HEDGED

Put Option Delta

Example 1

Stock price : 100

Strike price (PE) : 90

Premium : 5

Delta : -0.4

What is the meaning of this “**Delta = -0.4**”

It shows when stock price move 1 point up, option premium will move Down 0.4 points and when stock price goes down 1 point the option premium will move up 0.4 points as per delta

Stock price moved Down 5 points , then what will be premium of 90 Put option Approximately.

Change in price : - 5 point

So $-5 * -0.4 = 2$

Premium = $5 + 2 = 7$

Example 2

Stock price : 100

Strike price : 100

Premium : 8

Delta : -0.5

Stock price moved Down 5 points , then what will be premium of 100 Put option. Approximately.

Change in price : - 5 point

So $-5 * -0.5 = 2.5$

Premium = $8 + 2.5 = 10.5$

Option Type Approx. Delta value (CE) Approx Delta value (PE)

Stock Price	Strike Price	Premium	Delta	Change in Price	New Premium	Any Remark
100	120	10	-0.7	10 Point Down		
100	120	10	-0.7	10 Point Up		
100	100	7	-0.5	10 Point Up		
100	100	7	-0.5	10 Point Down		
100	90	5	-0.4	10 Point Up		
100	90	5	-0.4	10 Point Down		

BULLS MOVES

STAY HEDGED

Choosing The Right Call Option Based On Delta

Question : If you are bullish on a stock and decide to buy a call option, and you have two options: one with a delta of 0.7 and the other with a delta of 0.3, which one should you choose and why?

Answer : Typically, traders choose the option with a delta of 0.7 because, for every 1-point increase in the stock price, the option's premium will increase by 0.7 points, leading to a higher profit. However, it's important to understand that if the stock price moves 1 point against your position, you will incur a loss of 0.7 points.

Therefore, delta not only indicates potential profit but also reflects the risk associated with the market's direction. A higher delta means higher potential gains but also higher potential losses, indicating greater directional risk. Conversely, a lower delta implies lower directional risk. This is why delta is often referred to as a directional risk indicator.

Deep ITM	Between + 0.8 to + 1	Between – 0.8 to – 1
Slightly ITM	Between + 0.6 to + 1	Between – 0.6 to – 1
ATM	Between + 0.45 to + 0.55	Between – 0.45 to – 0.55
Slightly OTM	Between + 0.45 to + 0.3	Between – 0.45 to -0.3
Deep OTM	Between + 0.3 to + 0	Between – 0.3 to – 0

Understanding Changing Delta

Scenario

- **Stock Price : 100**
- **Call Option Strike Price : 130**
- **Premium : 5**
- **Moneyness of Option : Out of the Money (OTM)**
- **Delta : 0.4**

As per the above scenario, if the stock price moves from 100 to 130, the following changes will occur:

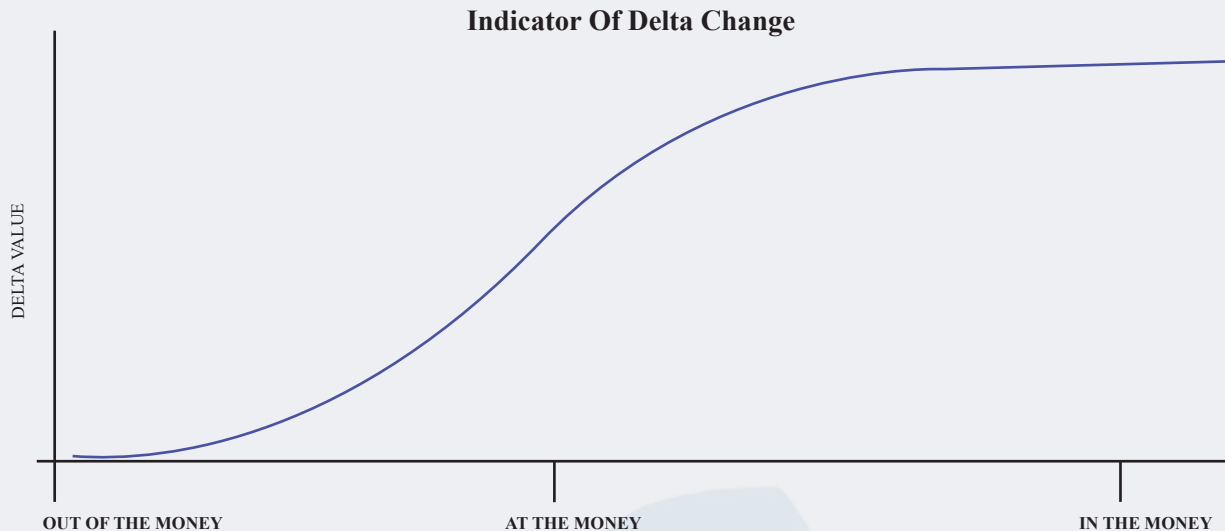
1. Delta Transition from OTM to ATM

- At a stock price of 130, the 130 call option becomes At the Money (ATM).
- The delta for an ATM option is approximately 0.5.
- Initially, at a stock price of 100, the option premium changes by 0.4 points for every 1-point movement in the stock price.
- Now, at a stock price of 130, the delta is 0.5, meaning the option premium will change by 0.5 points for every 1-point movement in the stock price.

2. Further Movement to ITM

- If the stock price moves from 130 to 140, the 130 call option becomes In the Money (ITM).
- Typically, ITM options have a delta of around 0.6.
- Therefore, when the stock price is at 140, the option premium will change by 0.6 points for every 1-point movement in the stock price.

This demonstrates that as the stock price moves, the delta also changes, affecting the rate at which the option premium changes. Understanding this relationship is crucial as it highlights the dynamic nature of delta and its impact on the speed of premium changes.



From above picture you can understand that maximum acceleration in premium will happen when strike price travel from OTM to ATM .

You can see it from above chart.

- **Gamma**

Gamma captures the rate of change of delta, it helps us get an answer for a question such as “What is the expected value of delta for a given change in underlying stock ”

Gamma is normally used for calculating delta value change when there is 1 point move in underlying stock

Example 1

Stock price : 100

Strike price (Call) : 120

Premium : 5

Delta : 0.3

Gamma : 0.008

Moneyness : OTM (Out of the money)

Stock price moved up 20 points

New premium : $5 + (20 \times 0.3) = 11$

New Delta : Old delta + (Change in spot price * gamma)

$$0.3 + (20 \times 0.008) = 0.46$$

New Moneyness : ATM (At the money option)

Example 2

Stock price : 100

Strike price (Put) : 80

Premium : 6

Delta : -0.3

Gamma : 0.0075

Moneyness : OTM (Out of the money)

Stock price moved Down 20 points

New premium : $6 + (20 * -0.3) = 12$

New Delta : Old delta + (Change in spot price * gamma)
 $-0.3 + (-20 * 0.0075) = -0.46$

New Moneyness : ATM (At the money option)

• Theta

Theta is a critical metric in options trading, representing the rate at which an option's value declines over time. Commonly referred to as time decay, Theta quantifies the erosion of an option's premium as the expiration date approaches.

Theta is a well-known "**Option Greek**" due to its differing impacts on option buyers and sellers. Option buyers generally view Theta unfavorably because it leads to a reduction in the value of their options over time. Conversely, option sellers benefit from Theta, as the erosion of the option's premium translates into profit for them.

An option is an eroding asset; its value decreases as time passes. This decline in value, attributable to the passage of time, is measured by Theta. Time moves unidirectionally, ensuring that Theta is always a positive number.

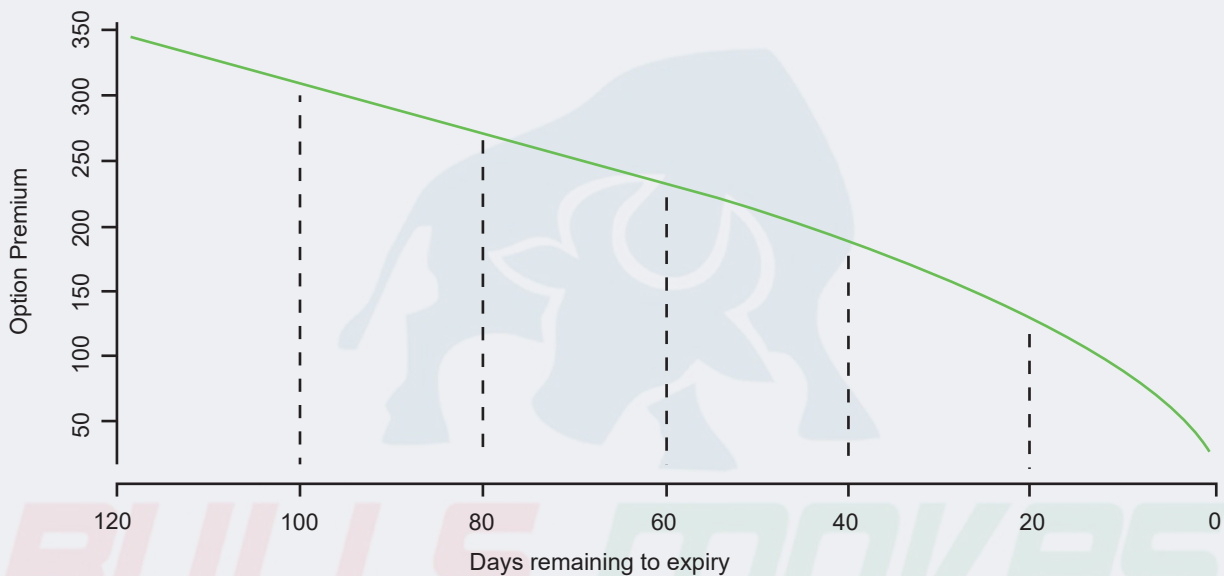
Example

- **Stock price :** 100
- **Strike price :** 120
- **Premium :** 5
- **Theta :** 1

Assuming all other factors remain constant, the option's premium will decrease by 1 each day due to Theta. Importantly, this time decay occurs continuously, encompassing non-trading hours and holidays. This continuous decay is why option sellers often profit over weekends, while option buyers tend to incur losses during these periods.

Analysis Of Theta Decay Over Time

Option Premium vs Time to Expiry



In the accompanying chart, the x-axis represents the number of days remaining until option expiry, starting from 120 days and ending at 0 days, which signifies the expiration day. The y-axis represents the premium of an out-of-the-money (OTM) strike.

Initially, with 120 days remaining until expiry, the premium is 250. By the expiration day, this premium decreases to 0. To better understand this decline, we can divide the timeframe into two segments: the first 60 days and the last 60 days.

In the first segment (days 120 to 60), the premium decreases from 350 to 250, a reduction of 100 points. In the second segment (days 60 to 0), the premium drops from 250 to 0, a decrease of 250 points.

This analysis clearly illustrates that the impact of Theta on option premium intensifies as the expiration date approaches. The rate of premium decay accelerates significantly in the final days preceding expiry.

- **Vega**

Vega measures the change in an option's premium due to a one-point change in implied volatility (IV).

Example

- **Premium** : 100
- **Vega** : 3
- **IV** : 20

If IV increases by one point (from 20 to 21), the premium will rise from 100 to 103. Conversely, if IV decreases by one point (from 20 to 19), the premium will fall from 100 to 97.

Implied Volatility (IV)

Implied Volatility (IV) is a crucial concept in options trading, although it lacks a precise definition. It can be understood through market behavior. For example, consider the NIFTY index at 23,000. On a typical day, NIFTY might move by 100 to 200 points. However, on a significant event day, like an election result announcement, NIFTY could move by over 500 points due to increased market participation.

This heightened activity drives up option premiums dramatically. During such events, option premiums are often overpriced. Although premiums fluctuate daily, they are not always as inflated as during major events, making it challenging to discern overpricing by merely observing premiums. This is where IV becomes valuable, as it is displayed in the option chain for both call and put options.

CALLS														PUTS													
OI	CHNG IN OI	VOLUME	IV	LTP	CHNG	BID QTY	BID	ASK	ASK QTY	STRIKE	BID QTY	BID	ASK	ASK QTY	CHNG	LTP	IV	VOLUME	CHNG IN OI	OI							
2366	-105	597	-	236.90	102.05	25	735.45	738.70	25	22,650.00	8,650	2.05	2.10	11,575	-4.35	2.03	29.57	4,71,707	89,804	1,19,029							
16053	-507	3,038	-	391.05	103.90	25	586.35	588.00	75	22,700.00	18,950	2.45	2.50	16,525	-5.60	2.50	28.58	7,28,268	48,586	1,72,529							
8,215	-126	815	-	340.00	96.90	100	636.30	640.25	25	22,750.00	26,900	3.10	3.15	14,700	-7.15	3.10	27.81	4,40,161	3,834	70,088							
36,537	-594	8,843	-	388.70	97.25	150	589.00	590.80	25	22,800.00	11,700	3.90	3.95	20,675	-9.20	3.95	26.94	12,02,777	45,367	2,14,143							
10,250	-209	1,610	-	344.25	90.00	500	540.05	541.85	125	22,850.00	15,325	4.75	4.80	7,500	-11.75	4.80	26.07	3,56,907	4,099	57,975							
32,648	-455	10,157	-	394.00	93.65	50	491.05	492.75	25	22,900.00	9,400	6.05	6.10	14,975	-15.10	6.10	25.22	11,27,035	28,868	1,63,527							
18,295	-79	3,627	-	344.60	82.70	25	442.55	443.90	100	22,950.00	9,825	7.80	7.85	15,850	-19.05	7.80	24.42	6,43,571	42,273	92,023							
95,433	-6,305	1,27,195	-	395.90	79.70	75	395.30	396.00	300	23,000.00	7,500	10.30	10.35	4,525	-24.15	10.30	23.64	19,15,906	88,836	3,57,329							
10,397	380	18,142	-	347.00	70.75	100	348.25	349.20	425	23,050.00	11,750	13.10	13.20	6,875	-29.90	13.20	22.84	3,67,105	13,492	55,233							
23,888	-3,145	1,10,602	-	301.15	63.80	200	302.60	303.15	325	23,100.00	11,025	17.15	17.25	6,900	-36.70	17.25	22.18	12,94,365	31,452	1,51,860							
0,650	-502	67,681	13.57	359.25	60.10	25	258.45	258.95	525	23,150.00	4,600	22.85	22.95	1,000	-44.70	22.90	21.50	8,07,255	26,010	68,052							
74,196	-4,919	6,09,890	14.82	316.55	52.10	150	216.20	216.55	175	23,200.00	2,000	30.55	30.75	1,425	-53.75	30.60	20.89	18,16,943	84,885	2,84,958							
30,750	-12,579	4,93,099	15.37	376.50	43.30	250	176.15	176.40	350	23,250.00	650	40.85	40.90	175	-62.45	40.90	20.36	10,53,382	40,148	1,07,799							
1,38,489	-27,074	25,14,411	15.61	39.35	30.90	250	139.80	140.00	175	23,300.00	700	54.45	54.55	500	-69.95	54.45	20.02	30,58,217	1,45,101	2,79,228							
98,982	18,250	23,81,681	15.65	307.70	21.80	25	107.50	107.70	25	23,350.00	250	72.45	72.55	200	-76.55	72.60	19.66	10,09,730	88,470	1,25,564							
2,52,375	1,25,033	10,92,182	15.61	35.16	14.80	200	70.10	70.35	375	23,400.00	450	84.35	84.45	375	-85.45	84.45	19.15	26,70,554	2,61,438	3,16,888							
1,20,800	46,693	24,37,738	15.33	56.25	9.75	125	56.25	56.35	100	23,450.00	1,275	120.90	121.10	25	-91.35	120.8	19.41	12,78,252	45,943	55,560							
2,99,978	79,117	8,30,774	15.30	37.30	3.50	700	37.90	38.00	2,775	23,500.00	300	132.75	133.10	350	-97.10	133.2	19.38	11,34,790	43,967	77,443							
92,952	40,431	13,28,333	15.44	24.80	0.05	4,775	24.80	24.95	9,625	23,550.00	150	189.55	189.95	225	-101.90	189.9	19.97	1,91,771	7,069	13,107							
1,80,747	46,838	20,42,933	15.47	15.70	-0.75	13,325	15.70	15.90	3,400	23,600.00	100	230.50	231.05	200	-98.35	230.6	21.05	2,34,605	14,692	21,129							
80,699	24,216	11,56,803	15.73	9.90	-1.35	4,075	9.90	9.95	7,525	23,650.00	425	274.45	275.05	75	-98.60	274.7	22.60	26,082	-268	1,552							
1,58,972	38,885	19,27,244	16.03	6.15	-1.45	1,550	6.15	6.20	30,050	23,700.00	50	320.15	320.80	325	-104.65	321.2	23.78	48,423	586	4,804							
93,105	20,042	11,40,933	16.47	3.90	-1.40	21,700	3.85	3.95	13,975	23,750.00	75	368.00	369.10	100	-89.30	369.2	25.70	4,876	91	364							
2,31,310	40,602	16,65,488	17.16	2.70	-1.20	21,000	2.70	2.75	38,175	23,800.00	25	416.80	417.90	350	-90.25	417.8	27.21	21,856	1,265	2,023							
1,01,249	10,941	3,80,374	17.78	1.80	-1.15	34,800	1.80	1.85	38,200	23,850.00	100	404.80	407.40	150	-111.05	408.0	30.84	619	36	212							
1,38,526	15,692	9,31,002	18.92	1.50	-1.10	1,29,150	1.45	1.50	1,25,450	23,900.00	175	515.10	516.90	75	-97.50	512.3	30.73	2,232	78	368							
57,633	10,091	4,22,621	20.60	1.25	-1.00	74,525	1.20	1.25	74,475	23,950.00	100	563.80	567.45	100	-100.45	566.8	27.67	368	19	116							

IV indicates how high the option premium is. Key insights from IV levels include:

High IV

- 1. Option premiums are very high.
- 2. Market participation is high.
- 3. There is market panic or anticipation of significant events.

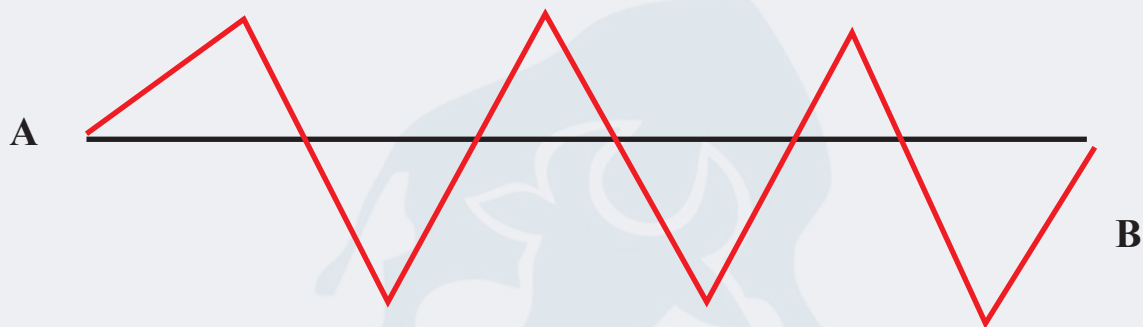
Low IV

- 1. Option premiums are low.
- 2. Market participation is stable.
- 3. There is no market panic.

Each strike price has a different IV, but the most critical IV to monitor is for at-the-money (ATM) options. ATM strikes are closest to the current market price and reflect the market's real emotions. Therefore, tracking the ATM call and put IV daily is essential to determine whether the IV is currently high or low.

Implied Volatility (IV) and Market Emotions

Implied Volatility (IV) reflects the collective emotions of market participants, encapsulating their panic and greed. Just as our reactions to significant news events are intense but temporary, IV fluctuates accordingly. Before a major announcement, curiosity and anticipation drive IV higher; after the news is released, this heightened emotion diminishes, causing IV to decrease.



These fluctuations, often moving in a zigzag pattern, are crucial for options traders. By understanding and monitoring these movements, traders can better gauge option premiums and devise appropriate trading strategies.

Strategic Use of Implied Volatility (IV) in Options Trading

When Implied Volatility (IV) is high, it typically indicates heightened market emotions and inflated option premiums. Historically, such elevated IV levels are transient and tend to decrease over time. Conversely, when IV is low, it suggests more stable market conditions and undervalued option premiums, which are also likely to adjust upwards eventually.

By understanding these dynamics, traders can craft strategies to capitalize on these fluctuations:

- 1. High IV Strategy :** When IV is high, options are overpriced. Traders can exploit this by selling options to capture the extra premium, anticipating that IV will cool down, resulting in a profit from the premium decay.

- 2. Low IV Strategy :** When IV is low, options are underpriced. Traders can buy options to benefit from the eventual rise in IV, which will increase the option premiums, leading to potential gains. In both scenarios, understanding the expected movement of IV allows traders to make informed decisions and optimize their trading strategies.

- **Rho**

Rho measures the sensitivity of an option or an options portfolio to changes in interest rates. It indicates how much the premium of an option will change in response to a one-point change in the interest rate set by the central bank.

In the Indian market, particularly in options trading, Rho is not a significant factor. This is primarily because options with maturities beyond two months often suffer from liquidity issues, making them less attractive for traders. Therefore, short-term options dominate the market, where the impact of interest rate changes is minimal.

Rho becomes relevant for traders dealing in Long-Term options , which are options with very long expiration periods. For these long-term options, changes in the central bank's interest rates can significantly affect the option premium, making Rho an important consideration.

Combined Effect of Option Greeks in Live Market

Understanding the combined impact of option Greeks on option premiums in a live market is crucial for developing effective trading strategies. Here's an illustrative example:

Scenario

Stock price (Monday morning) : 100

Call option (strike price 110) premium : 10

Option Greeks

- **Delta : 0.3**
- **Theta : 1**
- **Vega : 3**
- **IV : 20**

Next Day Movement

Stock price : Increases from 100 to 110

To determine the new option premium, we must analyze the behavior of each Greek:

1. Delta:

- **Stock price increase :** 10
- **Premium increase :** $10 * 0.3 = 3$

2. Theta:

- **Time decay for one day :** 1
- **Premium decrease :** 1

3. Vega:

- IV decreases from 20 to 18 (a 2-point drop)
- **Premium decrease :** $2 * 3 = 6$

Combined Effect:

- **Delta :** +3
- **Theta :** -1
- **Vega :** -6
- **Net Change :** $3 + (-1) + (-6) = -4$

Resulting Premium:

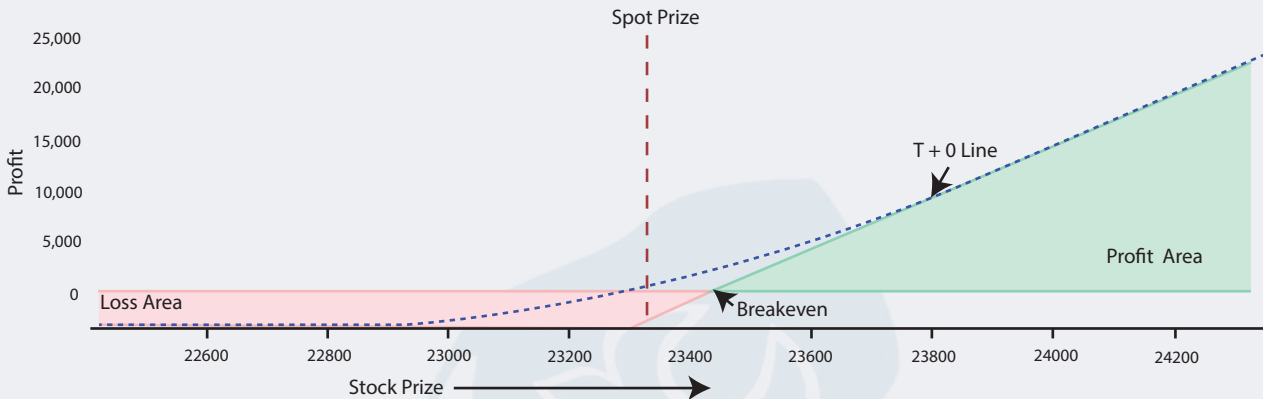
- **Initial premium :** 10
- **Net change :** -4
- **New premium :** $10 - 4 = 6$

Despite the stock price increasing to 110, the call option premium decreased from 10 to 6. This counterintuitive outcome highlights how the combined effects of Delta, Theta, and Vega can influence option premiums. In this case, the profit from Delta due to the bullish movement was outweighed by the negative impacts of Theta and Vega, resulting in an overall loss.

This example underscores the complexity of option pricing and the importance of considering all Greeks when trading options. Many traders overlook these factors and suffer losses despite favorable movements in the underlying stock price. Understanding the interplay of these Greeks is essential for making informed trading decisions.

Unit 5 - Option Greeks Vs. Option Trading

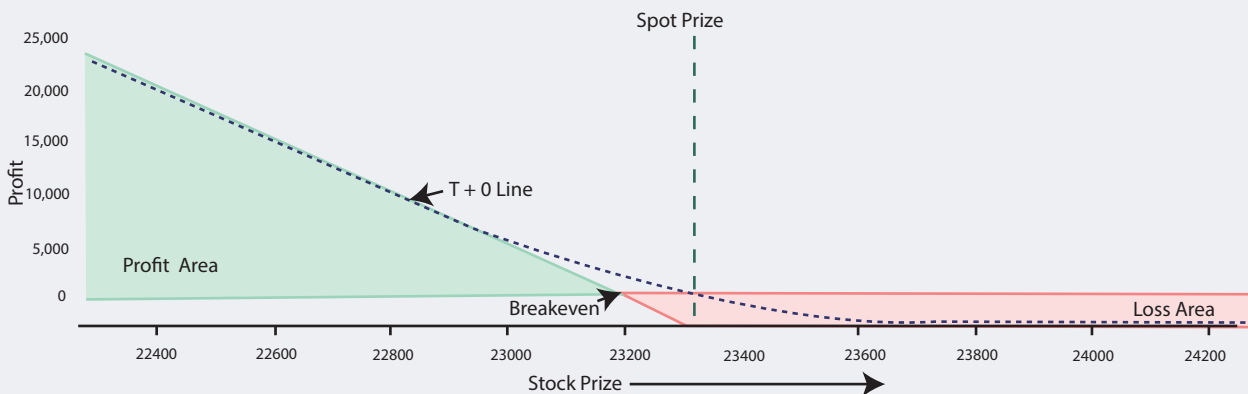
Call Option Buy



Previously, we learned that buying a call option results in profit when the stock price increases. Now, we delve deeper into the dynamics. Profit from a call option is realized only when the delta-driven gain exceeds the losses attributed to vega and theta. This balance is crucial for net profitability.

At expiration, profit is achieved only if the stock price exceeds the strike price plus the option premium. Therefore, if the stock price remains stagnant, losses will occur. Hence, buying a call option reflects a strongly bullish market view, not just a mildly bullish one.

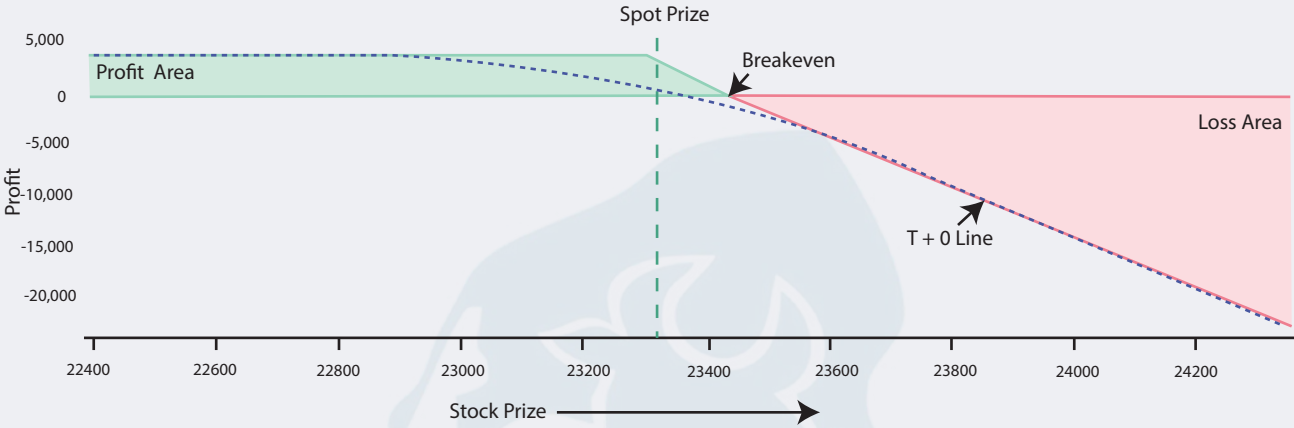
Put Option Buy



Initially, we understood that buying a put option yields profit when the stock price decreases. However, true profitability arises only when the delta-driven gain surpasses the combined losses from vega and theta.

At expiration, profit is secured only if the stock price falls below the strike price minus the option premium. Consequently, inaction in stock price results in losses. Thus, purchasing a put option signifies a strongly bearish perspective, rather than just a bearish outlook.

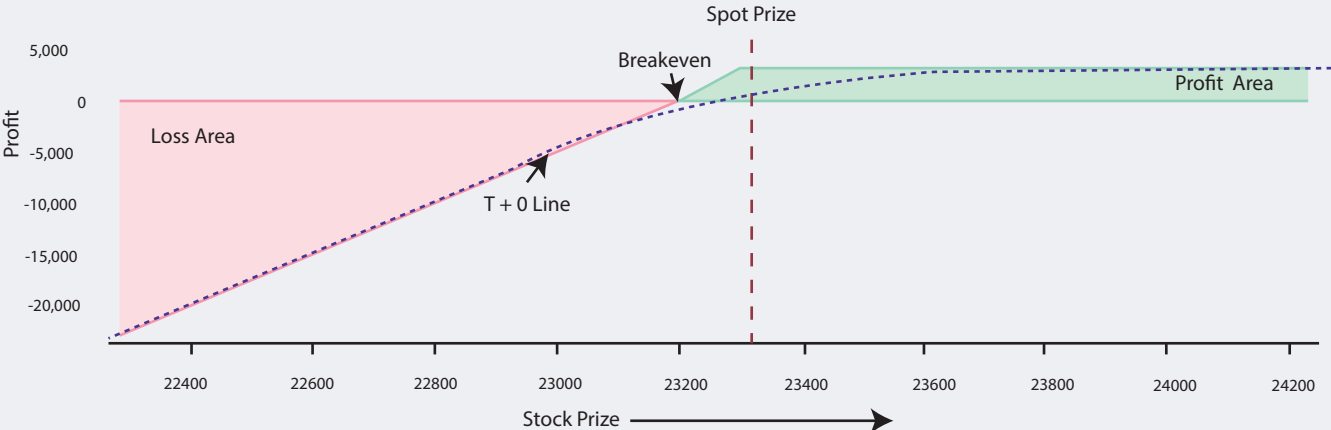
Call Option Sell



Selling a call option indicates a bearish market sentiment, but the strategy is somewhat more straightforward than previously discussed. Due to the influences of theta and vega, the option premium diminishes over time, facilitating easier profits.

At expiration, a loss occurs only if the stock price rises above the strike price plus the option premium. This means profit is possible in three scenarios: when the stock price is bearish, remains sideways, or increases slightly. Thus, selling a call option can be profitable in multiple market conditions.

Put Option Sell



Selling a put option suggests a bullish market sentiment and is similarly more straightforward than initially perceived. The decay of option premium due to theta and vega aids in achieving easier profits.

At expiration, losses occur only if the stock price falls below the strike price minus the option premium. This implies that profit can be realized when the stock price is bullish, remains sideways, or declines slightly. Therefore, selling a put option can be advantageous in various market scenarios.



UNIT 6 - HIDDEN RISKS IN NAKED OPTION BUYING

Naked buying of call or put options may seem attractive due to the perception of limited losses and substantial profits, similar to a lottery. However, several hidden risks must be considered:

1. Directional Risk
2. Time Value Risk

Directional Risk

This risk arises from market movements contrary to the trader's expectations. For instance, buying a call option with the expectation of a price increase, or buying a put option anticipating a price decrease, can lead to losses if the market moves in the opposite direction. Traders often use stop-loss orders to mitigate this risk, but even stop-loss orders have limitations.

Scenario 1 : Stop-Loss Hit by Volatility

Suppose you purchase a call option at a premium of 100, expecting the stock price to rise above 150, and set a stop-loss at 50. High volatility might trigger the stop-loss, causing you to exit the trade prematurely. If the stock price subsequently moves in your favor, you incur a loss despite having the correct directional view. Thus, while stop-loss orders can mitigate risk, they can also result in losses due to market volatility.

Scenario 2 : Overnight Risk

Consider buying a call option at a premium of 100, planning to risk only 50 points, meaning you will exit the position if the premium falls to 50. At the end of the trading day, the premium closes at 75, indicating a 25-point loss within your planned risk tolerance. However, if the market opens the next day with a significant gap against your position, the premium might open at 20. This unexpected gap results in an 80-point loss, far exceeding your planned risk. This scenario highlights that stop-loss orders do not completely eliminate risk in option buying.

Time Value Risk

Time value risk is a significant concern for option buyers, primarily due to the impact of theta (time decay) and implied volatility (IV). As the expiration date approaches, the time value of options erodes, leading to a decline in the option's premium. This constant erosion can result in notional losses for option buyers, irrespective of the stock's price movement.

In summary, while naked option buying can offer substantial rewards, it is crucial to be aware of and manage these hidden risks effectively. Understanding and mitigating directional risk and time value risk are essential for successful option trading.



UNIT 7 - OPTION STRATEGIES

Option strategies involve combining multiple strike prices through buying and selling options to create specific trading strategies based on market views. These strategies can be broadly classified into two types: debit spreads and credit spreads.

Debit Spread

A debit spread occurs when the total premium paid for buying options exceeds the premium received from selling options within a particular strategy.

Example:

- Buy 23000 CE at 100
- Sell 23100 CE at 120
- Buy 23500 PE at 150

In this strategy:

- **Total buy premium** = $100 + 150 = 250$
- **Total sell premium** = 120

Since the buy premium is higher, this is a debit spread. Debit spreads have distinct characteristics:

- Mostly directional trades (though some neutral strategies exist)
- Theta negative (value decreases over time)
- Vega positive (benefit from increasing implied volatility)

In this book, we will explore the following debit spread strategies:

1. Bull Call Spread
2. Bear Put Spread
3. Calendar Spread (covered last due to complexity)

Credit Spread

A credit spread occurs when the total premium received from selling options exceeds the premium paid for buying options within a particular strategy.

Example

- Sell 23000 CE at 200
- Sell 23100 CE at 120
- Buy 23500 PE at 150

In this strategy:

- **Total buy premium** = 150
- **Total sell premium** = 200 + 120 = 320

Since the sell premium is higher, this is a credit spread. Credit spreads have unique characteristics:

- Always theta positive (benefit from time decay)
- Vega negative (benefit from decreasing implied volatility)
- Typically high probability strategies

In this book, we will explore the following credit spread strategies:

1. Straddle
2. Strangle
3. Bear Call Spread
4. Bull Put Spread
5. Iron Condor
6. Iron Fly
7. Butterfly
8. Ratio Spread

Understanding and effectively utilizing these option strategies can significantly enhance your trading capabilities by allowing you to capitalize on various market conditions.

Bull Call Spread

The bull call spread stands as a cornerstone strategy within the realm of bullish debit spreads, harnessing the potential of call options to capitalize on upward market movements. This sophisticated maneuver offers traders a calculated approach to market optimism, characterized by its distinct advantages:

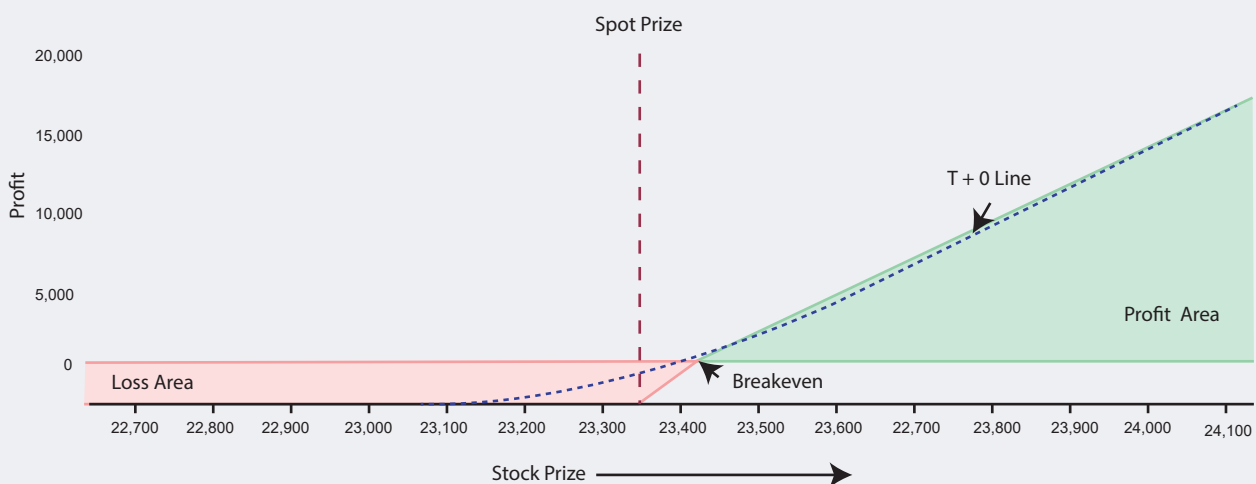
- 1. Low Risk Profile :** Designed to minimize exposure to potential losses.
- 2. Diminished Theta Risk :** Mitigating the erosion of value over time.
- 3. Long Vega Positioning :** Positioned to benefit from increased market volatility.

Navigating the complexities of options trading demands a strategic approach, and the bull call spread emerges as a prudent choice for those seeking to balance risk and reward effectively.

The Strategy in Practice:

In a scenario where the Nifty Index is trading at 23,348 and a bullish outlook is adopted, the acquisition of a call option is the initial move:

- Purchase of 23,350 CE (Call Option) at a premium of 70.5.



This initial stance provides a foundation for analysis:

- **Maximum Loss :** 1761
- **Maximum Profit :** Unlimited

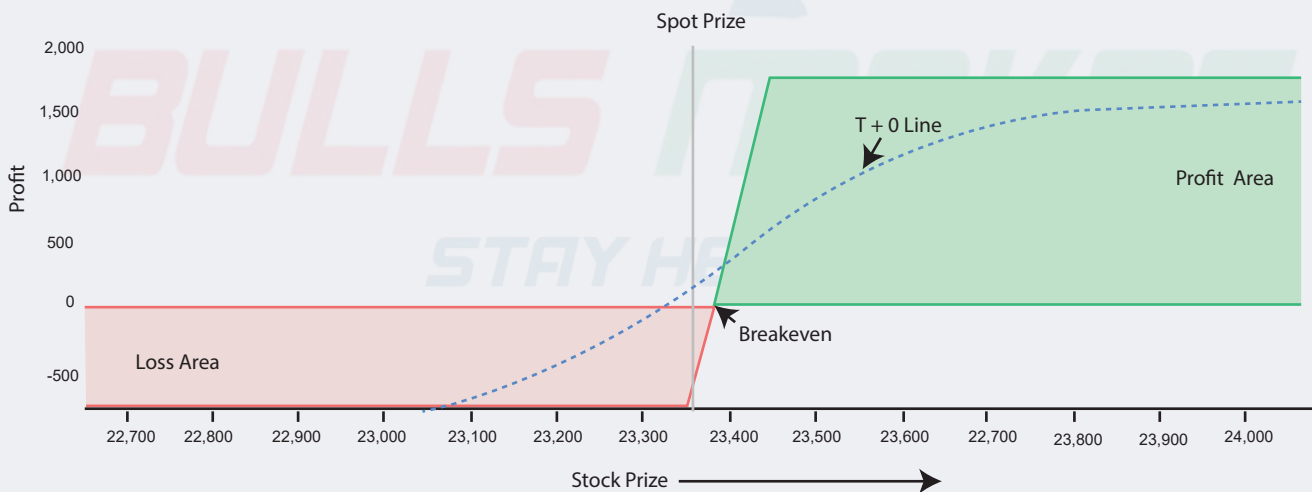
- **Theta** : -40.5
- **Vega** : 4.90

However, a critical assessment reveals areas for optimization, primarily addressing the concerns of maximum loss exposure, theta decay, and vega sensitivity.

Optimizing Risk Exposure

To mitigate the inherent risks associated with the naked call position, transitioning to a bull call spread strategy is imperative. This entails the addition of a second leg to the trade:

- Introduction of 23,450 CE (Call Option) sold at a premium of 40.05.
- This strategic adjustment yields a transformed position:
- 23,350 CE Bought at 70.5
- 23,450 CE Sold at 40.05



The implications are profound:

- **Maximum Loss Reduced** : 761
- **Theta Ameliorated** : -7.3
- **Vega Attenuated** : 0.87

Reduced Risk, More Gains

With debit spreads, we're slashing two big risks: theta (time decay) and maximum loss. How? By changing our strategy from a single, exposed buy to a structured spread, we're playing it safer and smarter.

- **Less Time Pressure** : Theta risk is all about losing value over time. With debit spreads, we're dodging that bullet by mixing up our positions. This means time decay isn't hitting us as hard.
- **Cutting Losses** : Maximum loss is every trader's nightmare. But with debit spreads, we're capping that risk. Compared to naked buys, our potential losses are way smaller.

Analyzing Outcomes

With risk mitigation at the forefront, understanding the calculation of maximum loss, maximum profit.

- **Maximum Loss** : Premium of Bought Call - Premium of Sold Call
 - **Calculation** : $70.5 - 40.05 = 30.45$
 - **In Rupees** : $30.45 * 25$ (Nifty Lot Size) = 761
- **Maximum Profit** : Difference in Strike Prices - Maximum Loss
 - **Calculation** : $23,450 - 23,350 = 100$
 - **Adjustment** : $100 - 30.45 = 69.55$
 - **In Rupees** : $69.55 * 25 = 1738.75$

Conclusion

In the realm of options trading, mastering the bull call spread unveils a pathway to strategic prowess. By recalibrating risk exposure and optimizing profit potential, traders can navigate the dynamic landscape of the market with confidence and precision. Embrace the principles outlined herein, and embark on a journey towards sustainable success in options trading.

Introduction

Let's talk about how modifying a bull call spread can change things, especially when we look at something called "delta." We'll keep it simple and see how these adjustments affect our potential profits and losses.

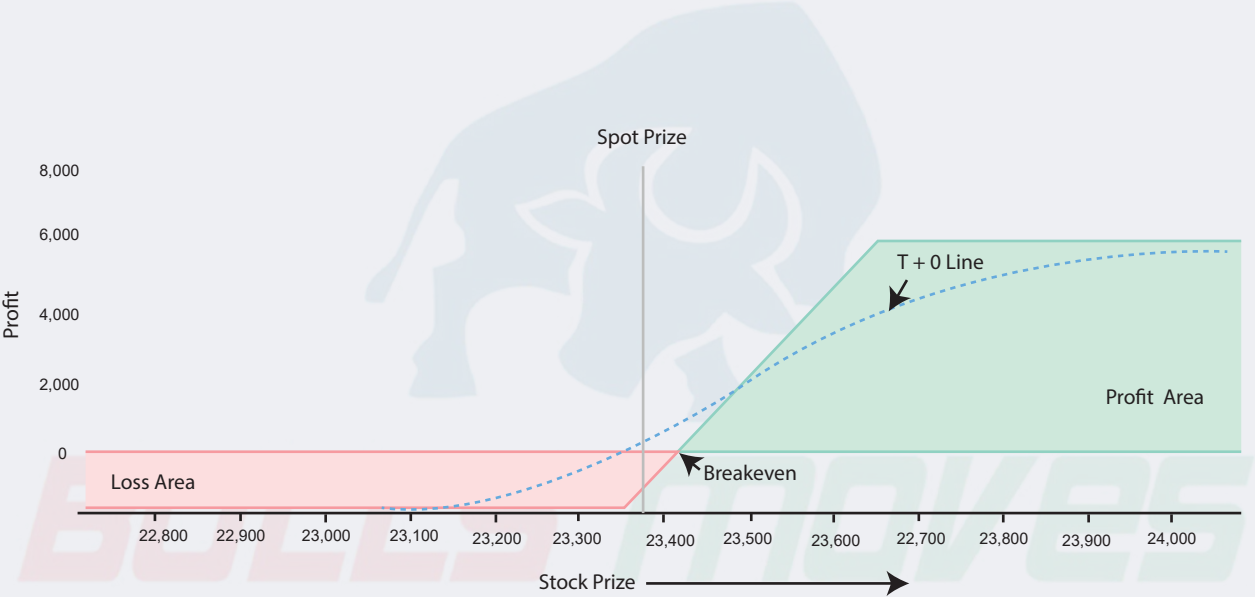
Understanding Delta

So, in our previous discussion, we learned about setting up a bull call spread. Basically, we bought a call option for a lower stock price (23350 CE) and sold one for a higher price (23450 CE). The delta, which measures how much the

option's price moves with changes in the stock price, was 0.18. That means for every point the stock price goes up, we gain 0.18 points.

Changes in Delta

Now, let's mix things up by swapping out the higher-priced call option (23450 CE) for an even higher one (23650 CE). With this switch, our delta jumps to 0.47. That means for every point the stock price goes up, we gain 0.47 points, which is a bigger jump compared to the earlier one.



Impact on Profits and Losses

With the new setup, our potential profits get a boost because we widened the difference between the strike prices. But there's a trade-off: potential losses also go up. This is partly because the premium we get from selling the option is lower in this new trade, which makes our potential losses bigger if things don't go as planned.

Conclusion

Changing up a bull call spread can have big effects on how we make money and manage risks. By understanding how delta works and adjusting our strategy accordingly, we can navigate the ups and downs of options trading with more clarity and confidence.

Bear Put Spread

The Bear Put Spread is a sophisticated options trading strategy designed for investors anticipating a downturn in the market. Similar to its counterpart, the Bull Call Spread, the Bear Put Spread is a directional strategy that offers distinct advantages:

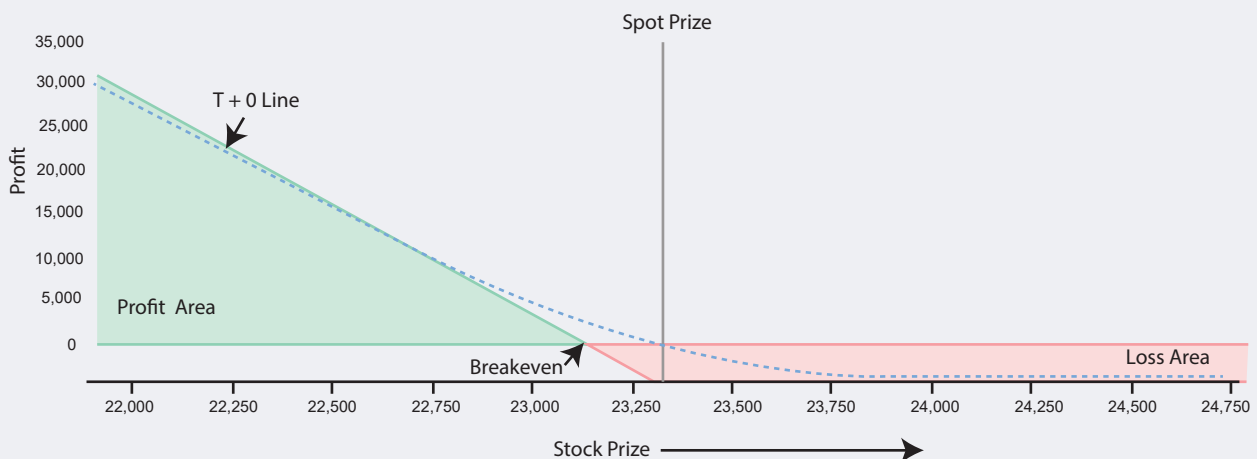
- **Limited Risk :** Unlike some strategies that expose investors to potentially unlimited losses, the Bear Put Spread caps the maximum loss at a predetermined level, providing a sense of security and risk management.
- **Low Theta Risk :** Theta, representing the sensitivity of an option's price to the passage of time, is minimized in the Bear Put Spread. This means that the erosion of value due to time decay is significantly reduced, mitigating potential losses over time.
- **Long Vega Strategy :** Vega measures an option's sensitivity to changes in implied volatility. By adopting a Long Vega Strategy, the Bear Put Spread benefits from increases in volatility, potentially enhancing profitability during market fluctuations.

Let's delve into a practical example:

Scenario : Current Nifty trading at 23,323, with a bearish outlook prompting an investor to take action.

Initial Position

- Purchase of 23,300 Put Option at 161.95

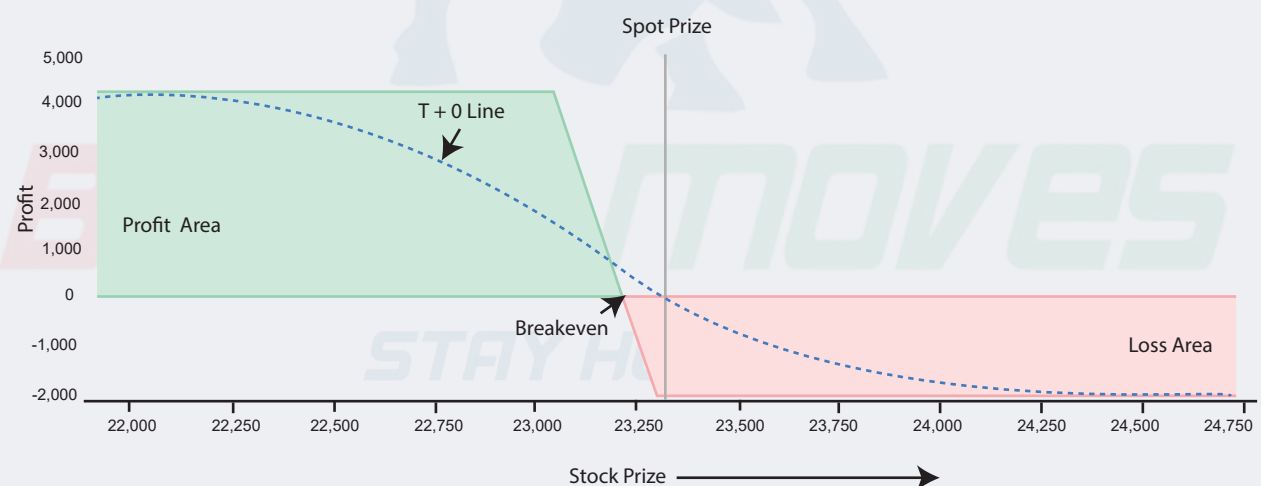


Key Metrics

- **Max Loss** : 4047
- **Max Profit** : Unlimited
- **Theta** : -11.5
- **Vega** : 13.7
- **Delta** : -0.45

Analysis: The initial position exposes the investor to significant risks, notably theta decay and vega volatility. With time decay and volatility fluctuations impacting the option's value, losses could accrue rapidly, especially with a high maximum loss potential.

Transformation into Bear Put Spread: To mitigate risks and enhance strategic positioning, the investor introduces a 23,050 Put Option sold at 79, effectively creating a Bear Put Spread.



Revised Metrics

- **Max Loss** : Reduced to 2073
- **Theta** : Reduced to -1.6
- **Vega** : Reduced to 2.38

Outcome : Through the implementation of the Bear Put Spread, the investor achieves a substantial reduction in risk exposure across all key metrics. Notably, the maximum loss is halved, and both theta and vega risks are significantly minimized.

Conclusion : The Bear Put Spread exemplifies the effectiveness of debit spreads in managing risk and maximizing returns. By leveraging options strategically, investors can navigate bearish market conditions with confidence, safeguarding capital while capitalizing on profit opportunities.

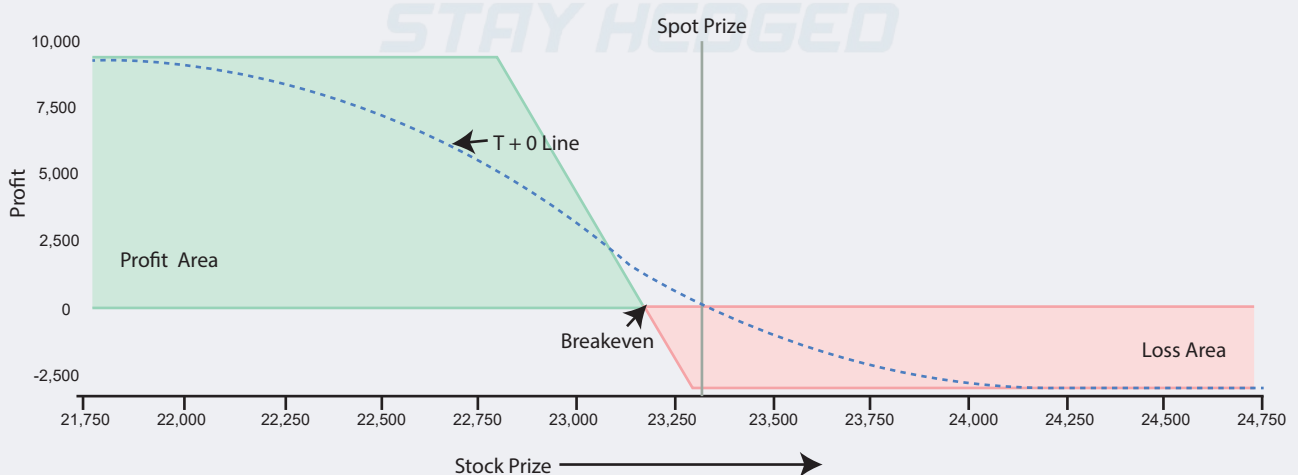
Analysing Outcomes

With risk mitigation at the forefront, understanding the calculations of maximum loss, maximum profit.

- **Maximum Loss :** Premium of Bought Call - Premium of Sold Call
 - **Calculation :** $161.95 - 79 = 82.95$
 - **In Rupees :** $82.95 * 25$ (Nifty Lot Size) = 2073
 - **Maximum Profit :** Difference in Strike Prices - Maximum Loss
 - **Calculation :** $23300 - 23050 = 250$
 - **Adjustment :** $250 - 82.95 = 167.05$
- In Rupees :** $167.05 * 25 = 4176.25$

Bear Put Spread Vs Delta

Lets discuss the impact of adjusting the sell strike from 23,050 PE to 22,800 in a Bear Put Spread compared to Delta.



When we modify the sell strike, several factors come into play, affecting the overall outcome including maximum profit, maximum loss, and Greeks. By decreasing the sell strike from 23,050 PE to 22,800, both the maximum loss and maximum profit tend to increase. This upward change occurs due to

the widened strike difference and the alteration in the sell premium. Essentially, widening the strike difference leads to an increase in potential losses and gains. Moreover, this adjustment influences delta, which in turn amplifies the speed at which profits and losses can accrue.

Conclusion On Debit Spreads

In both bull call spreads and bear put spreads, profitability is achieved only when the stock price moves in the desired direction, making these strategies highly dependent on delta. Profit generation is primarily driven by delta movements, while theta and implied volatility (IV) often work against the trade.

The difference between the buy strike and sell strike prices is crucial, as it significantly influences the maximum potential profit and maximum potential loss of the strategy. Understanding and managing this strike difference is essential for optimizing the performance of debit spreads.

Credit Spreads

Credit spreads operate in contrast to debit spreads, characterized by the following attributes:

- **Net Credit Strategy** : The trader receives a net credit at the outset.
- **Theta-Friendly Strategy** : Benefits from the passage of time.
- **IV-Friendly Strategy** : Gains from a decrease in implied volatility.

Straddle

A straddle is a widely used neutral options trading strategy known for its simplicity and potential for high returns.

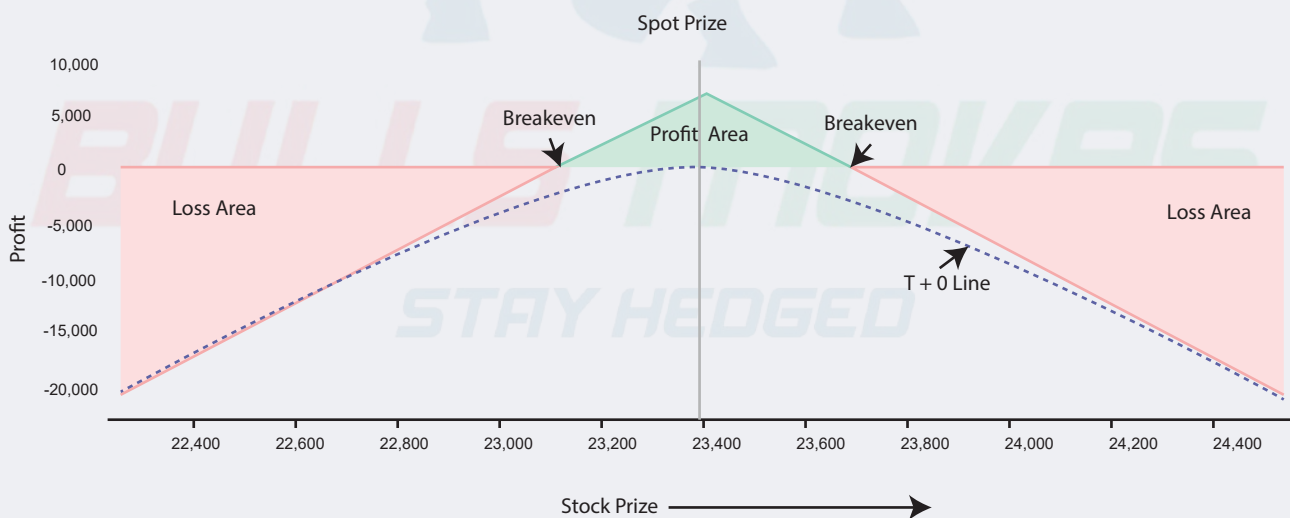
Construction

To create a straddle, simultaneously sell an at-the-money (ATM) call and put option.

Example

- **Current Nifty index : 23,390**
- Sell 23,400 CE at 133.7
- Sell 23,400 PE at 152.25

This strategy profits if the market remains between the two levels. Otherwise, it incurs losses.



Profit and Loss

- **Maximum Profit** : Sum of the call and put premiums.
- **Maximum Loss** : Unlimited.
- **Upper Breakeven** : Strike price + (call option premium + put option premium).
- **Lower Breakeven** : Strike price - (call option premium + put option premium).

Explanation of Unlimited Risk

If a call option is sold at 100 and a put option at 100, changes in market price impact premiums

- If the call option premium rises to 150 and the put option premium falls to 50
 - **Call option loss** : 50 points.
 - **Put option profit** : 50 points.
 - **Net result** : Break-even.
- If the call option premium rises to 250 and the put option premium falls to 20
 - **Call option loss** : 150 points.
 - **Put option profit** : 80 points.
 - **Net result** : 70 points loss.
- If the call option premium rises to 350 and the put option premium falls to 5
 - **Call option loss** : 250 points.
 - **Put option profit** : 95 points.
 - **Net result** : 155 points loss.
- If the call option premium rises to 500 and the put option premium falls to 1
 - **Call option loss** : 400 points.
 - **Put option profit** : 99 points.
 - **Net result** : 301 points loss.

The call option premium can increase indefinitely, but the put option's maximum profit is limited to the initial premium, resulting in potentially unlimited loss.

Factors Contributing to Profit in a Straddle

Two main factors contribute to profitability in a straddle

1. **Theta Decay** : As time passes, the value of both call and put options decreases.
2. **Implied Volatility (IV) Drop** : A decrease in IV leads to a reduction in option premiums.

Types Of Trades

Intraday Straddle

Intraday trading with straddles can be highly effective if planned according to the Greeks

- **Theta Benefit** : Enter the trade early to maximize theta decay benefits.
- **IV Benefit** : Typically, the highest IV point is at market opening, around 9:20 AM is optimal for entering straddles.
- **Exit Strategy** : Establish clear stop-loss and target levels based on backtesting.

Positional Trade

Positional straddle trades can be very profitable due to the significant theta benefit over time:

- **Early Entry** : Traders often enter at the beginning of the month and hold until the last expiry, capturing substantial premium decay.
- **Gap Risk** : Large overnight gaps can cause significant losses. However, setting profit and loss levels and sticking to them is crucial for long-term profitability.

By carefully managing entries, exits, and risk levels, traders can optimize the profitability of both intraday and positional straddle trades.

"Unlocking Profit Potential in Straddle Strategies

In the realm of options trading, the mastery of Greeks and straddle techniques often leads traders to believe that profits are exclusively attainable in stable market conditions. However, reality often diverges from this notion. Contrary to popular belief, straddle strategies can yield substantial profits even amidst market volatility.

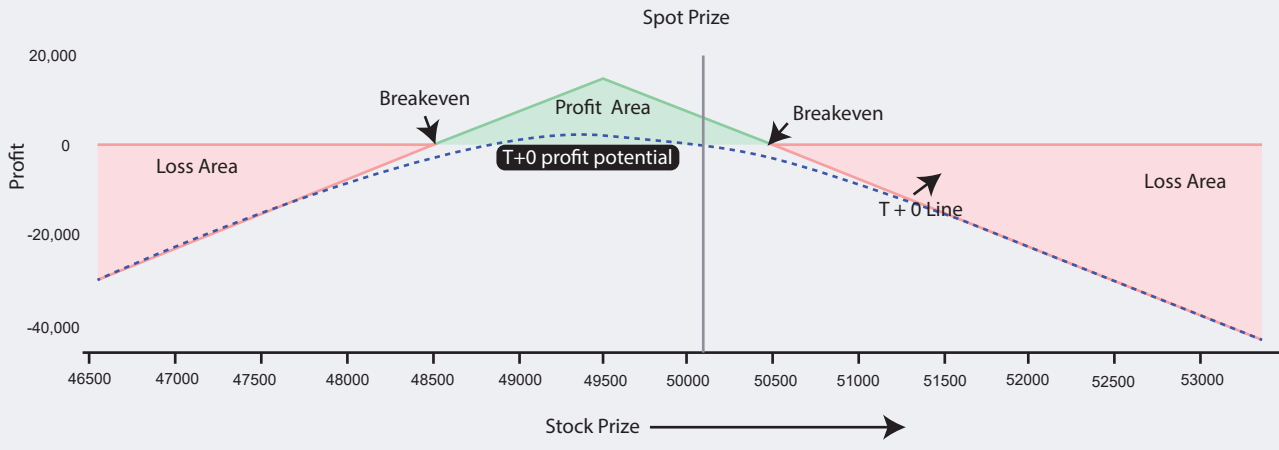
Consider this scenario: You initiate a straddle position by selling a 23000 CE option at a premium of 100 and simultaneously selling a 23000 PE option at the same premium of 100. Initially, when the market experiences an upward movement, the call premium escalates to, let's say, 150, while the put premium diminishes to, say, 60, resulting in a net loss of 10. However, the true potential of a straddle emerges when the market undergoes a downward shift.

During a market downturn, the call premium, inflated during the prior uptrend, rapidly deflates due to factors like delta, theta, and IV. Conversely, the put premium, which did not experience significant movement during the preceding upswing, remains relatively stable. This phenomenon occurs because the put option's delta, already lower compared to the call option's delta, mitigates its sensitivity to market movements. Additionally, the effects of theta and IV dilution further contribute to the stability of the put premium.

As a result, straddle positions can yield profits in volatile market conditions. The T+0 line, representing the position's profitability, ascends above the zero line in such scenarios, indicating a promising profit potential even amidst market fluctuations.

In conclusion, the intricate dynamics of options pricing and market behavior underscore the viability of straddle strategies in generating profits, not only in stable markets but also in volatile conditions. By understanding and leveraging these nuances, traders can harness the full potential of straddle positions to optimize their trading outcomes."

"Patience leads to profits."



BULLS MOVES
STAY HEDGED

Strangle

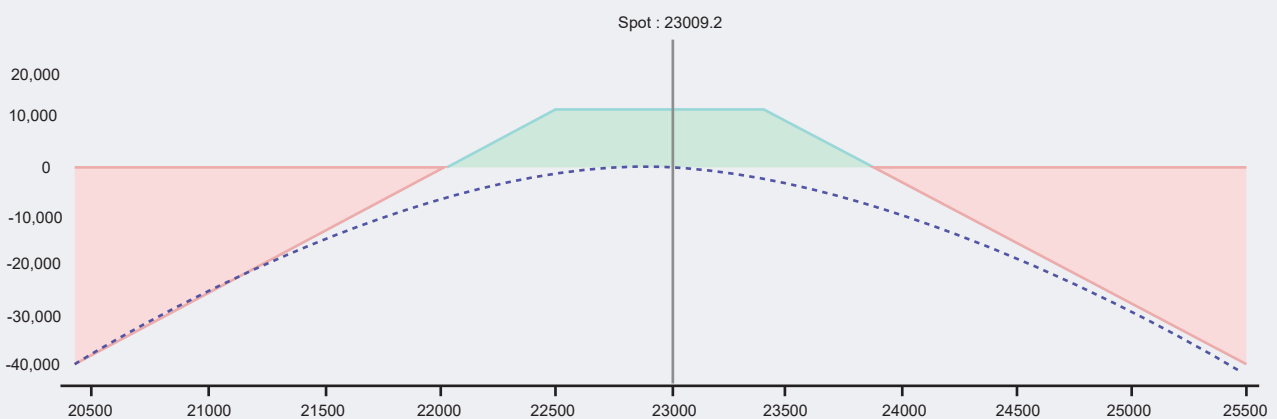
Similar to straddles, strangles represent a prevalent neutral trading strategy within options trading. However, unlike straddles which focus on At-The-Money (ATM) strikes, strangles leverage only Out-of-The-Money (OTM) strikes, thereby expanding the profit potential within the payoff structure and encompassing all benefits associated with OTM options.

Key Characteristics

- **Neutral Strategy** : Strangles are designed to capitalize on sideways market movements, making them suitable for neutral market outlooks.
- **Theta Friendly** : With a positive theta, strangles benefit from the passage of time, allowing traders to profit as time decay erodes option values.
- **IV Friendly** : Strangles thrive in environments of declining implied volatility, as a negative vega enables traders to profit from reductions in option premiums.
- **Two-Leg Construction** : A strangle comprises two legs - selling an OTM call option and an OTM put option.

Construction Example : Consider the Nifty at 23000, with a view that it will remain between 23400 and 22500. To execute a strangle, one would sell the 23400 CE and the 22500 PE:

- 23400 CE sold at 270.6
- 22500 PE sold at 205.4



Positions	Greeks	Target P&L (blue line)							
	Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	24 May, 13:08	23400 CE	06 Jun'24	22.7	-0.39	14.6	-0.0004	-16.850
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	24 May, 13:08	22500 PE	06 Jun'24	25.9	0.28	14.7	-0.0003	-14.838
						-0.11	29.3	-0.0007	-31.69

Greeks Analysis

- **Delta = -0.11** : Signifying a neutral stance, minimal impact is expected from market movements.
- **Theta = 29.3** : Positive theta indicates profitability with the passage of time.
- **Vega = -31** : Negative vega implies profit upon a decrease in implied volatility.

Profit and Loss Calculation

- **Maximum Profit** : Sum of premiums from selling the call and put options.
- **Maximum Loss** : Unlimited, emphasizing the importance of risk management.
- **Breakeven Points** : Calculated based on the respective strike prices and maximum profit points.

Upside breakeven : Call Strike + Max profit points $23400 + 476 = 23876$

Downside Breakeven : Put strike – Max profit points $22500 – 476 = 22024$

Profit Mechanism : Similar to straddles, strangles generate profits through theta and vega advantages. However, delta movements may lead to temporary losses, highlighting delta's adversarial role in neutral strategies.

Types of Trades

- **Intraday Strangles** : Leveraging theta and IV benefits, optimal entry and exit points are crucial for maximizing profitability.
- **Positional Trades** : Capturing substantial theta decay over time, positional strangles offer long-term profit potential, albeit with considerations for overnight gap risks.

In summary, strangles offer a versatile approach to neutral trading, capitalizing on time decay and volatility contraction while necessitating strategic planning and risk management to optimize returns."

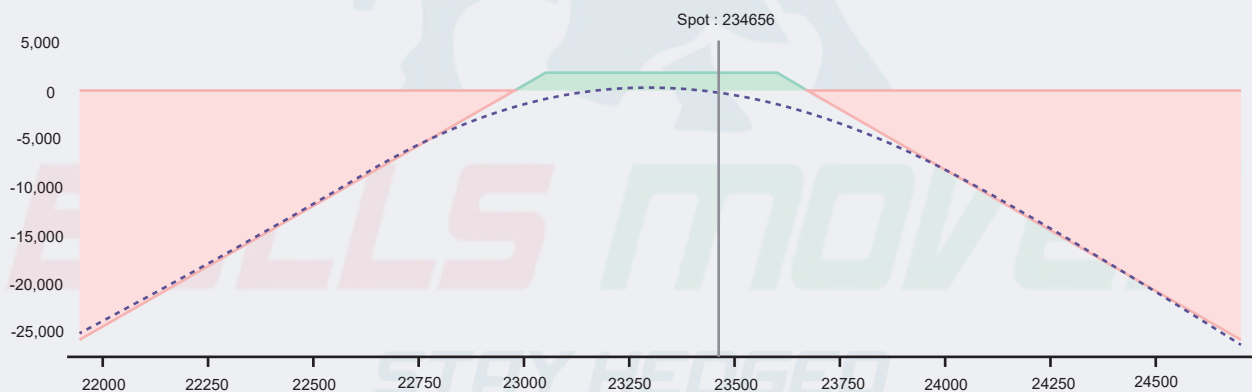
Practical Applications for Strangle

The strangle strategy is known for being a 100% delta-neutral approach. This means our primary focus is on deriving profits from theta decay and implied volatility (IV), not from delta. Maintaining delta neutrality is crucial when constructing a strangle.

When creating a strangle, it is essential to ensure that the strategy remains delta-neutral from the outset. A common mistake many traders make is setting different strike differences at the time of construction, which leads to an unbalanced strategy.

Consider the following example:

- **Current Nifty Index : 23,465**
- **Call Option Sold : 23,600**
- **Put Option Sold : 23,050**



Positions	Greeks	Target P&L (blue line)							
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/> S	1	14 Jun, 15:30	23600 CE	20 Jun'24	49.95	49.95	-0.30	0(0%)	1
<input checked="" type="checkbox"/> S	1	14 Jun, 15:30	23050 PE	20 Jun'24	19.3	19.3	0.11	0(0%)	1
								₹ 0	Exit Clear

Calculations:

- Spot price vs. Call Option Difference = $23,600 - 23,465 = 135$ points
- Spot price vs. Put Option Difference = $23,465 - 23,050 = 415$ points

Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/> S	Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega	
<input checked="" type="checkbox"/> S	1	14 Jun, 15:30	23600 CE	20 Jun'24	8.8	-0.30	7.7	-0.0013	-10.454	
<input checked="" type="checkbox"/> S	1	14 Jun, 15:30	23050 PE	20 Jun'24	11.5	0.11	5.6	-0.0006	-5.811	
							-0.19	13.3	-0.0019	-16.27

This discrepancy in distances results in an imbalanced payoff, which is evident in the T+0 line. The delta reflects this imbalance, with a delta of -0.19, which is high compared to a typical strangle delta range of ± 0.01 to 0.07.

Some traders intentionally employ a biased strangle as part of an adjustment plan or a directional strangle concept. However, for standard strangles, maintaining neutrality is key.

Key Considerations When Trading Strangles

Intraday Strangles

- Construct strangles before 9:30 AM or after 9:20 AM.
- Avoid trading strangles on event days.
- Always set a stop loss.
- Do not initiate strangles after 1 PM.

Positional Strangles

- Prefer monthly expiries, ideally at the start of the month.
- Monitor the economic calendar for significant events.
- Always set a loss point.

Expiry Day Strangles: Trading strangles on expiry days is a nuanced subject due to the sensitivity involved. On expiry days, premiums are very low, making strike selection crucial. Strikes should be close to the spot price to take advantage of the high theta decay, which can quickly yield profits. However, the gamma effect poses a significant risk. Low premiums mean that any sudden movement in the underlying asset can drastically increase the delta, leading to substantial losses.

Therefore, always use stop losses when trading expiry day strangles. This strategy can be highly effective with proper risk management.

By adhering to these guidelines, traders can optimize their use of the strangle strategy while mitigating potential risks.

Bear Call Spread

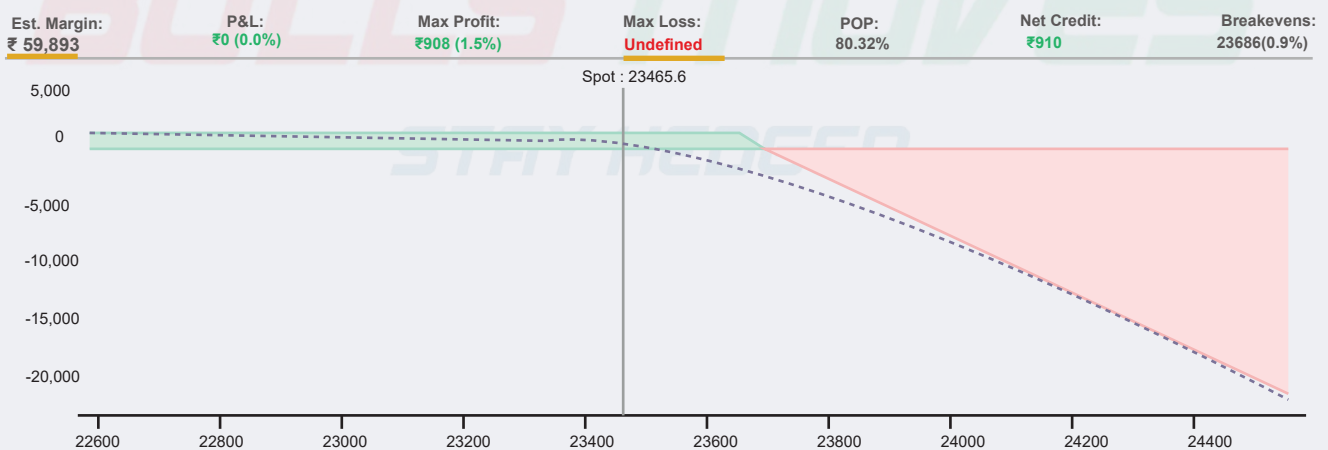
The bear call spread is a two-leg credit spread widely used in the Indian index derivatives market. Although it has a reputation for being somewhat complex, it offers several strategic advantages:

- **Bearish or Sideways Strategy** : Utilizes call options to profit from a bearish or sideways market.
- **Risk-Defined Strategy** : Limits potential losses.
- **Theta Friendly** : Benefits from time decay.
- **IV Friendly** : Takes advantage of implied volatility.

Construction

Suppose the Nifty is at 23,465, and you believe it will not rise above 23,650. You short the 23,650 call option at 36.4. Initially, this setup presents two primary issues:

- High margin requirement.
- Unlimited risk potential.

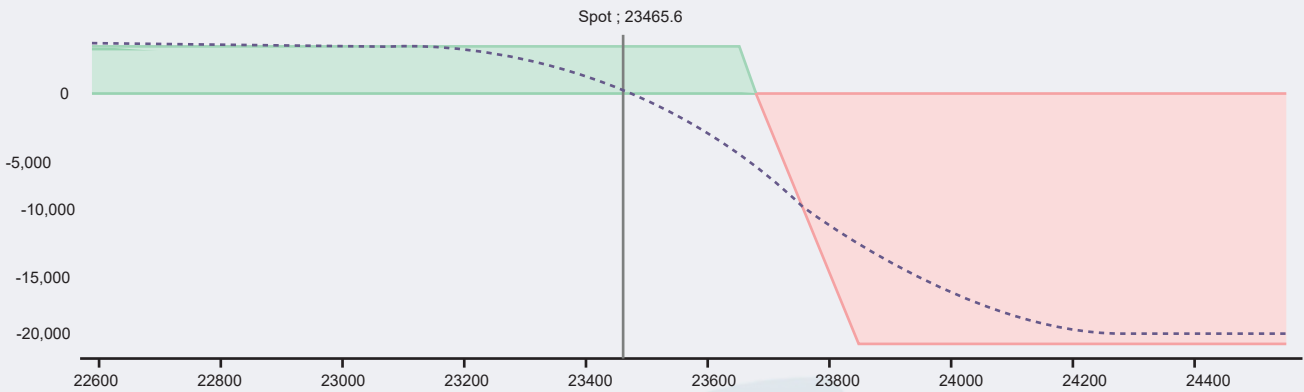


Positions	Greeks	Target P&L (blue line)								
		Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega
<input checked="" type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input checked="" type="checkbox"/>	1	14 Jun, 15:30	23650 CE	20 Jun'24	8.7	-0.24	6.8	-0.0012	-9.285
							-0.24	6.8	-0.0012	-9.29

To mitigate these risks, you add a long call option at a higher strike. For example, buying the 23,850 call option at 7.5 creates the following position:

- **23650 CE sold @ 36.4**
- **23850 CE bought @ 7.5**

Est. Margin: ₹16,304 P&L: ₹0 (0.0%) Max Profit: ₹722 (4.4%) Max Loss: ₹-4,277 (-26.2%) R.R: 5.9 : 1 POP: 79.36% Net Credit: ₹722.5 Breakevens: 23678(0.9%)



Positions	Greeks	Target P&L (blue line)								
	Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega	
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	14 Jun, 15:30	23650 CE	20 Jun'24	8.7	-0.24	6.8	-0.0012	-9.285
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	14 Jun, 15:30	23850 CE	20 Jun'24	8.6	0.07	-2.8	-0.0005	-3.896
						-0.17	4.0	-0.0007	-5.39	

Now, the risk is significantly reduced. The maximum loss is capped at 4,277, and the margin requirement drops from 59,893 to 16,304. This setup is known as a bear call spread. While the potential profit is lower compared to some other strategies, the probability of achieving a profit is higher.

Calculations

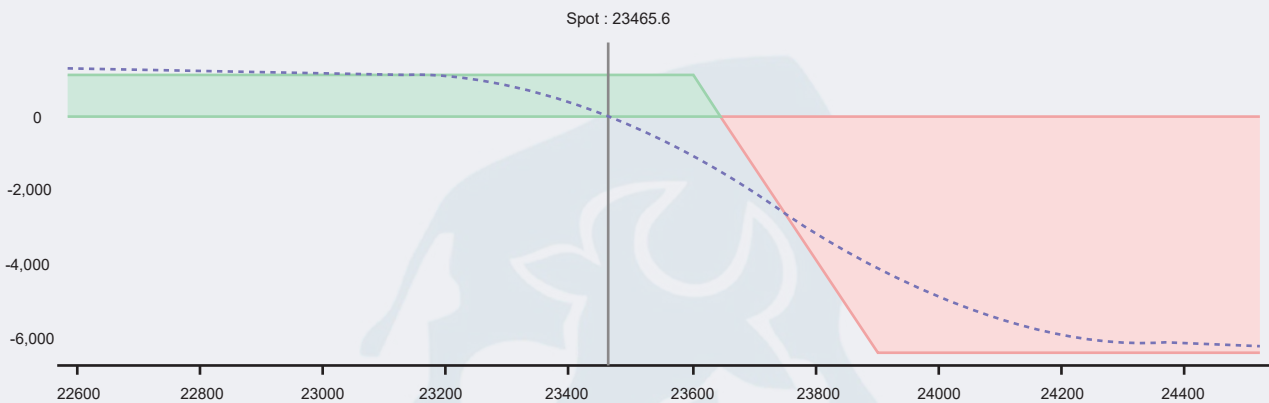
- **Max Profit** : Sell Premium – Buy Premium
- **Max Loss** : Strike Difference – Max Profit
- **Break-even Point** : Sell Strike + Max Profit

Note: Increasing the strike difference in this strategy will increase both potential profit and potential loss. The sold call option primarily provides the profit, while the bought call serves as protection, reducing the net profit slightly.

Types of Bear Call Spread

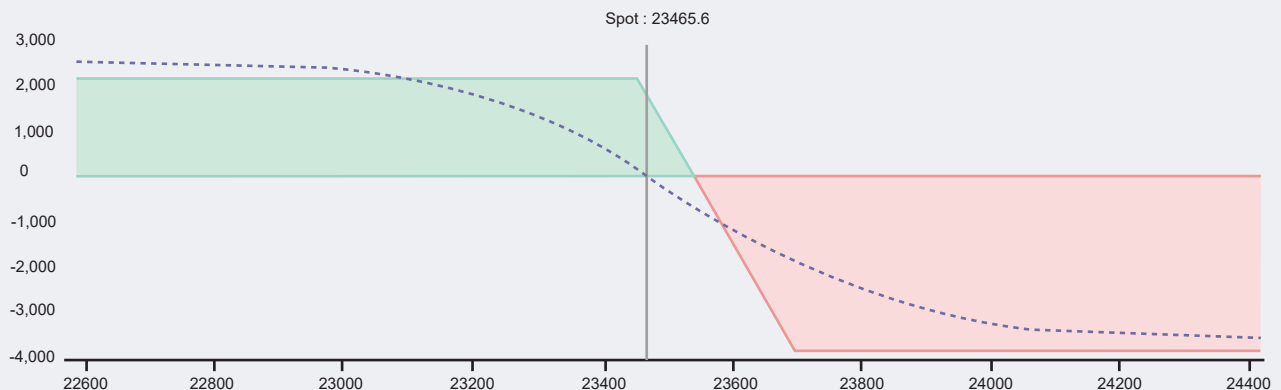
1. OTM (Out of the Money) Based

- **Structure** : Selling an OTM call and buying a further OTM call.
- **Benefits** : Provides a cushion against market movements and profits in a sideways market. It is a high-probability trade due to the OTM cushion.



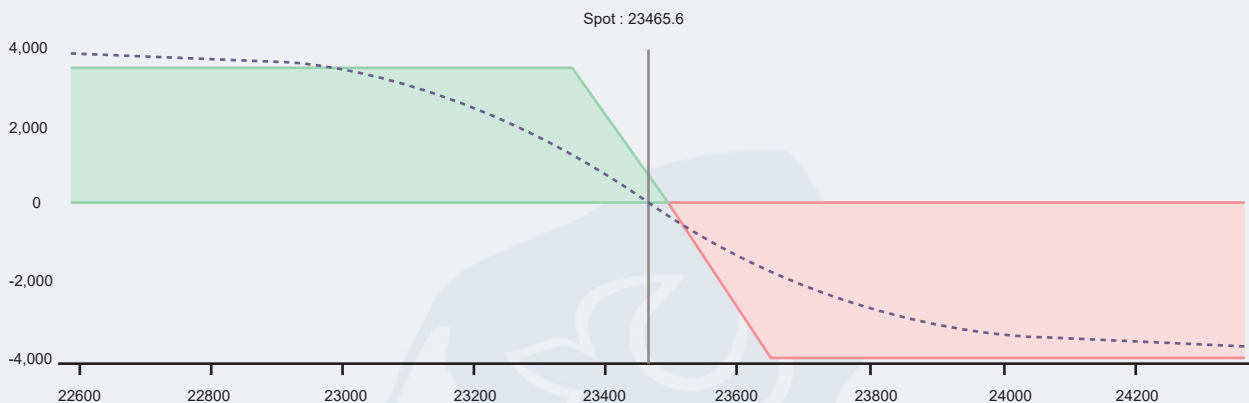
2. ATM (At the Money) Based

- **Structure** : Selling an ATM call and buying an OTM call.
- **Benefits** : This is an aggressive, directional credit spread with a small cushion (Sell premium – Buy premium). It offers theta benefits and a directional trade with limited protection.



3. ITM (In the Money) Based

- **Structure** : Selling an ITM call and buying an OTM call.
- **Benefits** : This aggressive bearish trade offers directional profit and loss with minimal theta benefit. The payoff shows high aggressiveness and little cushion.



Intraday Bear Call Spread

1. Regular Intraday

- Provides 80% directional benefit and 20% theta benefit.

2. Expiry Day Intraday

- Offers over 80% theta benefit with rapid profit potential. However, gamma spikes can occur, so a stop loss is essential.

Positional Bear Call Spread

A slow-moving strategy, positional bear call spreads typically initiate at the start of the month, initially yielding directional benefits. Visible theta benefits become apparent in the second half of the expiry period.

Bull Put Spread

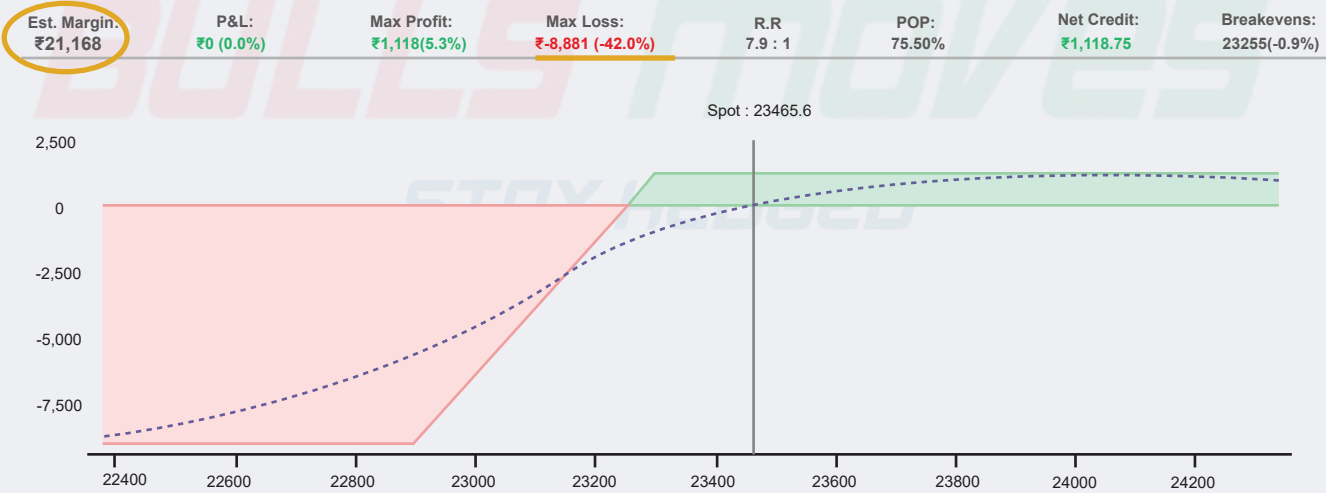
The bull put spread, like the bear call spread, is a two-leg credit spread. It is characterized by the following:

- **Bullish or Sideways Strategy** : Constructed using put options to profit from a bullish or sideways market.
- **Risk-Defined Strategy** : Limits potential losses.
- **Theta Friendly** : Benefits from time decay.
- **IV Friendly** : Takes advantage of implied volatility.

Construction

Suppose the Nifty is at 23,465, and you are slightly bullish, believing it will not fall below 23,300. You sell the 23,300 put option at 55.1. Initially, this naked put selling presents two primary issues:

- Unlimited risk
- High margin requirement

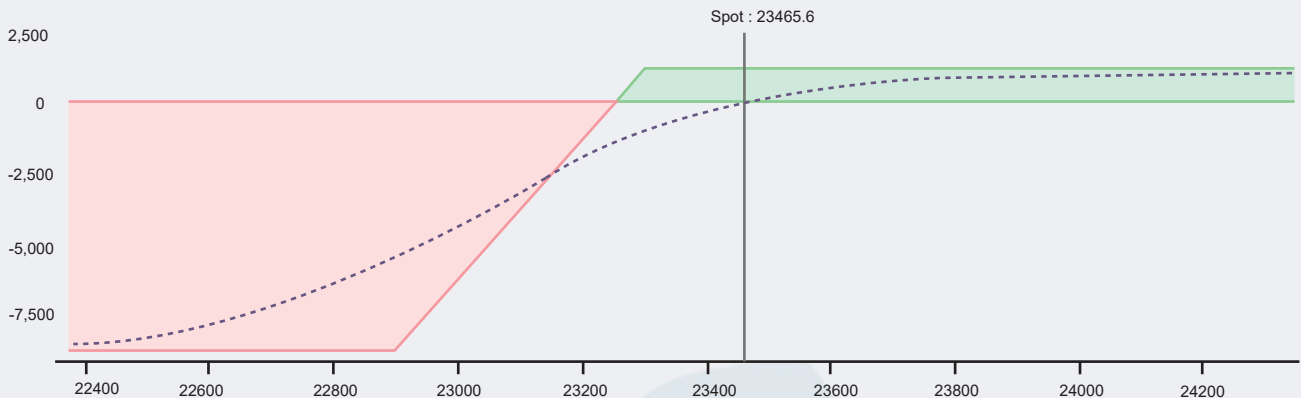


Positions	Greeks	Target P&L (blue line)							
	Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega
<input checked="" type="checkbox"/> S	1	14 Jun, 15:30	23300 PE	20 Jun'24	9.9	0.29	8.5	-0.0012	-10.346
<input checked="" type="checkbox"/> B	1	14 Jun, 15:30	22900 PE	20 Jun'24	12.4	-0.06	-3.9	-0.0003	3.742
						0.23	4.6	-0.0009	-6.60

To mitigate these risks, you add a long put option at a lower strike. For example, buying the 22,900 put option at 10.35 creates the following position:

- **23300 PE sold at 55.1**
- **22900 PE bought at 10.35**

Est. Margin: ₹21,168	P&L: ₹0 (0.0%)	Max Profit: ₹1,118(5.3%)	Max Loss: ₹-8,881 (-42.0%)	R.R 7.9 : 1	POP: 75.50%	Net Credit: ₹1,118.75	Breakevens: 23255(-0.9%)
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Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/> S	1	14 Jun, 15:30	23300 CE	20 Jun'24	55.1	55.1	0.29	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/> S	1	14 Jun, 15:30	22900 CE	20 Jun'24	10.35	10.35	-0.6	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
							0.23	₹ 0		

This adjustment solves the problems mentioned above. The maximum loss is reduced from unlimited to 8,800, and the margin requirement drops from 61,000 to 21,000. This setup is known as a bull put spread.

Calculations

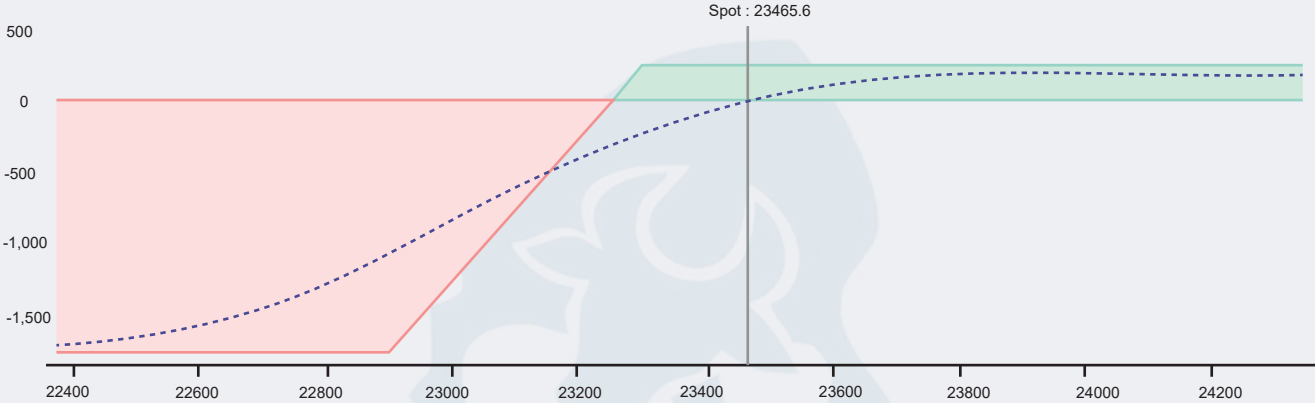
- **Max Profit** : Sell Premium – Buy Premium
- **Max Loss** : Strike Difference – Max Profit
- **Break-even Point** : Sell Strike – Max Profit

Note : Increasing the strike difference in this strategy will increase both potential profit and potential loss. The sold put option primarily provides the profit, while the bought put serves as protection, reducing the net profit slightly.

Types Of Bull Put Spread

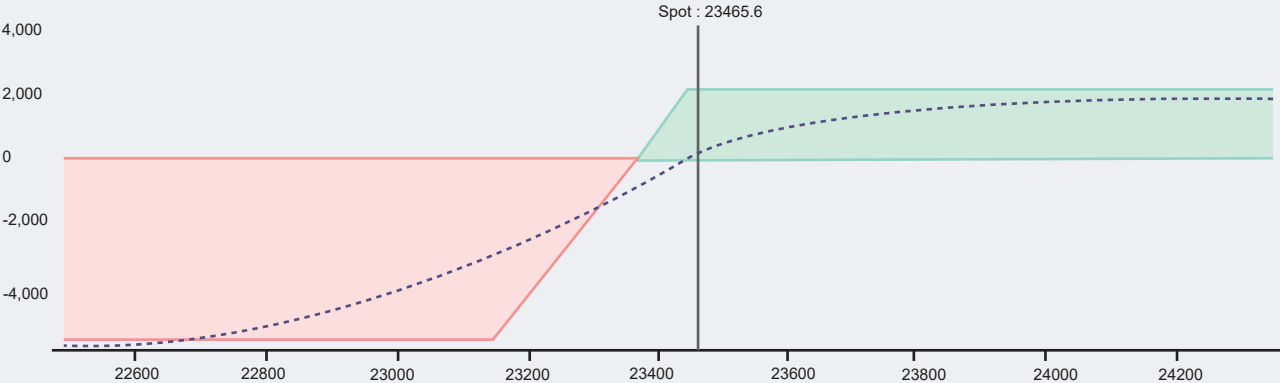
1. OTM (Out of the Money) Based

- **Structure** : Selling an OTM put and buying a further OTM put.
- **Benefits** : Provides a cushion against market movements and profits in a sideways market. It is a high-probability trade due to the OTM cushion.



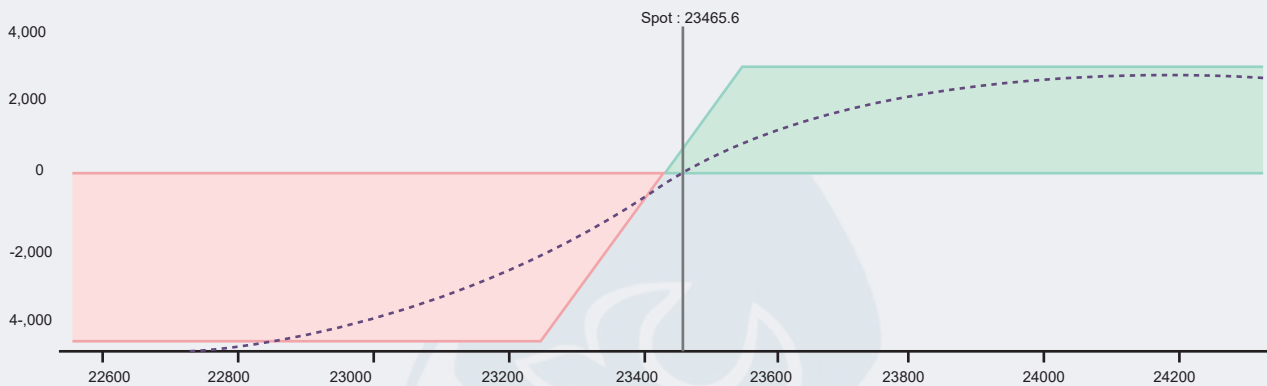
2. ATM (At the Money) Based

- **Structure** : Selling an ATM put and buying an OTM put.
- **Benefits** : This is an aggressive, directional credit spread with a small cushion (Sell premium – Buy premium). It offers theta benefits and a directional trade with limited protection.



3. ITM (In the Money) Based

- **Structure :** Selling an ITM put and buying an OTM put.
- **Benefits:** This aggressive bullish trade offers directional profit and loss with minimal theta benefit. The payoff shows high aggressiveness and little cushion.



Intraday Bull Put Spread

1. Regular Intraday

- Provides 80% directional benefit and 20% theta benefit.

2. Expiry Day Intraday

- Offers over 80% theta benefit with rapid profit potential. However, gamma spikes can occur, so a stop loss is essential.

Positional Bull Put Spread

A slow-moving strategy, positional bull put spreads typically initiate at the start of the month, initially yielding directional benefits. Visible theta benefits become apparent in the second half of the expiry period.

Bull Put Spread vs. Delta

While not entirely driven by delta, the bull put spread's performance can be influenced by changes in delta. Higher delta increases the strategy's sensitivity to directional movements, enhancing both potential profits and losses, while theta benefits accumulate more slowly. Lower delta results in slower directional impact but easier realization of theta and IV benefits, providing a more stable trading experience.

By adhering to these guidelines and understanding the nuances of each type of bull put spread, traders can effectively manage risk and optimize their trading strategies.

Bear Call Spread vs. Bull Put Spread: Summary

Both the bear call spread and the bull put spread are credit spreads and directional strategies. Here's a professional summary of their characteristics and applications:

- **Directional and Sideways Strategies** : When constructed using out-of-the-money (OTM) strikes, both strategies benefit from theta decay, making them effective for capturing profits in both directional and sideways markets. In other situations, these strategies primarily act as directional plays.
- **Application to Stock Options** : These strategies can be applied to stock options as well. When selecting stocks for these strategies, ensure that there is sufficient liquidity to facilitate smooth entry and exit.
- **High Implied Volatility (IV) Conditions** : Constructing these strategies during periods of high IV can lead to rapid profits due to the combined benefits of theta decay and a subsequent reduction in IV.

By leveraging the bear call spread and bull put spread in appropriate market conditions, traders can optimize their risk-reward profiles and enhance their overall trading strategies.

Iron Condor

The iron condor is one of the most effective four-leg options strategies. It is a credit and non-directional strategy with the following characteristics:

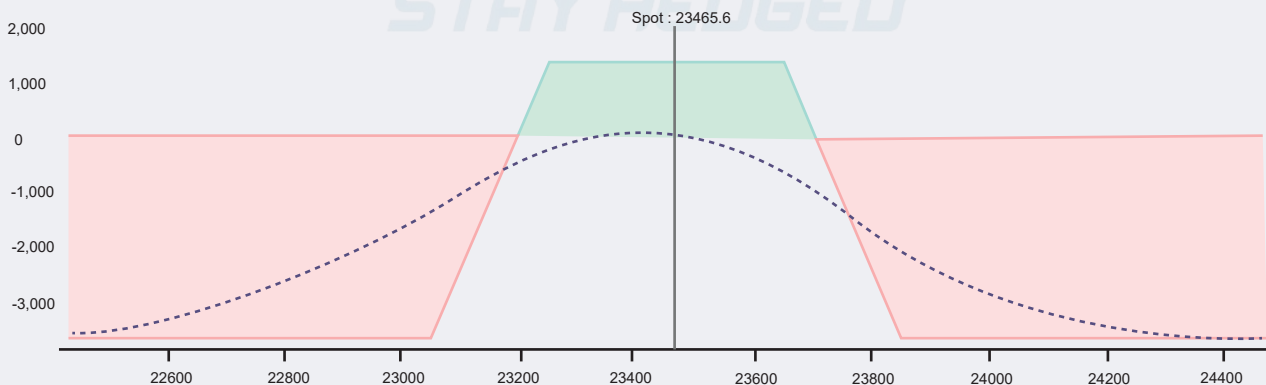
- **Four-Leg Credit Strategy**
- **Includes Both Calls and Puts**
- **Limited Profit and Limited Loss**
- **Non-Directional**

Construction

An iron condor is essentially a combination of a bear call spread and a bull put spread. The behaviour of the iron condor can vary based on the chosen strikes. For example, with the Nifty at 23,465, a standard iron condor could be constructed as follows:

- Sell 23250 PE at 44.4
- Sell 23650 CE at 36.4
- Buy 23050 PE at 19.3
- Buy 23850 CE at 7.5

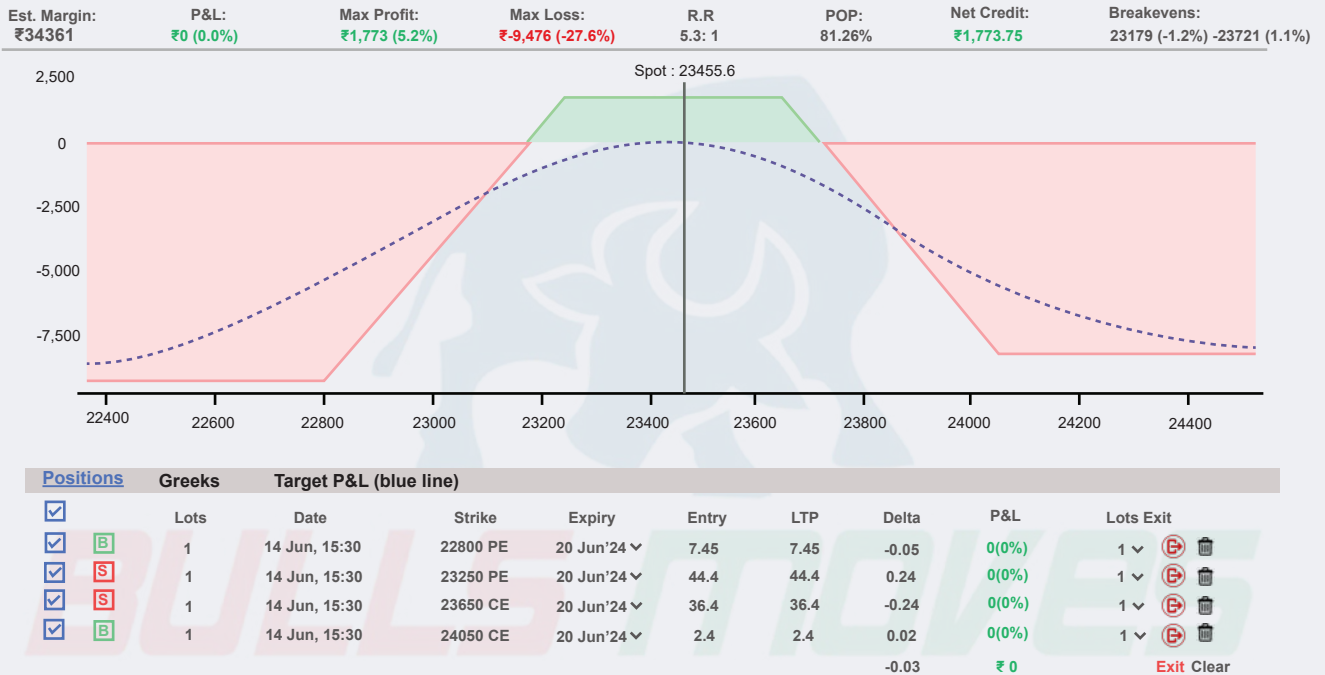
Est. Margin: ₹28,733 P&L: ₹0 (0.0%) Max Profit: ₹1,350 (4.7%) Max Loss: ₹-3,650 (-12.7%) R.R: 2.7 : 1 POP: 62.70% Net Credit: ₹1,350 Breakevens: 23195 (-1.2%) -23704 (1.0%)



Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> [B]	1	14 Jun, 15:30	23050 PE	20 Jun'24	19.3	19.3	-0.11	0(0%)	1	[Exit] [Clear]
<input checked="" type="checkbox"/> [S]	1	14 Jun, 15:30	23250 PE	20 Jun'24	44.4	44.4	0.24	0(0%)	1	[Exit] [Clear]
<input checked="" type="checkbox"/> [S]	1	14 Jun, 15:30	23650 CE	20 Jun'24	36.4	36.4	-0.24	0(0%)	1	[Exit] [Clear]
<input checked="" type="checkbox"/> [B]	1	14 Jun, 15:30	23850 CE	20 Jun'24	7.5	7.5	0.07	0(0%)	1	[Exit] [Clear]
							-0.04	₹ 0		[Exit] [Clear]

This setup allows for profit if the stock price expires between the two break-even points. The combined strategies of a bear call spread and a bull put spread enhance the theta and IV benefits, offering faster profits and slower losses compared to using each strategy individually.

The two sold positions (one call and one put) generate the profit, while the two bought positions provide protection against market risk and margin requirements.



By widening the bought strikes (reducing the premium of the buy legs), potential profit increases, but so does potential loss.

Calculations

- **Max Profit** : Net Premium Received (Total Sell Premium – Total Buy Premium)
- **Max Loss** : Highest Spread – Max Profit
- **Spread** : Highest Difference between the sold strike and its protective strike.

For the example above:

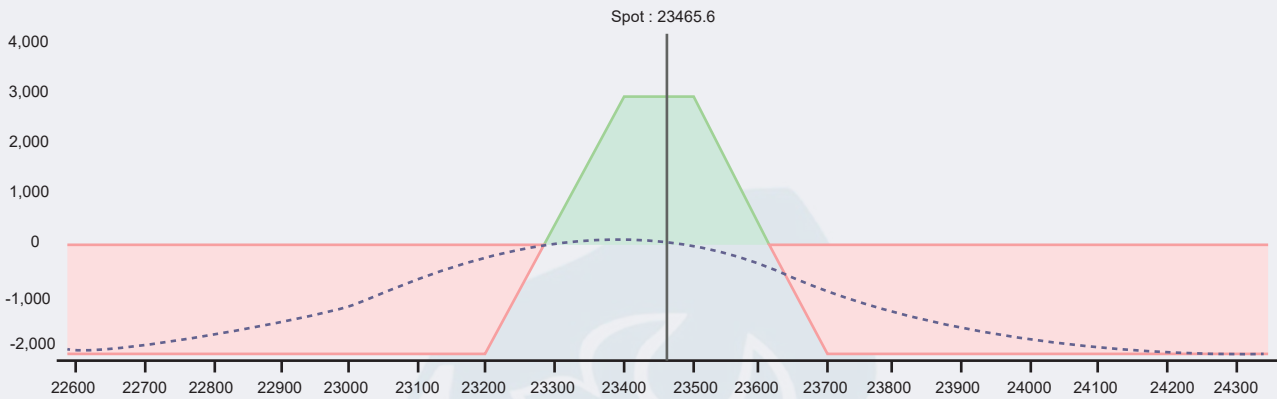
- **Call Spread** : $23850 - 23650 = 200$
- **Put Spread** : $23250 - 23050 = 200$

The highest spread is 200.

Common Mistakes

1. Very Tight Iron Condor

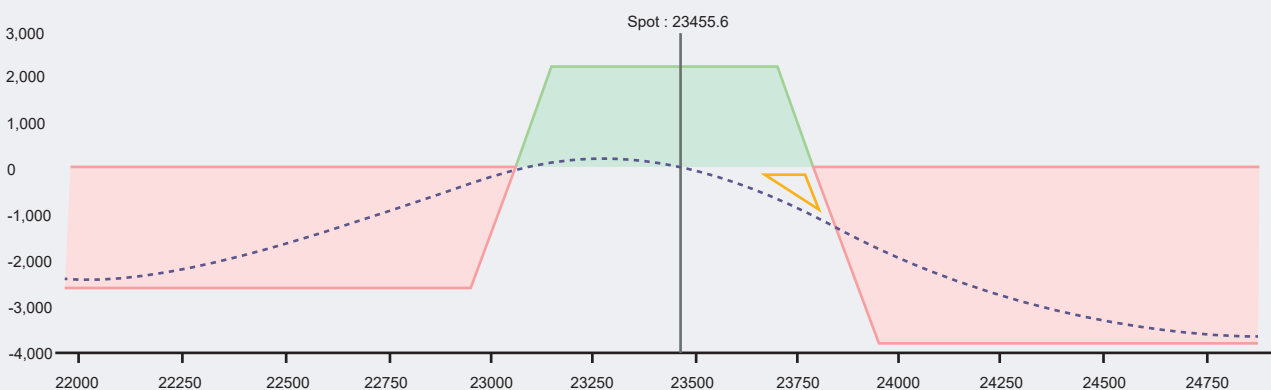
- A tight iron condor may offer good profit potential, but the profit zone is narrow, reducing the probability of success.



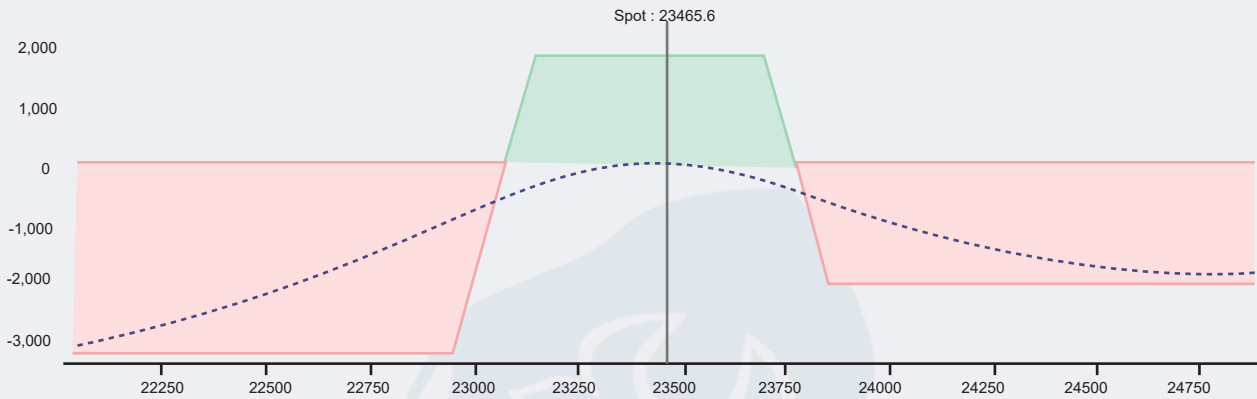
Positions	Greeks	Target P&L (blue line)								
		Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega
<input checked="" type="checkbox"/>	B	1	14 Jun, 15:30	23200 PE	20 Jun'24	10.5	-0.20	-7.4	0.0009	8.482
<input checked="" type="checkbox"/>	S	1	14 Jun, 15:30	23400 PE	20 Jun'24	9.5	0.42	9.3	-0.0014	-11.729
<input checked="" type="checkbox"/>	S	1	14 Jun, 15:30	23500 CE	20 Jun'24	9.0	-0.44	8.9	-0.0015	-11.875
<input checked="" type="checkbox"/>	B	1	14 Jun, 15:30	23700 CE	20 Jun'24	8.6	0.18	-5.7	0.0010	7.896
							-0.04	5.1	-0.0010	-7.23

- In low IV conditions, achieving a high premium often requires adjusting strikes closer to the stock price, increasing the risk of breaching the break-even points.
- To solve this, consider creating a next-expiry iron condor, which can provide good premium, profit, and protection from gamma risk.

2. Not Monitoring the T+0 Line



- An imbalanced T+0 line can indicate directional bias. For instance, if the market moves slightly upward, an imbalanced iron condor may start showing losses quickly, indicating a bearish bias.
- Ensure the iron condor is delta neutral to avoid these issues, which should reflect in a balanced T+0 line.



Ideal Conditions for Iron Condor

- **High IV Conditions :** In high IV conditions, selling premium yields easy profits as IV drops, coupled with theta benefits.
- **Event Days :** Be cautious with iron condors on event days, as IV may not drop until the event concludes. This delay can increase risk if the market moves significantly in one direction before the event, potentially leading to large losses.

Intraday Iron Condor

Generally, intraday iron condors are not recommended because:

- The protective buy legs with good premium can offset the profits from the sell legs due to IV drop and theta decay.
- However, on expiry days, the full OTM melting benefit makes intraday iron condors more effective, though gamma risk must be managed.

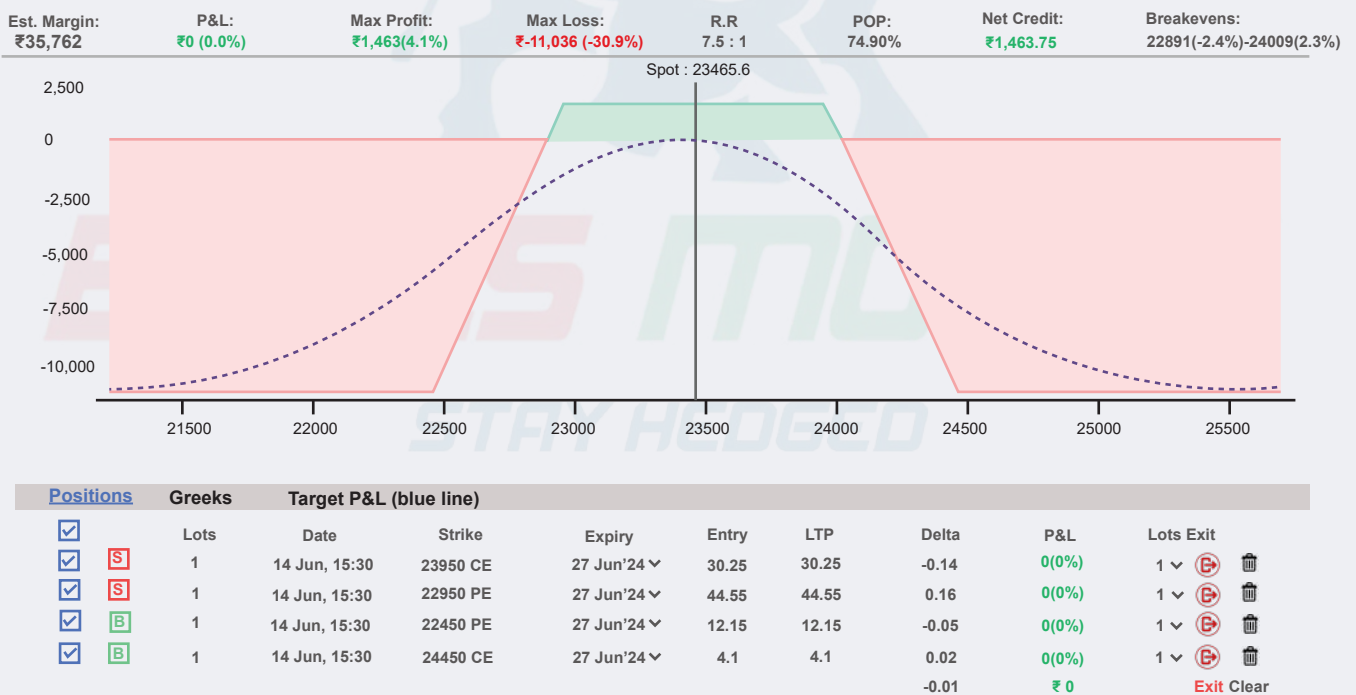
Positional Iron Condor

Positional iron condors are well-suited for non-directional strategies, despite the inherent gap-up and gap-down risks. The protective buy legs offer better protection against these risks compared to other strategies.

By adhering to these guidelines and understanding the nuances of the iron condor, traders can effectively manage risk and optimize their trading strategies.

Iron condor Vs IV

IV is play a vital role in iron condor. When High IV condition we will get high premium so our profit and protection will increase but in low iv condition same iron condor will give small profit potential and less cushion



In above pay off call sold 500 above from atm and put sold 500 below from atmstrike .it give following things

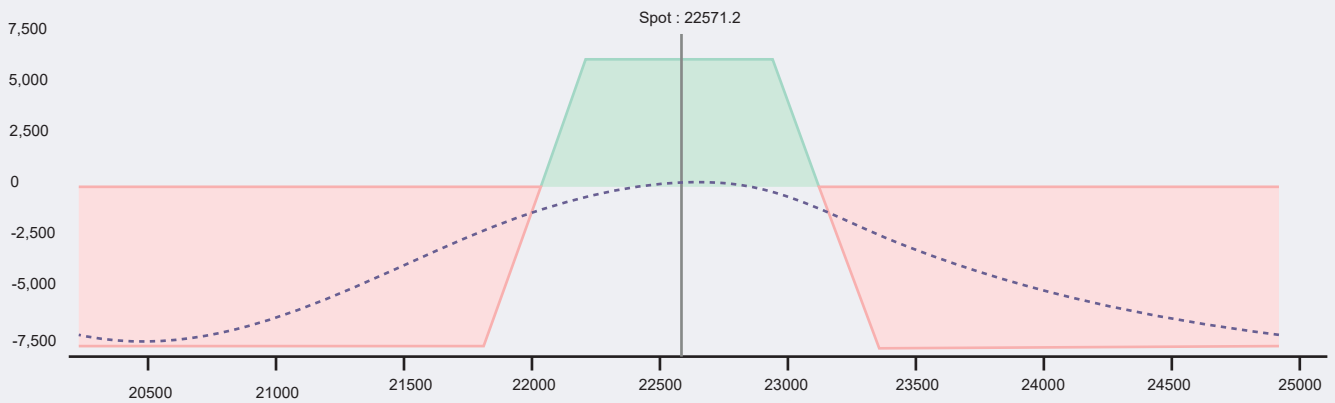
Max Profit : 1463

Max Loss : 11306

Upper Break Even : 24009 (2.3 %)

Lower Break Even : 22891 (-2.4 %)

Est. Margin: ₹42,835 P&L: ₹0 (0.0%) Max Profit: ₹6,015(14.0%) Max Loss: ₹-7,735(-18.1%) R.R: 1.3 : 1 POP: 51.50% Net Credit: ₹6,015 Breakevens: 21809(-3.4)-23290(0.2%)



The same strike difference but this is done in a High IV condition .
See the result

Max Profit : 6015

Max Loss : 7735

Upper Break Even : 23290 (3.2%)

Lower Break Even : 21809 (-3.4%)

You can see the result , in all matter like profit, loss , cushion. In high condition all area we will get extra benefit .

STAY HEDGED

Timing Strategies For Iron Condor Trading

Iron Condor trading involves careful timing, whether you're trading intraday or holding positions overnight.

Intraday Trading Tips : If you're trading intraday (within the same day), it's best to act between 9:20 AM and 9:30 AM. This time frame usually sees higher volatility, making it ideal for strategies like straddles or strangles. Iron Condors are typically more suited for longer holds, but if you're going for it intraday, aim to minimize the cost of buying options. This increases risk but can lead to quicker profits during the trading day.

Positional Trading Insights : For longer-term positions, consider placing your Iron Condor after 3:00 PM. This timing helps reduce risk from sudden price changes (delta risk) just before market close. If you execute around 3:15 PM, you only face a short window of delta risk before markets close, while benefiting from time decay (theta) overnight. This setup provides a buffer against market gaps or downturns at the next open.

Iron Condor and Choosing Expiries

Picking the Right Expiry : When choosing expiry dates, be mindful of your trading style. Opting for an expiry close to expiration (1-2 days before) can yield quick profits. However, you must closely monitor the trade and exit if losses approach your limit due to unexpected market moves.

Strategic Expiry Skipping : Alternatively, skipping the next immediate expiry and selecting the following one can enhance your position. The higher premium on the buy leg of the Iron Condor provides protection against losses, while the lucrative premium on the sell leg enhances potential profits.

These straightforward strategies help you navigate Iron Condor trading effectively, managing risks while aiming for profitable outcomes based on your trading preferences and market conditions.

Iron fly

Understanding the Iron Fly Strategy

The Iron Fly strategy is an advanced variation of the Iron Condor, focusing on selling **At-The-Money (ATM)** options while simultaneously buying **Out-Of-The-Money (OTM)** options for protection. Here are the key features and considerations for implementing this strategy:

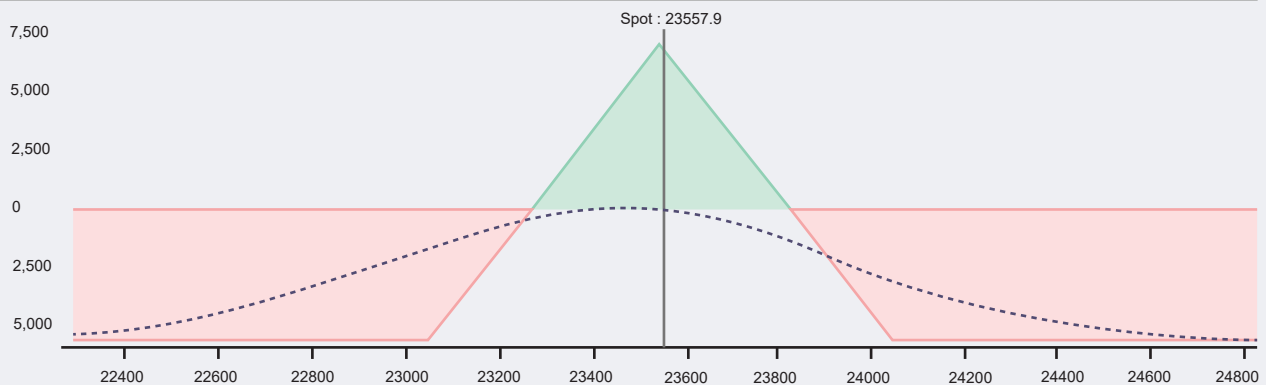
Key Features

- **Four Leg Credit Spread** : Involves selling an ATM call and put option and buying OTM call and put options.
- **Risk Defined** : The maximum potential loss and profit are predetermined and limited.
- **Theta Friendly** : Benefits from time decay, particularly advantageous when markets are stable.
- **IV Friendly** : Profitable when implied volatility (IV) decreases, benefiting from premium decay.

Construction Example:

- **Current Nifty Index** : 23557
- **Selling ATM Call** : 23550 CE @ 178
- **Selling ATM Put** : 23550 PE @ 152
- **Buying OTM Call** : 24050 CE @ 19.85
- **Buying OTM Put** : 23050 PE @ 34.8

Est. Margin: ₹36,514 P&L: ₹0 (0.0%) Max Profit: ₹6,893 (18.9%) Max Loss: ₹-5,606 (-15.4%) R.R: 1 : 1.2 POP: 19.06% Net Credit: ₹6,893.75 Breakevens: 23274 (-1.2%) -23825 (1.1%)



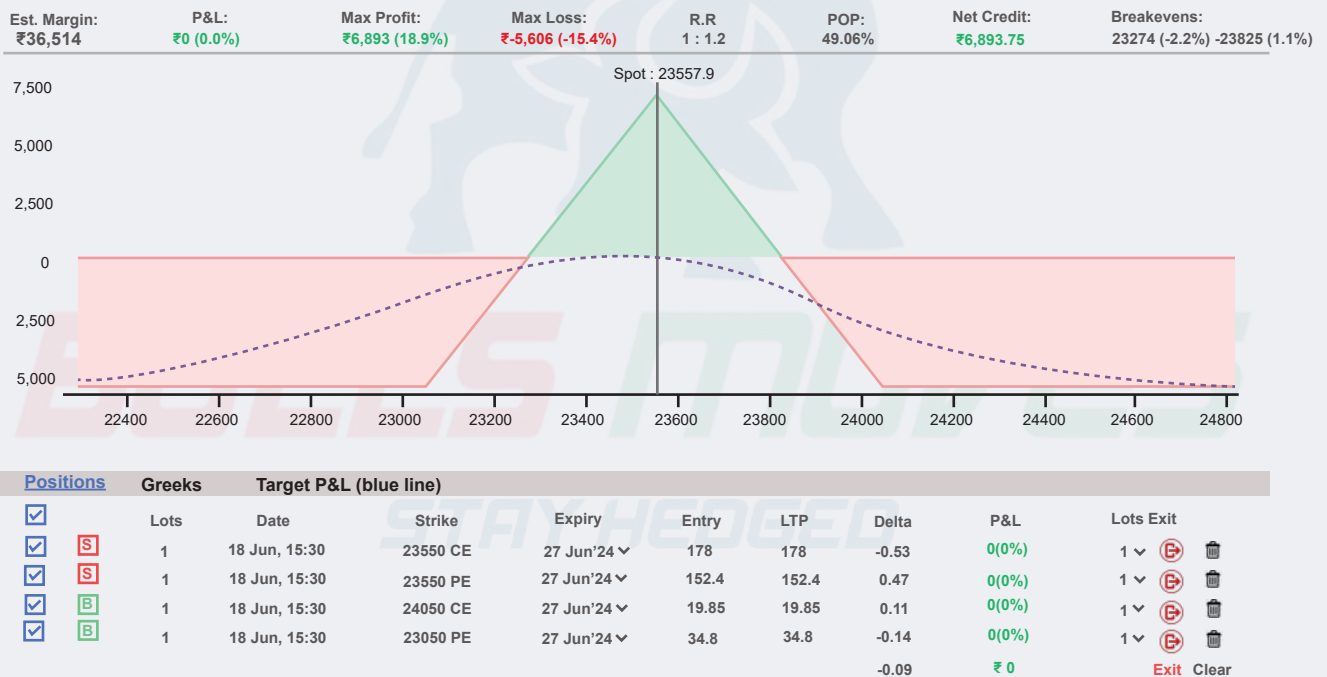
Positions	Greeks	Target P&L (blue line)							
✓	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
✓ S	1	18 Jun, 15:30	23550 CE	27 Jun'24	178	178	-0.53	0(0%)	1 ✓ ⊕ ⊗
✓ S	1	18 Jun, 15:30	23550 PE	27 Jun'24	152.4	152.4	0.47	0(0%)	1 ✓ ⊕ ⊗
✓ B	1	18 Jun, 15:30	24050 CE	27 Jun'24	19.85	19.85	0.11	0(0%)	1 ✓ ⊕ ⊗
✓ B	1	18 Jun, 15:30	23050 PE	27 Jun'24	34.8	34.8	-0.14	0(0%)	1 ✓ ⊕ ⊗
								₹ 0	Exit Clear

Profit Calculations

- **Max Profit** : Net Premium Received (Total Sell Premium – Total Buy Premium)
- **Max Loss** : Difference between the highest spread and max profit
- **Spread Width** : Difference between the sold and protective strikes (e.g., Call Spread: 24050 - 23550 = 500)

Width of Iron Fly

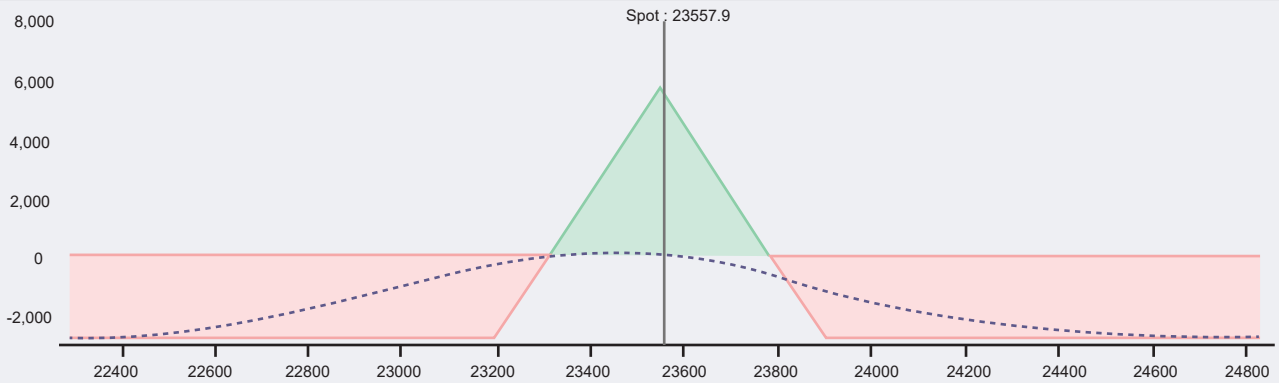
In an Iron Fly, since both Call and Put options are sold at ATM strikes, adjustments are often made to increase the width and manage risk effectively.



Impact of Buy Premium

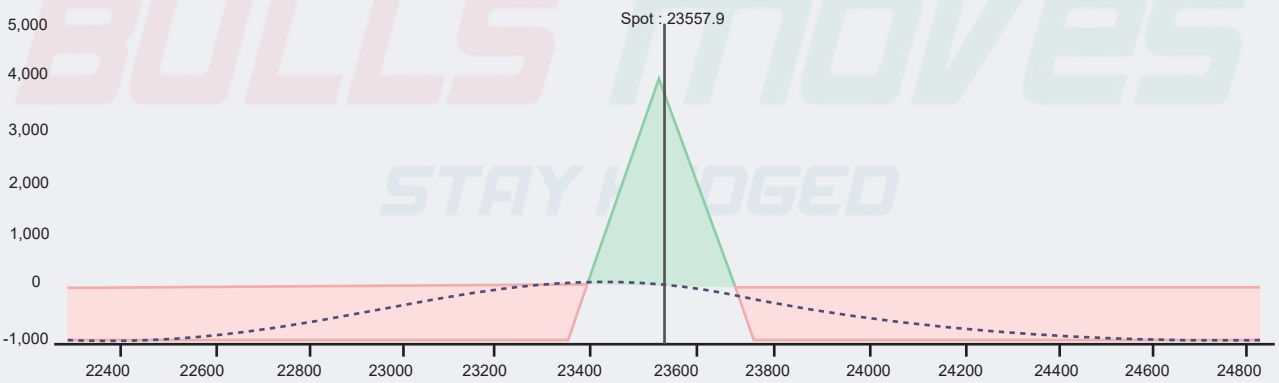
Increasing the premium of the OTM buy legs enhances protection but reduces the profit potential and available cushion. Balancing these factors is crucial for optimizing risk and reward.

Est. Margin: ₹33,331 P&L: ₹0 (0.0%) Max Profit: ₹5,791 (17.4%) Max Loss: ₹-2,958 (-4.9%) R.R: 1 : 2 POP: 42.04% Net Credit: ₹5,791.25 Breakevens: 23318 (-1.0%) -23781 (0.5%)



Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/> S	1	18 Jun, 15:30	23550 CE	27 Jun'24	178	178	-0.53	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> S	1	18 Jun, 15:30	23550 PE	27 Jun'24	152.4	152.4	0.47	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> B	1	18 Jun, 15:30	23900 CE	27 Jun'24	43.75	43.75	0.20	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> B	1	18 Jun, 15:30	23200 PE	27 Jun'24	55	55	-0.21	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
								-0.07	₹ 0	Exit Clear

Est. Margin: ₹30,031 P&L: ₹0 (0.0%) Max Profit: ₹3,950 (13.2%) Max Loss: ₹-1,50 (-3.5%) R.R: 1 : 3.8 POP: 29.52% Net Credit: ₹3,950 Breakevens: 23391 (-0.7%) -23708 (0.6%)



Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/> S	1	18 Jun, 15:30	23550 CE	27 Jun'24	178	178	-0.53	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> S	1	18 Jun, 15:30	23550 PE	27 Jun'24	152.4	152.4	0.47	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> B	1	18 Jun, 15:30	23750 CE	27 Jun'24	86.4	86.4	0.33	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> B	1	18 Jun, 15:30	23350 PE	27 Jun'24	86	86	-0.30	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
								-0.03	₹ 0	Exit Clear

Impact of Increasing Buy Leg Premiums

In the Iron Fly strategy, the buy legs (OTM options) are crucial for risk management, providing protection against potential losses beyond the sold strikes. Here's how increasing the premium of the buy legs affects the strategy

1. Increased Protection and Reduced Maximum Loss

- By increasing the premium of the OTM buy legs, you enhance the protection against adverse market movements. This effectively lowers the maximum potential loss in the strategy.

2. Reduced Profit Potential and Cushion

- However, while increasing protection, the available profit potential diminishes. This is because the net premium received (from selling the ATM options) remains relatively unchanged, but the cost of the buy legs increases.

3. Change in Payoff Structure

- The payoff structure of the Iron Fly strategy shifts noticeably when the buy leg premiums are increased. Initially, the strategy may have a broader profit zone, but as buy leg premiums rise, this zone narrows. This alteration reflects a trade-off between risk reduction and profit potential.

4. Strategic Adjustments

- Traders often adjust the buy leg premiums based on market conditions and their risk tolerance. Higher premiums provide stronger downside protection but reduce potential gains. Conversely, lower premiums increase potential profits but expose the strategy to greater risk.

Conclusion

The adjustment of buy leg premiums in an Iron Fly strategy is pivotal for aligning risk and reward. While enhancing protection against losses, it simultaneously alters the profit potential and payoff structure. Traders must carefully weigh these factors based on market conditions and their trading objectives to effectively implement this advanced options strategy.

Ideal Conditions for Iron Fly

- **High IV Conditions** : In high IV conditions, selling premium yields easy profits as IV drops, coupled with theta benefits.
- **Event Days** : Be cautious with iron condors on event days, as IV may not drop until the event concludes. This delay can increase risk if the market moves significantly in one direction before the event, potentially leading to large losses.

Intraday and Positional Strategies

- **Intraday Iron Fly** : Treat similarly to straddles or strangles, adjusting buy leg premiums to maximize profit from ATM legs while managing theta decay risks. Best executed after 9:20 AM during high IV periods.
- **Positional Iron Fly** : A preferred non-directional strategy for longer-term trades, offering lower risk compared to other strategies in the face of market gaps.

The Iron Fly strategy offers traders a structured approach to benefit from market stability and volatility changes, leveraging defined risks and theta decay for potential profits. Understanding these nuances is essential for successful implementation in various market conditions.

STAY HEDGED

Butterfly

The butterfly strategy is similar to the iron fly strategy, but it involves only three legs instead of four. Here are the key features of the butterfly strategy:

- **Three Leg Neutral Strategy** : It aims to profit from a stock or index trading in a narrow range.
- **Theta Friendly** : This strategy benefits from the passage of time (theta decay) because the options sold (ATM) decay faster than the options bought (ITM and OTM).
- **IV Friendly** : It benefits from a decrease in implied volatility (IV), which can lead to a decrease in option prices.
- **Low Risk** : The risk is limited to the net premium paid to establish the strategy.

Construction

To create a butterfly

- **Call Butterfly** : Buy one ITM call, sell two ATM calls, and buy one OTM call.
- **Put Butterfly** : Buy one ITM put, sell two ATM puts, and buy one OTM put.

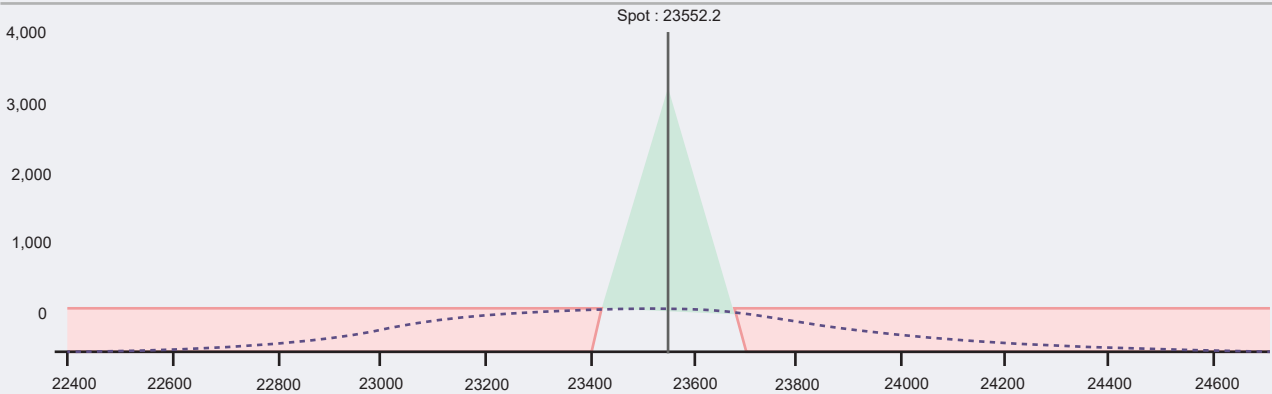
Example

Call Butterfly

Assuming Nifty is at 23,557:

- Buy 1 lot of 23,400 CE (ITM) at 247.35
- Sell 2 lots of 23,550 CE (ATM) at 153.95 each
- Buy 1 lot of 23,700 CE (OTM) at 84.8

Est. Margin: ₹27,770 P&L: ₹3 (0.0%) Max Profit: ₹3,144(11.3%) Max Loss: ₹-603 (-2.2%) R.R: 1 : 5.2 POP: 26.10% Net Credit: ₹-603.75 Breakevens: 23424(-0.5%)-23675(0.5%)



Positions	Greeks	Target P&L (blue line)									
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	1	20 Jun, 12:02	23400 CE	27 Jun'24	247.65	247.35	0.66	-7(0%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	2	20 Jun, 12:02	23550 CE	27 Jun'24	154.45	153.95	-1.02	25(0%)	2	<input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	1	20 Jun, 12:02	23700 CE	27 Jun'24	85.4	84.8	0.35	-15(0%)	1	<input type="checkbox"/>
								-0.01	₹ 3		Exit Clear

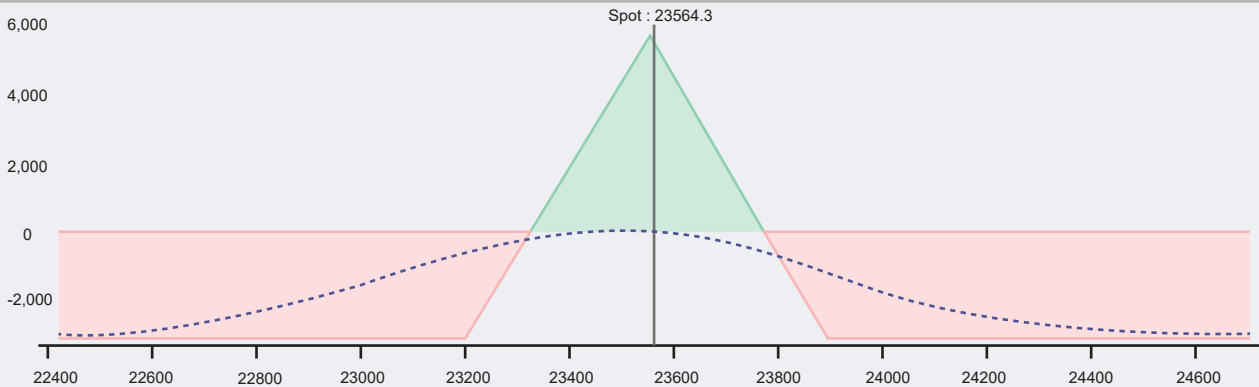
The structure of a butterfly spread is essentially the same as that of an iron fly. Both strategies provide benefits in terms of theta decay and implied volatility (IV) changes. Adjusting the strike price differences in these strategies will result in changes to the potential profit, loss, and the cushion area (the range within which the strategy remains profitable).

Here's a professional explanation

The butterfly spread and iron fly share a similar structure, offering advantages in theta decay and implied volatility shifts. When you adjust the strike price differences, you directly influence the strategy's profit potential, loss risk, and the range within which the strategy remains profitable, known as the cushion area.

By understanding these dynamics, traders can better optimize their strategies for varying market conditions.

Est. Margin: ₹27,786 P&L: ₹0(0.0%) Max Profit: ₹5,612(20.6%) Max Loss: ₹-3,136(-11.5%) R.R: 1 : 1.8 POP: 44.40% Net Credit: ₹-3,136.25 Breakevens: 23325(-1.0%)-23774(0.9%)



Positions	Greeks	Target P&L (blue line)									
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit		
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	2	20 Jun, 12:06	23550 CE	27 Jun'24	157.95	157.95	-1.04	0(0%)	2	<input type="checkbox"/> <input type="checkbox"/>
		1	20 Jun, 12:06	23200 CE	27 Jun'24	408.9	408.9	0.82	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
		1	20 Jun, 12:06	23900 CE	27 Jun'24	32.45	32.45	0.17	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
							-0.05	₹ 0	Exit Clear		

By changing the strike differences of the out-of-the-money (OTM) and in-the-money (ITM) options, the total profit, loss, and other key metrics of the strategy are affected. This adjustment modifies the overall risk-reward profile and the cushion area, which is the range within which the strategy remains profitable.

Here's a refined version

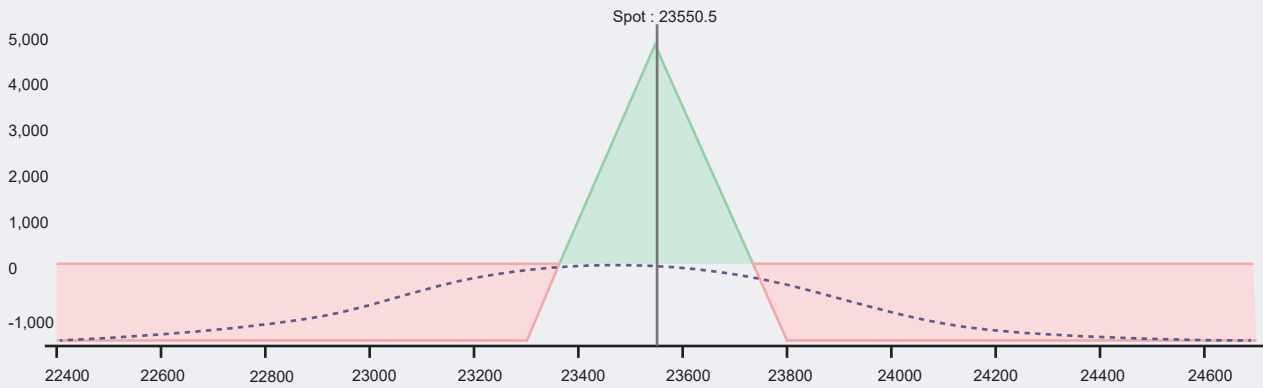
Adjusting the strike differences of the out-of-the-money (OTM) and in-the-money (ITM) options results in significant changes to the total profit, loss, and the cushion area of the strategy. This modification alters the risk-reward profile, allowing traders to fine-tune their positions based on market conditions and their own risk tolerance.

This understanding helps traders optimize their strategies to better align with their market outlook and risk management preferences.

Put Butterfly

Now nifty 23557
 23800 PE ITM Buy @ 292.1 One lot
 23550PE ATM sell @ 144.15Two lot
 23300 PE OTM Buy @62One lot

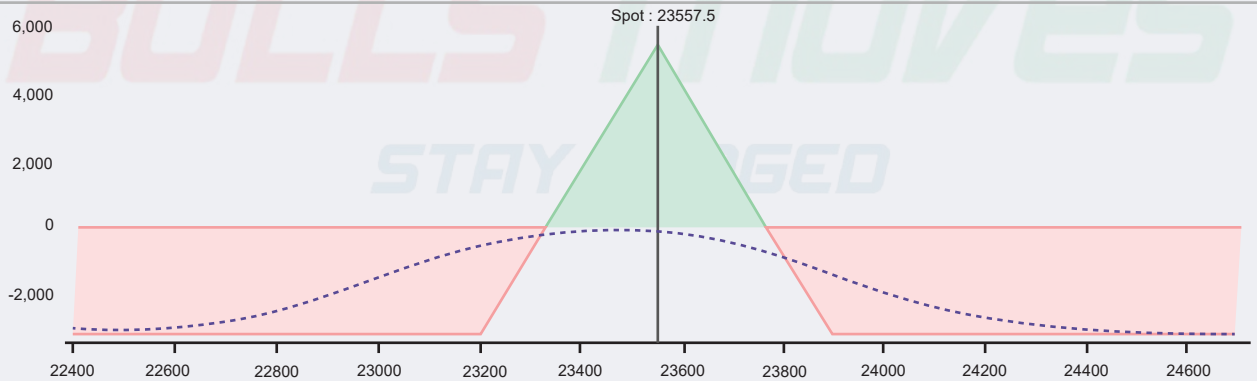
Est. Margin: ₹32,069 P&L: ₹-11(-0.0%) Max Profit: ₹4,603(14.4%) Max Loss: ₹-1,645(-5.1%) R.R: 1 : 2.8 POP: 37.20% Net Credit: ₹-1,645 Breakevens: 23365(-0.8%)-23734 (0.8%)



Positions	Greeks	Target P&L (blue line)									
<input checked="" type="checkbox"/>		Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	S	2	20 Jun, 12:09	23550 PE	27 Jun'24	144.15	145.75	0.98	-80(-1%)	2	
<input checked="" type="checkbox"/>	B	1	20 Jun, 12:09	23300 PE	27 Jun'24	62	62.85	-0.26	21(1%)	1	
<input checked="" type="checkbox"/>	B	1	20 Jun, 12:09	23800 PE	27 Jun'24	292.1	294.05	-0.75	48(0%)	1	
									-0.03	₹ -1.1	Exit Clear

Similar to the CE ATM butterfly, theta benefit, IV benefit etc. have the same effect.

Est. Margin: ₹33,880 P&L: ₹-145(-0.4%) Max Profit: ₹5,466(16.1%) Max Loss: ₹-3,282(-9.7%) R.R: 1 : 1.7 POP: 44.32% Net Credit: ₹-3,282.5 Breakevens: 23331(-1.0%)-23768(0.9%)



Positions	Greeks	Target P&L (blue line)									
<input checked="" type="checkbox"/>		Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	S	2	20 Jun, 12:09	23550 PE	27 Jun'24	144.15	145.2	0.96	-2(0%)	2	
<input checked="" type="checkbox"/>	B	1	20 Jun, 12:09	23200 PE	27 Jun'24	44.6	43.85	-0.19	-18(-1%)	1	
<input checked="" type="checkbox"/>	B	1	20 Jun, 12:09	23900 PE	27 Jun'24	375	370	-0.83	-125(-1%)	1	
									-0.06	₹ -145	Exit Clear

Here also the profit and loss keep changing when the OTM and ITM strikes changes.

Profit and Loss Calculation

- **Maximum Profit** = (Middle Strike Price - Lower Strike Price) - Net Premium Paid

For a Call Butterfly

- **Max Profit** = (23,550 - 23,400) - Net Premium Paid
- **Net Premium Paid** = Total cost of buying ITM and OTM options minus the premium received from selling ATM options.
- **Maximum Loss** = Net Premium Paid

Comparing Call and Put Butterflies

- Both strategies benefit from IV drop and theta decay.
- Choice between them depends on which side (Call or Put) has higher IV.

In summary, the butterfly strategy is designed for neutral market conditions, offering limited risk with potential for profit from theta decay and IV decrease. It provides flexibility to choose between call and put options based on market conditions.

Directional Butterflies: Customizing Trading Strategies

Directional butterflies offer a flexible approach to trading, allowing customization based on market expectations and risk tolerance.

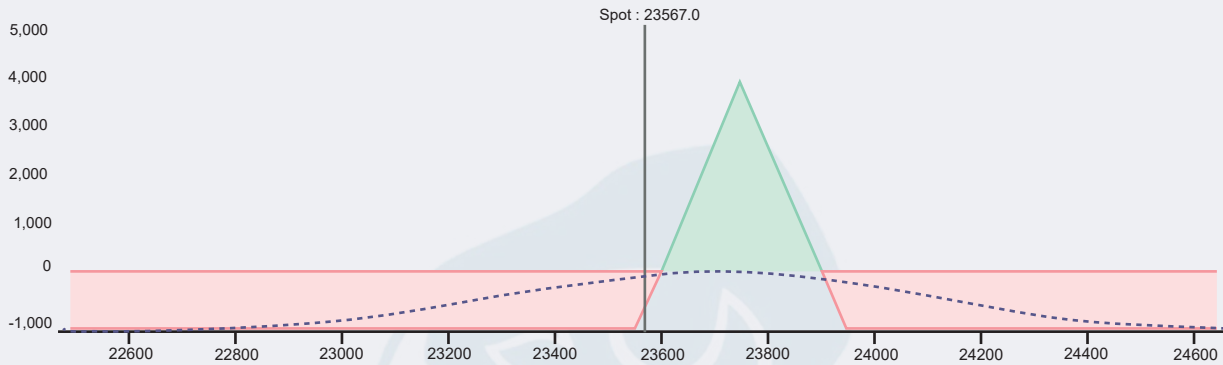
Bullish Butterfly Strategy

For a bullish outlook, such as slightly bullish or strongly bullish views, butterflies are adaptable and effective. Typically, we construct bullish butterflies using out-of-the-money (OTM) call strikes and sometimes in-the-money (ITM) put strikes. OTM calls are preferred because they offer flexibility and avoid liquidity risks associated with deep ITM strikes.

Construction

- Buy OTM Call
- Sell 2 lots of further OTM Calls
- Buy another OTM Call
- All strikes are evenly spaced

Est. Margin: ₹25,777 P&L: ₹0 (0.0%) Max Profit: ₹3,841 (14.9%) Max Loss: ₹-1,157 (-4.5%) R.R: 1 : 3.3 POP: 32.72% Net Credit: ₹-1,157.5 Breakevens: 23596(0.1%) -23903 (1.0%)

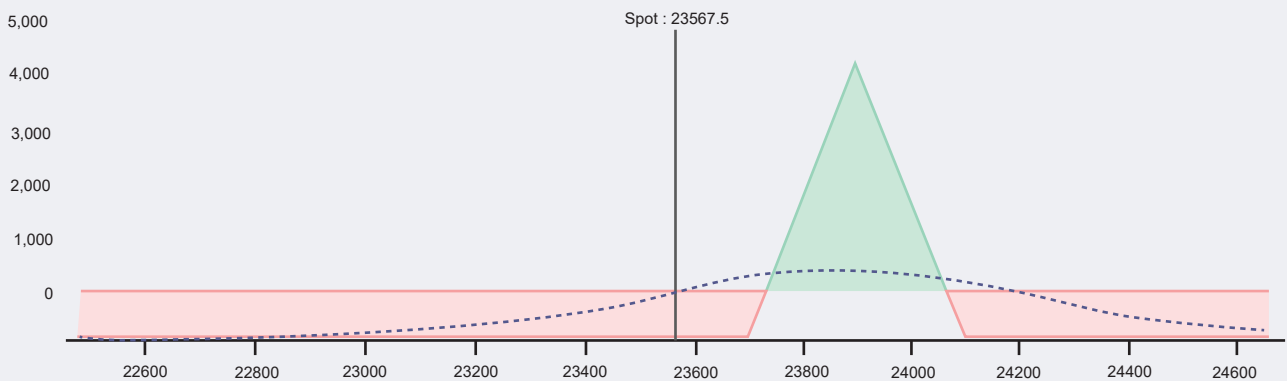


Positions	Greeks	Target P&L (blue line)									
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
✓	B	1	20 Jun, 15.30	23550 CE	27 Jun'24	166	166	0.56	0(0%)	1	Exit
✓	S	2	20 Jun, 15.30	23750 CE	27 Jun'24	71.85	71.85	-0.66	0(0%)	2	Exit
✓	B	1	20 Jun, 15.30	23950 CE	27 Jun'24	24	24	0.14	0(0%)	1	Exit
								0.04	₹ 0	Exit Clear	

In directional butterflies, profitability hinges on market movement aligning with our outlook, whether bullish or bearish. Here's a closer look at how these strategies operate:

Profit in Market Upside : When constructing a bullish butterfly, we anticipate profits as the market rises. Similarly, adjustments can be made for other directional views, tailoring strategies to specific market conditions.

Est. Margin: ₹24,974 P&L: ₹0 (0.0%) Max Profit: ₹4,161 (16.7%) Max Loss: ₹-837 (-3.4%) R.R: 1 : 5 POP: 26.34% Net Credit: ₹-837.5 Breakevens: 23733 (0.7%) -24066 (2.1%)



Positions	Greeks	Target P&L (blue line)									
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
✓	B	1	20 Jun, 15.16	23700 CE	27 Jun'24	86.3	86.3	0.37	0(0%)	1	Exit
✓	S	2	20 Jun, 15.16	23900 CE	27 Jun'24	31.1	31.1	-0.36	0(0%)	2	Exit
✓	B	1	20 Jun, 15.16	24100 CE	27 Jun'24	9.4	9.4	0.06	0(0%)	1	Exit
								0.07	₹ 0	Exit Clear	

In directional butterflies, profitability hinges on market movement aligning with our outlook, whether bullish or bearish. Here's a closer look at how these strategies operate:

Profit in Market Upside : When constructing a bullish butterfly, we anticipate profits as the market rises. Similarly, adjustments can be made for other directional views, tailoring strategies to specific market conditions.

Risk and Probability : While directional butterflies offer lower risk, achieving profitability depends on precise market movements. The T+0 line, which depicts profit and loss over time, illustrates scenarios where quick movement to the profit area may not immediately yield profits. However, swift movement to the center area can lead to quicker profitability.

Visualizing Profit Dynamics: In practical terms, the T+0 line's shape in the initial stages of the trade influences profit outcomes. For instance:

- In the first image, the T+0 line indicates that while reaching the profit area quickly is possible, realizing profits may be delayed.
- Conversely, the second image highlights that a rapid move to the center area can result in faster and easier profitability due to the T+0 line's initial configuration.

Conclusion

Directional butterflies are structured to capitalize on market movements corresponding to our expectations. They provide a nuanced approach to trading, balancing risk and probability. Understanding the T+0 line dynamics helps traders gauge when and how profitability may manifest based on market behavior.

Bearish Butterfly Strategy

Conversely, for a bearish market view, we use ITM call options and OTM put options. OTM put options are favoured due to their effectiveness in bearish scenarios.

Construction Steps

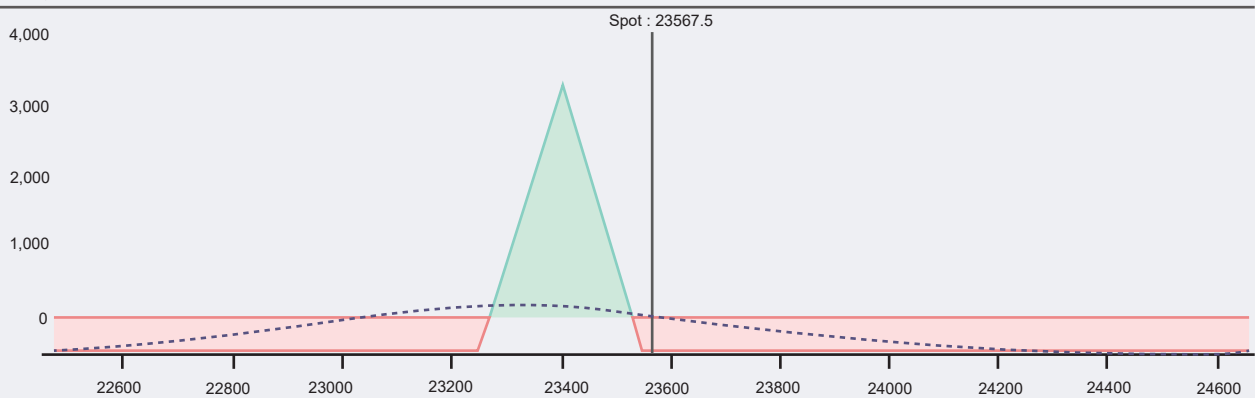
Sell ATM or OTM Put : Begin by selling one or more ATM or OTM put options. These options generate income if the underlying asset price remains above the strike price at expiration.

- **Buy Two Lots of Further OTM Puts :** Purchase two lots of put options further out-of-the-money compared to the sold put. These serve as a hedge to limit potential losses if the market unexpectedly rises.
- **Buy Additional OTM Put :** Complete the strategy by buying another OTM put option. This further defines the risk and profit potential of the bearish butterfly.

Example Construction

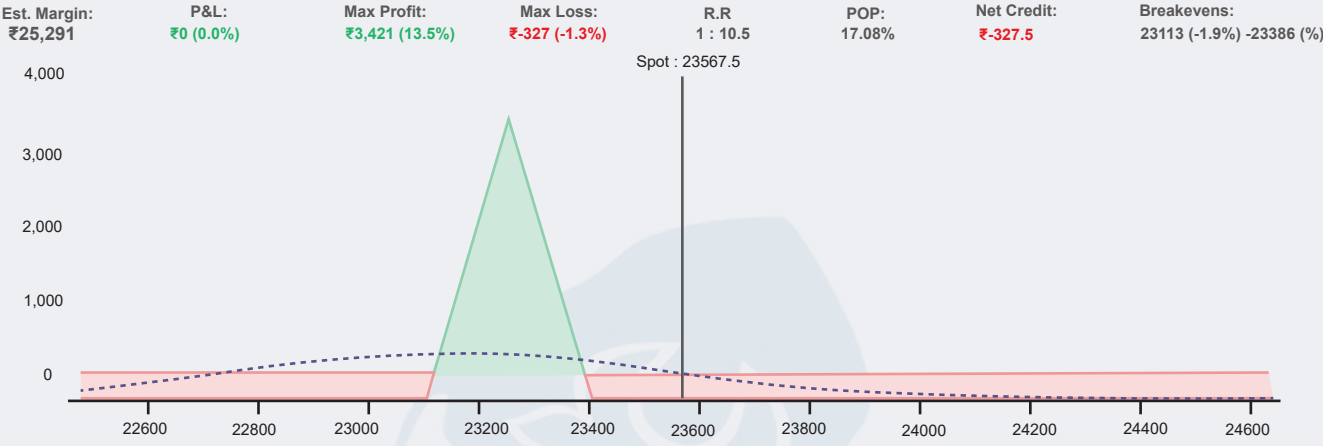
- **Sell :** ATM or OTM Put (e.g., strike price X)
- **Buy :** Two lots of further OTM Puts (e.g., strike price X - Y)
- **Buy :** Additional OTM Put (e.g., strike price X - Z)

Est. Margin: ₹26,032 P&L: ₹0 (0.0%) Max Profit: ₹3,241 (12.5%) Max Loss: ₹-507 (-1.9%) R.R: 1 : 6.4 POP: 22.88% Net Credit: ₹-507.5 Breakevens: 23270 (-1.3%) -23529 (-0.2%)



Positions	Greeks	Target P&L (blue line)									
✓	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit	
✓	B	1	20 Jun, 15.16	23550 PE	27 Jun'24	125	125	-0.46	0(0%)	1	✕
✓	S	2	20 Jun, 15.16	23400 PE	27 Jun'24	73.5	73.5	0.62	0(0%)	2	✕
✓	B	1	20 Jun, 15.16	23250 PE	27 Jun'24	42.3	42.3	-0.19	0(0%)	1	✕
								₹ 0	Exit Clear		

Extended Bearish Butterfly : An advanced version involves extending the strikes further OTM compared to a standard bearish butterfly. This adjustment optimizes the T+0 line, enhancing profitability in the center area of the trade.



Positions											
Greeks		Target P&L (blue line)									
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit		
<input checked="" type="checkbox"/>	B	1	20 Jun, 15.16	23400 PE	27 Jun'24	73.5	73.5	-0.31	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/>	S	2	20 Jun, 15.16	23250 PE	27 Jun'24	42.3	42.3	0.38	0(0%)	2	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/>	B	1	20 Jun, 15.16	23100 PE	27 Jun'24	24.2	24.2	-0.12	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
								-0.05	₹ 0	<input type="button" value="Exit"/> <input type="button" value="Clear"/>	

Profit Dynamics and Risk : While directional butterflies offer lower risk, the probability of profit can vary. The T+0 line illustrates how quickly profits can materialize based on market movements, emphasizing strategy effectiveness.

Conclusion

Directional butterflies empower traders to tailor strategies precisely to market expectations, balancing risk and reward effectively. Whether bullish or bearish, these strategies offer versatility and clarity in trading decisions. By mastering directional butterflies, traders enhance their ability to navigate diverse market conditions with confidence and precision.

Ratio Spreads

Overview

Ratio Spreads are slightly directional, high-theta strategies that come with more risk compared to other strategies. Understanding their construction will clarify why they are riskier.

Features

- Theta Friendly
- IV Friendly
- Not Fully Hedged

Construction Example:

Current Nifty: 23470

Bearish Ratio Spread

- Buy 1 ITM Call
- Sell 2 ATM Calls

Example

- Buy 1 lot of 23350 CE @ 211
- Sell 2 lots of 23450 CE @ 149.95 each

This is a bearish strategy similar to a bear call spread, profiting when the market is flat. However, it carries higher risk due to one naked sell leg. If the market rises significantly, it can result in substantial losses. The main benefit is the theta gain from the two sold legs and the additional IV benefit.



Bullish Ratio Spread

Despite the name, it profits in a sideways market. The construction is similar but uses puts instead of calls.

Example

- Buy 1 ITM Put
- Sell 2 ATM Puts

Current Nifty: 23467

- Buy 1 lot of 23500 PE @ 149.35
- Sell 2 lots of 23400 PE @ 103.85 each

The payoff is similar to the Bearish Ratio Spread but in the opposite direction. The strategy offers good theta and IV benefits but also carries the risk of a naked sell leg, leading to significant losses if the market moves sharply against the position.



Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/>	1	21 Jun, 13:42	23500 PE	27 Jun'24	149.35	149.35	-0.53	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	2	21 Jun, 13:42	23400 PE	27 Jun'24	103.85	103.85	0.82	0(0%)	2	<input type="checkbox"/> <input type="checkbox"/>
							0.29	₹0		Exit Clear

Here you can see the almost same pay off but opposite direction of Bearish Ratio spread. Here also we will get good Theta benefit and IV benefit because of Two Sell positions. In risk side, one sell leg is not protected and so when market move drastically against our direction we will see big loss.

PnL Calculations

1. Define the Components

- **K1** : Strike price of the option bought.
- **K2** : Strike price of the options sold.
- **C1** : Premium paid for the option bought.
- **C2** : Premium received for each option sold.
- **N** : Number of options sold per option bought (usually 2).

2. Calculate the Net Premium

- **Net Premium** = $(N \times C2) - C1$

3. Maximum Profit Scenario

- The maximum profit occurs when the stock price at expiration (S) is at the higher strike price, K2.

4. Maximum Profit Calculation

- **Maximum Profit** = $(K2 - K1) + \text{Net Premium}$

Simplified Calculation Format

- **K1** : Strike price of the option bought.
- **K2** : Strike price of the options sold.
- **C1** : Premium paid for the option bought.
- **C2** : Premium received for each option sold.
- **Net Premium** = $(N \times C2) - C1$
- **Maximum Profit** = $(K2 - K1) + \text{Net Premium}$

This formula provides the maximum profit for a call ratio spread.



Times Spread

The Times Spread, also known as the Calendar Spread, is one of the most complex strategies in the history of options trading. It can be configured in various ways, including bullish, bearish, and neutral setups. This strategy involves using two or more different expiration dates.

Features

- **Net Debit Strategy** : This strategy requires an upfront payment.
- **Theta Friendly** : The strategy benefits from the passage of time.
- **IV Friendly** : The strategy is favorable in environments with changing implied volatility.

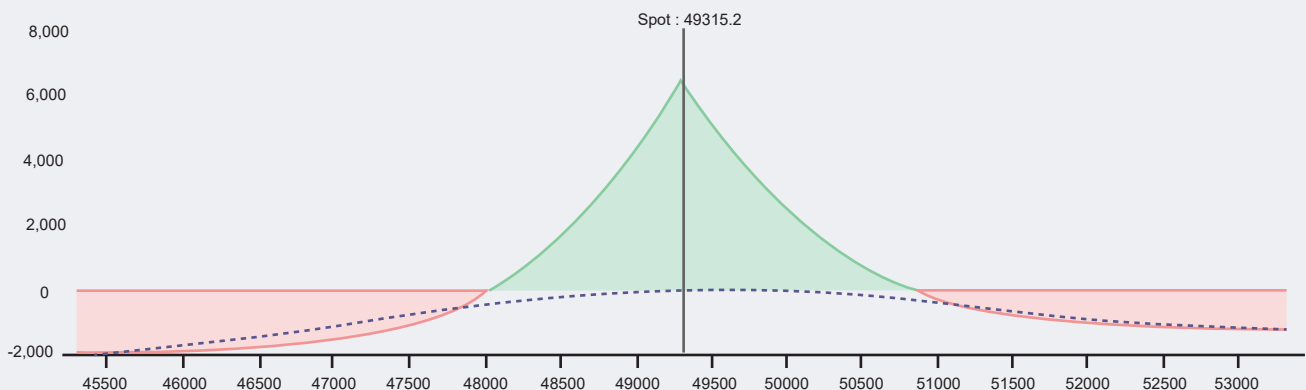
Two-Leg Times Spread

The two-leg Times Spread is the simplest form of this strategy. It involves two options with different expiration dates.

Construction

- Sell an at-the-money (ATM) call/put option with the current expiration.
- Buy an ATM call/put option with a later expiration.

Est. Margin: ₹26,067 P&L: ₹0 (0.0%) Max Profit: ₹6,488 (24.9%) Max Loss: ₹-1,907 (-7.3%) R.R: 1 : 3.4 POP: 51.09% Net Credit: ₹-1,927.5 Breakevens: 48027 (-2.6%) -50859 (3.1%)



Positions	Greeks	Target P&L (blue line)							
	Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega
<input checked="" type="checkbox"/> S	1	06 Jun, 09.16	49300 CE	19 Jun'24	20.8	-0.53	29.4	-0.0002	-37.476
<input checked="" type="checkbox"/> B	1	06 Jun, 09.16	49300 CE	26 Jun'24	19.7	0.54	-22.4	0.0002	46.254
						0.01	7.0	0.0000	8.78

Times Spread Example

In this example, we sell a 49300 CE with the current expiry for 862 and buy a 49300 CE with a monthly expiry for 990.5.

Key Differences Compared to Other Strategies

- **Curved Payoff** : Unlike other strategies, the Times Spread has a curved payoff diagram. This curvature is due to the use of options with two different expiration dates.
- **Positive Theta** : Typically, debit spreads have negative theta, meaning they lose value as time passes. However, the Times Spread benefits from positive theta, gaining value as time passes. This is because of the strategic use of options with different expiries.

In a typical debit spread, theta is negative, meaning the strategy loses value over time. However, in a Times Spread, theta is positive, providing a benefit to the trade. This is because we are utilizing options with two different expiration dates.

Explanation

1. Current Expiry (Sold Position)

- Selling the 49300 CE with the current expiry generates a high theta benefit.
- As the option approaches its expiration date, the rate of time decay (theta) increases significantly.
- In this example, the theta for the current expiry option is +29.4, which means it gains 29.4 units of value each day due to time decay.

2. Far Expiry (Bought Position)

- Buying the 49300 CE with a later expiration results in a lower theta effect.
- Long-dated options have a slower rate of time decay compared to short-dated options.
- Here, the theta for the far expiry option is -22.4, meaning it loses 22.4 units of value each day due to time decay.

Net Theta Effect

When combining both positions

- The sold option (current expiry) provides a daily theta gain of +29.4.
- The bought option (far expiry) incurs a daily theta loss of -22.4.

Overall, the net theta is:

$$\text{Net Theta} = 29.4 - 22.4 = +7.0$$

This net positive theta of 7.0 means the strategy benefits from time decay, as the daily gain from the current expiry outweighs the daily loss from the far expiry.

How IV effect in Times spread

Positions	Greeks	Target P&L (blue line)								
	Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega	
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	06 Jun, 09.16	49300 CE	19 Jun'24	20.8	-0.53	29.4	-0.0002	-37.476
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	06 Jun, 09.16	49300 CE	26 Jun'24	19.7	0.54	-22.4	0.0002	46.254
						0.01	7.0	0.0000	8.78	

Understanding IV and Vega in the Times Spread Strategy

In this strategy, we need to understand some common characteristics about Implied Volatility (IV) and Vega.

Current vs. Next Expiry IV

- **Current Expiry IV : 20.8%**
- **Next Expiry IV : 19.7%**

It is common for the current expiry to have a higher IV than the next expiry.

Vega

- **Current Expiry Vega : 34.4**
- **Next Expiry Vega : 46.2**

Impact of Vega

- A one-point change in the IV of the current expiry will change the option premium by 34.4 points.
- A one-point change in the IV of the next expiry will change the option premium by 46.2 points.

Analysis

- The effect of IV changes is more significant for the next expiry due to its higher Vega (46.2 vs. 34.4).
- However, the speed of IV movements is not always the same for the current and next expiries. The current expiry often has faster IV movements due to its proximity to expiration.

Conclusion

In this Times Spread strategy:

- The current expiry benefits from higher IV but has a lower Vega impact.
- The next expiry has a more significant Vega impact, meaning its premium is more sensitive to IV changes.
- Monitoring both expiries' IV and Vega is crucial, as they influence the overall strategy's performance differently.

Current Expiry



Monthly Expiry

IV Movement Relationship

- Typically, when there is a 3-point change in IV for the current expiry, there is approximately a 1-point change in IV for the next expiry.

Analysis

- The effect of IV changes is more significant for the next expiry due to its higher Vega (46.2 vs. 34.4).
- However, the speed of IV movements is not the same for both expiries. The current expiry often experiences faster IV movements because it is closer to expiration.
- Given the relationship, a significant IV change in the current expiry will have a proportional, but smaller, impact on the next expiry.

Conclusion

In this Times Spread strategy

- The current expiry benefits from higher IV but has a lower Vega impact.
- The next expiry has a more significant Vega impact, meaning its premium is more sensitive to IV changes.
- Typically, a 3-point IV change in the current expiry results in about a 1-point IV change in the next expiry.
- Monitoring both expiries' IV and Vega is crucial, as they influence the overall strategy's performance differently. This understanding helps in anticipating how changes in IV will affect the premiums of each leg of the spread.

Gaining IV Profit in a Times Spread

A Times Spread strategy is often employed in high IV conditions, where both current and monthly expiry IVs are elevated. Understanding how IV changes impact this strategy is key to realizing profits.

IV Behavior in High IV Conditions

- **Current Expiry IV** : Typically higher and more volatile.
- **Next Expiry IV** : Also high but less volatile than the current expiry.

IV Decline Impact

1. Current Expiry IV Decrease

- When IV decreases, the current expiry IV tends to drop significantly.
- This substantial decrease in current expiry IV can lead to a good profit because the premium of the sold option (current expiry) will decrease more than that of the bought option (far expiry).

2. Next Expiry IV Decrease

- The IV for the next expiry also decreases but at a slower rate and to a lesser extent compared to the current expiry.
- This results in a smaller loss on the bought option (far expiry).

Net IV Profit

- The significant IV drop in the current expiry generates a large profit from the sold option.
- The minor IV drop in the next expiry results in a smaller loss from the bought option.
- The net effect is an IV profit because the gain from the current expiry IV drop outweighs the loss from the next expiry IV drop.

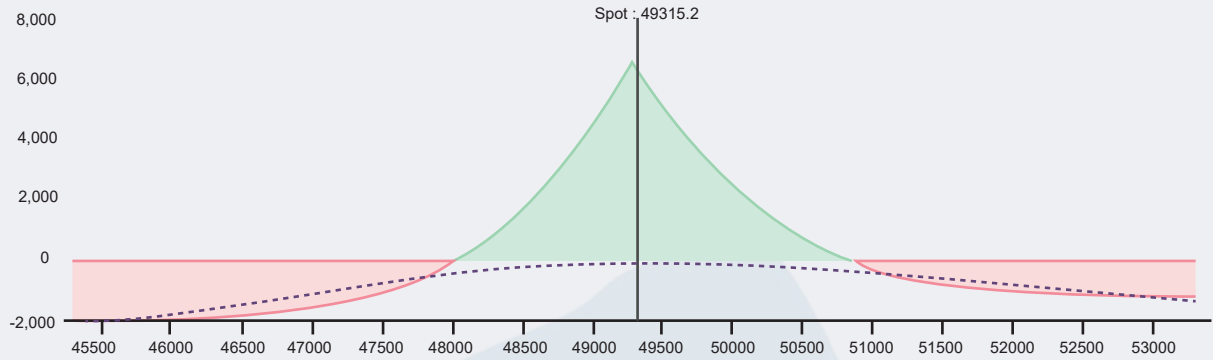
Summary

1. **High IV Condition :** The strategy is initiated when both current and next expiry IVs are high.
2. **IV Decline:**
 - **Current Expiry :** Drastic IV decrease leads to a significant reduction in the sold option's premium, resulting in a profit.
 - **Next Expiry :** Slight IV decrease leads to a smaller reduction in the bought option's premium, resulting in a minor loss.
3. **Net Profit :** The profit from the current expiry IV drop exceeds the loss from the next expiry IV drop, leading to an overall IV profit.

By understanding these dynamics, traders can strategically employ the Times Spread to capitalize on IV declines in high volatility environments.

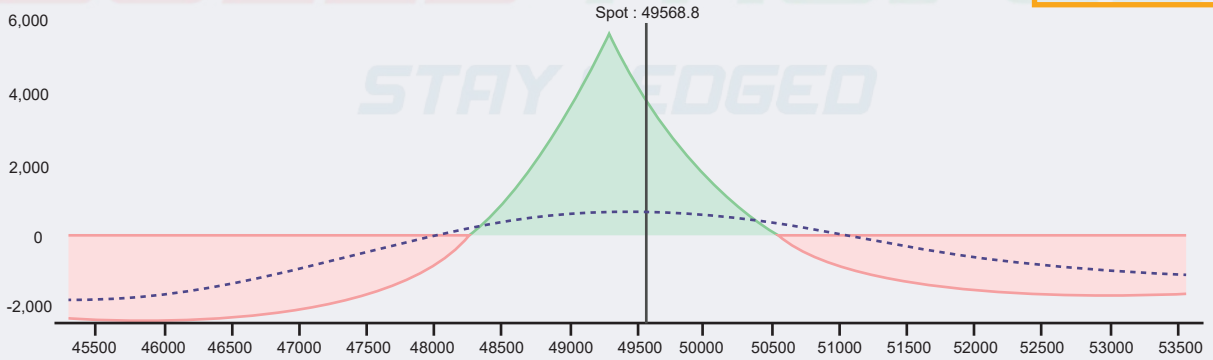
Dynamic Pay Off

Est. Margin: ₹26,067 P&L: ₹0 (0.0%) Max Profit: ₹6,488 (24.9%) Max Loss: ₹-1,907 (-7.3%) R.R: 1 : 3.4 POP: 51.09% Net Credit: ₹-1,927.5 Breakevens: 48027 (-2.6%) -50859 (3.1%)



Positions	Greeks	Target P&L (blue line)							
	Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega
<input checked="" type="checkbox"/> S	1	06 Jun, 09.16	49300 CE	19 Jun'24	20.8	-0.53	29.4	-0.0002	-37.476
<input checked="" type="checkbox"/> B	1	06 Jun, 09.16	49300 CE	26 Jun'24	19.7	0.54	-22.4	0.0002	46.254

Est. Margin: ₹26,298 P&L: ₹772 (2.9%) Max Profit: ₹5,644 (21.5%) Max Loss: ₹-2,347 (-8.9%) R.R: 1 : 2.4 POP: 55.34% Net Credit: ₹-1,927.5 Breakevens: 48265 (-2.6%) -50533 (1.9%)



Positions	Greeks	Target P&L (blue line)							
	Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega
<input checked="" type="checkbox"/> S	1	06 Jun, 09.16	49300 CE	19 Jun'24	20.1	-0.58	35.5	-0.0003	-29.112
<input checked="" type="checkbox"/> B	1	06 Jun, 09.16	49300 CE	26 Jun'24	18.7	0.58	-24.3	0.0002	39.750
						0.00	11.2	-0.0001	10.64

Dynamic Payoff in a Times Spread

A distinctive feature of the Times Spread strategy is its dynamic payoff structure. Unlike other strategies where the payoff is relatively constant, the Times Spread's payoff changes in response to variations in implied volatility (IV).

Impact of IV Changes on Payoff

1. Break-Even Points

- When IV increases, the premiums of both the current and next expiry options increase.
- As a result, the break-even points shift, typically moving higher as IV increases.
- Conversely, when IV decreases, the premiums drop, and the break-even points shift lower.

2. Maximum Profit and Loss

- The potential maximum profit and loss of the strategy also change with IV fluctuations.
- An increase in IV generally widens the range of potential profits, as the options' premiums become more sensitive to price movements.
- A decrease in IV narrows this range, reducing the potential for profit but also limiting potential losses.

Example

1. Initial Conditions

- Sell a 49300 CE with current expiry.
- Buy a 49300 CE with a later expiry.

2. IV Increase

- Both options' premiums increase due to higher IV.
- Break-even points move higher because the sold option's premium (current expiry) increases significantly.
- The dynamic payoff curve adjusts, potentially offering higher maximum profit.

3. IV Decrease

- Both options' premiums decrease as IV drops.
- Break-even points move lower.
- The dynamic payoff curve adjusts, potentially reducing maximum profit and minimizing losses.

Summary

1. **Dynamic Payoff:** The Times Spread's payoff structure is not static. It adapts based on IV changes, which impacts the break-even points and maximum profit/loss potential.
2. **Higher IV**
 - Increases premiums of both options.
 - Shifts break-even points higher.
 - Expands the range for potential maximum profit.
3. **Lower IV**
 - Decreases premiums of both options.
 - Shifts break-even points lower.
 - Narrows the range for potential maximum profit and minimizes losses.

This dynamic nature makes the Times Spread a versatile strategy, allowing traders to adapt to changing market conditions and capitalize on IV movements.

How to Choose a Spread in a Two-Leg Times Spread

When constructing a two-leg Times Spread, you can use either calls or puts. The choice between calls and puts largely depends on the differences in implied volatility (IV) between the current and monthly expiries. The goal is to profit from a drop in the current expiry IV and to benefit from theta decay.

Steps to Choose the Spread

- **Check Current and Monthly Expiry IVs**
 - Gather the IVs for at-the-money (ATM) call and put options for both the current expiry and the monthly expiry.
- **Calculate IV Differences**
 - Calculate the difference between the current expiry IV and the monthly expiry IV for both calls and puts.
- **Compare IV Differences**
 - The option type (call or put) with the larger IV difference is typically the better choice for the spread, as it indicates a greater potential for profit from IV contraction.

Example Calculation

1. **ATM Call IVs**
 - Current Expiry IV : 20
 - Monthly Expiry IV : 17
2. **ATM Put IVs**
 - Current Expiry IV : 21
 - Monthly Expiry IV : 16
3. **Calculate Differences**
 - Call IV Difference : $20 - 17 = 3$
 - Put IV Difference : $21 - 16 = 5$

Decision

- The IV difference for puts (5) is higher than the IV difference for calls (3).
- Therefore, you should choose the put options for the two-leg Times Spread in this scenario.

Summary

1. Gather IV Data

- Collect the ATM IVs for calls and puts for both current and monthly expiries.

2. Calculate IV Differences

- Compute the differences between current and monthly expiry IVs for calls and puts.

3. Choose the Higher IV Difference

- Select the option type (call or put) with the higher IV difference for the spread.

Example Implementation

Given the data:

- **ATM Call Current Expiry IV : 20**
- **ATM Call Monthly Expiry IV : 17**
- **ATM Put Current Expiry IV : 21**
- **ATM Put Monthly Expiry IV : 16**
- **IV Differences:**
 - Call IV Difference : $20 - 17 = 3$
 - Put IV Difference : $21 - 16 = 5$

Since the put IV difference is higher, you should construct the Times Spread using ATM put options for intraday trading.

Practical Steps

1. Sell ATM Put with Current Expiry

- Example : Sell a 49300 PE with the current expiry.

2. Buy ATM Put with Monthly Expiry

- Example : Buy a 49300 PE with the monthly expiry.

By following these steps and choosing the option type with the higher IV difference, you can maximize your potential for profit from IV contraction and theta decay in a Times Spread strategy.

Intraday Timing for Times Spread Strategy

When implementing the Times Spread strategy, timing is crucial, especially given the involvement of multiple expiries and potential liquidity issues. Here are the key considerations for intraday timing:

Best Time to Enter the Trade

1. Early Entry

- Like other theta-friendly strategies, it's beneficial to enter the Times Spread as early in the trading day as possible to maximize theta decay.
- Early entry allows for a full day of time decay benefit, which is crucial for theta-friendly strategies.

2. Liquidity Considerations

- Given the involvement of multiple expiries, there may be liquidity issues. Ensure you trade after the market has had some time to settle and sufficient liquidity is present.
- It is advisable to start trading after 9:20 AM to avoid the initial volatility and low liquidity that can occur right at the market open.

Summary of Timing Strategy

1. Optimal Entry Time: After 9:20 AM.

- This timing ensures the market has opened, initial volatility has subsided, and sufficient liquidity is present for executing the trades efficiently.

Practical Tips

1. Monitor Market Conditions

- Before entering the trade, assess market conditions to ensure there is enough liquidity in the options you are trading.
- Check the bid-ask spreads to ensure they are reasonable.

2. Prepare Your Strategy

- Have your strategy planned out before the market opens.
- Know which options you will sell and buy based on the IV differences and your chosen strikes.

3. Execute Promptly

- Execute your trades promptly after 9:20 AM to maximize the time decay benefit for the day.

Example Implementation

- **Monitor IVs** : Check the IVs for ATM calls and puts for both the current and monthly expiries.
- **Calculate Differences** : Determine the IV differences and choose whether to use calls or puts based on which has the larger difference.
- **Enter Trades** : Execute the following trades after 9:20 AM:
 - Sell ATM option (put or call) with current expiry.
 - Buy ATM option (put or call) with monthly expiry.

By following these guidelines, you can effectively implement the Times Spread strategy for intraday trading, maximizing theta decay benefits while managing liquidity risks.

Intraday Behaviour of ATM Two-Leg Times Spread

The Times Spread strategy can behave unpredictably in intraday trading due to its complexity and sensitivity to timing. Here are some key insights and tips for traders to understand and manage this strategy effectively:

Timing and Entry

1. Early Entry

- Entering the trade early in the day can maximize the benefit of theta decay. However, finding the correct entry point is crucial and challenging.

2. Monitor Within the First Hour

- It is vital to closely monitor the spread within the first hour after entering the trade. If the spread does not show any profit within this period, it is likely that the trade will not work out, even if the market remains sideways.

Strategy Quality Indicator

1. One-Hour Profit Check

- Use the first hour as a critical evaluation period.
- If the spread does not show any profit in the first hour, consider exiting the trade. This can be an indicator that the trade is not positioned correctly, or market conditions are not favorable for this strategy.

Practical Tips for Traders

1. Backtesting

- Backtest the Times Spread strategy to understand its behavior under different market conditions. This can help in refining entry and exit points.

2. Liquidity and Volatility

- Ensure adequate liquidity in the options being traded.
- Be aware of IV changes and their impact on the spread.

3. Adjust Quickly

- If the spread is not performing as expected within the first hour, do not hesitate to adjust or exit the trade. This proactive approach can prevent larger losses.

Summary

- **Early Entry** : Enter the trade as early as possible after 9:20 AM to benefit from theta decay.
- **Monitor First Hour** : Assess the trade's performance within the first hour. Lack of profit in this period suggests the trade may not be successful.
- **Backtesting** : Regularly backtest the strategy to improve your understanding and execution.
- **Adjust Quickly** : Be prepared to adjust or exit the trade if it is not performing as expected.

By following these guidelines, traders can better navigate the complexities of the Times Spread strategy and improve their chances of success in intraday trading.

Positional Trading with Two-Leg Times Spread

The two-leg Times Spread is also an excellent strategy for positional trading due to its simplicity and manageable risk profile. Here are some key points to consider when using this strategy for longer-term positions:

Advantages of Positional Times Spread

- 1. Lightweight and Manageable**
 - The strategy involves only two legs, making it relatively easy to manage and adjust.
 - It is less capital-intensive compared to other complex strategies.
- 2. Protection at Break-Even Points**
 - One of the key advantages is the reduced risk when the market touches the break-even points.
 - Unlike other neutral strategies where hitting the break-even can result in significant losses, the Times Spread provides better protection, keeping potential losses minimal.

Implementation for Positional Trading

- 1. Entry Strategy**
 - Enter the trade when the market conditions are favorable, ideally when IV is high for both current and monthly expiries.
 - Ensure you choose the correct option type (calls or puts) based on IV differences, as detailed earlier.
- 2. Monitoring and Adjustments**
 - Regularly monitor the position, especially as it approaches the expiration dates of the options.
 - If the market remains within a certain range, the strategy can profit from theta decay and changes in IV.
 - Be prepared to make adjustments if the market moves significantly or if IV changes drastically.
- 3. Risk Management**
 - Set predefined exit points to manage risk effectively.
 - Regularly review the break-even points and adjust the strategy if necessary to maintain a favorable risk-reward ratio.

Example Implementation

1. Setup

- Sell an ATM option (call or put) with the current expiry.
- Buy an ATM option (call or put) with a monthly expiry.

2. IV Conditions

- Ensure both current and monthly expiry IVs are high to maximize the benefit from IV drop and theta decay.

3. Monitoring

- Check the position periodically to ensure it remains within the desired range.
- Watch for changes in IV and market movements that may affect the strategy.

Benefits of Positional Times Spread

1. Reduced Risk at Break-Even

- The strategy offers better protection at break-even points compared to other neutral strategies.
- Losses are minimized, providing a safer positional trade.

2. Theta Decay Benefit

- The strategy profits from theta decay, especially as the current expiry approaches.
- Regular monitoring ensures you can capitalize on this decay while managing risks effectively.

Summary

- **Ease of Management** : The two-leg Times Spread is simple and less capital-intensive.
- **Protection at Break-Even** : Offers better protection and minimal losses at break-even points.
- **Theta Decay and IV** : Profits from theta decay and changes in IV, making it suitable for positional trading.
- **Risk Management** : Regular monitoring and predefined exit points help manage risk effectively.

By utilizing the two-leg Times Spread for positional trading, traders can benefit from its simplicity, manageability, and enhanced protection at break-even points, making it a versatile and attractive strategy.

Optimal Timing for Implementing Times Spread Strategy

The date on which you execute a Times Spread strategy plays a crucial role in its effectiveness. The strategy's success is heavily influenced by the relationship between the sold current expiry and the bought next month's expiry. Here's how timing affects the strategy and some best practices for optimal execution:

Importance of Timing

1. Theta Decay

- **Current Expiry:** Selling the current expiry option benefits from rapid theta decay as it approaches expiration.
- **Next Expiry:** Buying the next month's option incurs minimal theta decay initially, providing a net positive theta effect.

2. Protection and Comfort

- By selling the current expiry and buying the next expiry, the strategy naturally provides protection due to the differential rate of theta decay.

Key Timing Considerations

1. Early Month Execution (e.g., 6th of the Month)

- **Advantages**
 - Maximizes the theta decay benefit from the sold leg as it has fewer days until expiry.
 - The bought leg (next month) has a significantly longer time until expiry, resulting in lower theta decay.
 - This setup maintains the strategy's inherent protection and positive theta benefit.
- **Recommended :** Initiate the Times Spread in the first half of the month, preferably before the 20th.

2. Late Month Execution (e.g., 25th of the Month)

- **Disadvantages**
 - The bought leg is much closer to its own expiry, leading to higher theta decay.

- The differential theta benefit diminishes, reducing the strategy's effectiveness.
- Increased risk of the bought leg's theta decay outweighing the sold leg's benefit, negating the primary advantage of the Times Spread.
- **Not Recommended** : Avoid initiating the Times Spread after the 20th of the month.

Practical Guidelines

- **Optimal Date Range** : Aim to execute the Times Spread between the 1st and 20th of the month.
- **Avoid Late Execution** : Do not start the strategy in the last 10 days of the month to prevent the increased theta decay of the bought leg from undermining the strategy.

Example Implementation

1. **Early Month Trade (e.g., 6th of the Month)**
 - **Sell Current Expiry Option** : High theta decay due to fewer days remaining.
 - **Buy Next Month Expiry Option** : Low theta decay due to many days until expiry.
 - **Result**: Maximized net positive theta and maintained protection.
2. **Late Month Trade (e.g., 25th of the Month)**
 - **Sell Current Expiry Option** : Still benefits from high theta decay.
 - **Buy Next Month Expiry Option** : Now closer to its own expiry, experiencing higher theta decay.
 - **Result** : Reduced net positive theta, potentially negative if the bought leg's theta decay is too high.

Summary

- **Optimal Timing** : Execute the Times Spread between the 1st and 20th of the month.
- **Theta Decay** : Maximize the benefit from the current expiry's rapid theta decay while minimizing the next month's theta decay.
- **Protection** : Maintain the strategy's protection and positive theta differential by avoiding trades late in the month.

By following these timing guidelines, you can effectively leverage the Times Spread strategy's benefits and minimize risks, ensuring a higher probability of successful trades.

Liquidity Check for Times Spread Strategy

Ensuring sufficient liquidity is crucial for successfully implementing the Times Spread strategy. Since this strategy involves options with different expiration dates, liquidity can vary between the current and far expiry options. Here's how to manage and check for liquidity effectively:

Key Points on Liquidity

1. **Current Expiry**
 - Typically, the current expiry options have sufficient liquidity due to their proximity to expiration and higher trading volumes.
2. **Far Expiry**
 - Far expiry options may face liquidity issues, which can lead to wider bid-ask spreads and difficulty in executing trades at favorable prices.

Steps to Ensure Sufficient Liquidity

1. **Check Bid-Ask Spreads**
 - Narrow bid-ask spreads indicate good liquidity. Wider spreads suggest lower liquidity and potential difficulty in executing trades.
 - Compare the bid-ask spreads for both the current expiry and the far expiry options.

2. Historical Data and Experience

- Analyze historical data to identify which strikes typically have good liquidity.
- As you gain experience with the strategy, you will develop a better understanding of which strikes and expiries tend to have sufficient liquidity.

Practical Guidelines

1. Pre-Trade Check

- Before executing the trade, verify the bid-ask spreads and open interest for both the current and far expiry options.
- Ensure that the far expiry option does not have excessively wide bid-ask spreads or low volume.

2. Monitor Ongoing Liquidity

- Continuously monitor the liquidity of your positions, especially if you plan to adjust or exit the trade before expiration.
- Be prepared to act quickly if liquidity conditions change.

3. Adjust Strikes if Needed

- If the desired strikes lack liquidity, consider adjusting to nearby strikes with better liquidity.
- Ensure the new strikes still align with your strategy's objectives.

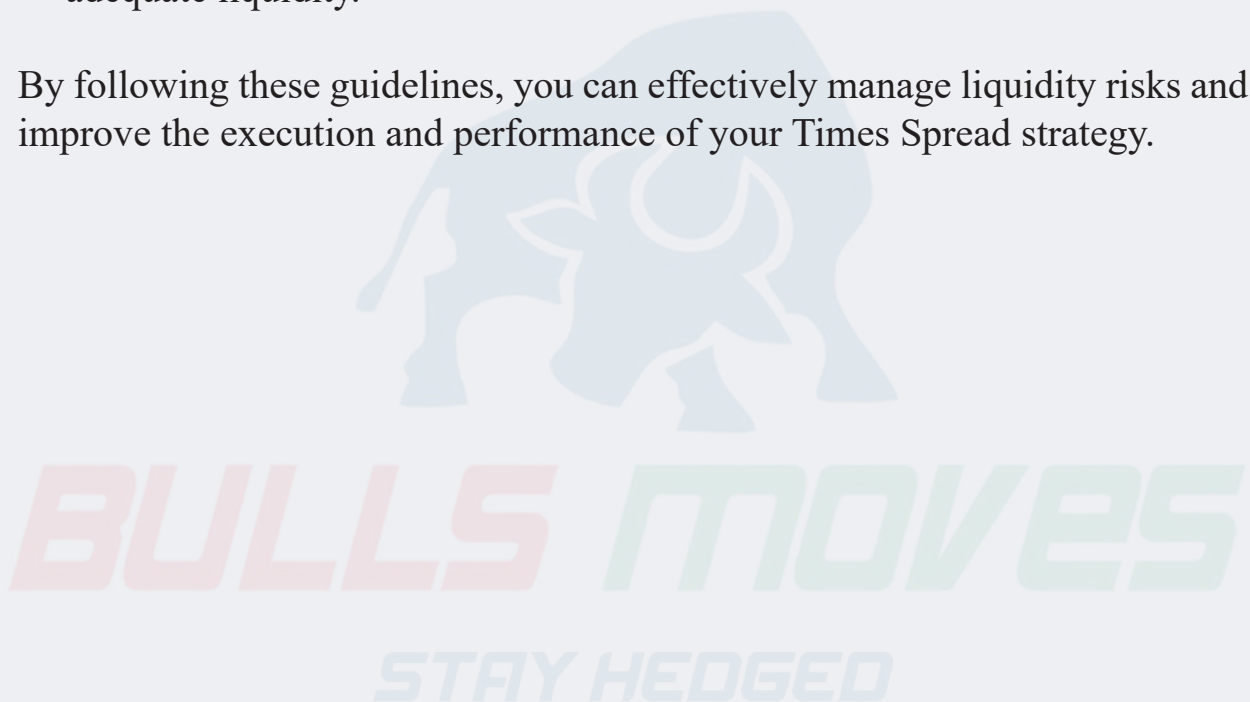
4. Assessment

- The current expiry has good liquidity (narrow bid-ask spread, high volume, and open interest).
- The far expiry has moderate liquidity (wider bid-ask spread, lower volume, and open interest).
- Decision: Proceed with caution, ensuring execution within acceptable price ranges.

Summary

- **Liquidity Check** : Always verify the liquidity for both the current and far expiry options before executing the Times Spread.
- **Key Metrics** : Focus on bid-ask spreads, volume, and open interest to assess liquidity.
- **Pre-Trade and Ongoing Monitoring** : Conduct a thorough check before entering the trade and continuously monitor liquidity conditions.
- **Adjust if Necessary** : Be flexible and adjust strikes if needed to ensure adequate liquidity.

By following these guidelines, you can effectively manage liquidity risks and improve the execution and performance of your Times Spread strategy.



Four-Leg ATM Time Spread

In the realm of time spreads, there are various types to consider. The four-leg ATM time spread is essentially an extension of the two-leg ATM time spread, offering additional benefits and flexibility. This strategy is characterized by its neutral stance, theta-friendliness, and IV-friendliness.

Strategy Characteristics

- **Neutral Strategy** : Designed to profit from minimal movement in the underlying asset.
- **Theta Friendly** : Benefits from the passage of time.
- **IV Friendly** : Profits from changes in implied volatility.

Construction

- **Sell ATM Call and Put** (current expiry)
- **Buy ATM Call and Put** (far expiry)

Example with Nifty at 23,107

- **Sold ATM Call (current expiry) @ 437.6**
- **Sold ATM Put (current expiry) @ 300.2**
- **Bought ATM Call (far expiry) @ 547.3**
- **Bought ATM Put (far expiry) @ 378.4**

Profit and Loss Analysis

Initial Setup

- **Net Premium Received** : $(437.6 + 300.2) = 737.8$
- **Net Premium Paid** : $(547.3 + 378.4) = 925.7$
- **Net Debit** : $925.7 - 737.8 = 187.9$

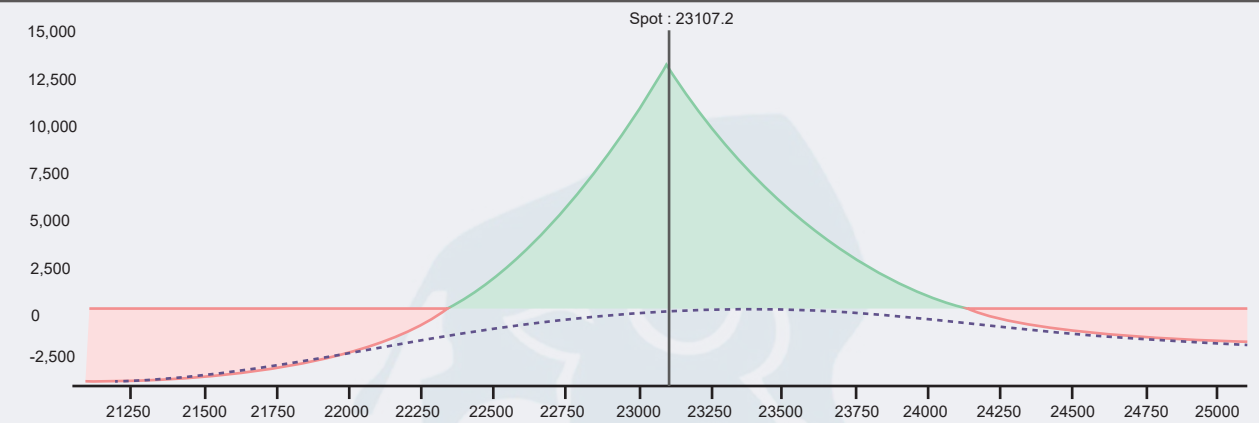
Advantages

- **Neutral Stance** : Profits from minimal movement in Nifty.
- **Time Decay (Theta)**: Positive time decay as the sold options decay faster.
- **IV Changes** : Can benefit from increases in implied volatility.

Summary

The four-leg ATM time spread is a sophisticated strategy designed for neutral market conditions, benefiting from time decay and potential changes in implied volatility. By carefully managing the strike prices and expiries, traders can optimize their risk-reward profile and profit from market stasis.

Est. Margin: ₹31,387 P&L: ₹0 (0.0%) Max Profit: ₹13,250 (42.2%) Max Loss: ₹-4,117 (-13.1%) R.R: 1 : 3.2 POP: 57.00% Net Credit: ₹-4710 Breakevens: 22348 (-3.3%) -24126 (4.0%)



Positions	Greeks	Target P&L (blue line)									
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit	
<input checked="" type="checkbox"/>	S	1	03 Jun, 09:16	23100 CE	13 Jun'24	437.6	437.6	-0.56	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	S	1	03 Jun, 09:16	23100 PE	13 Jun'24	300.2	300.2	0.44	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	B	1	03 Jun, 09:16	23100 CE	27 Jun'24	547.3	547.3	0.55	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	B	1	03 Jun, 09:16	23100 PE	27 Jun'24	378.9	378.9	-0.45	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
								-0.02	₹ 0	Exit	Clear

Behavior of the Four-Leg ATM Time Spread in Intraday Trading

In intraday trading, the behavior of the four-leg ATM time spread is similar to that of the two-leg ATM time spread. Here's a more detailed look at how it operates and what to watch for

Strategy Characteristics

- **Neutral Strategy** : Designed to profit from minimal movement in the underlying asset.
- **Theta Friendly** : Benefits from the passage of time.
- **IV Friendly** : Profits from changes in implied volatility.

Construction

- **Sell ATM Call and Put** (current expiry)
- **Buy ATM Call and Put** (far expiry)

Example with Nifty at 23,107

- **Sold ATM Call (current expiry) @ 437.6**
- **Sold ATM Put (current expiry) @ 300.2**
- **Bought ATM Call (far expiry) @ 547.3**
- **Bought ATM Put (far expiry) @ 378.4**

Behaviour Analysis in Intraday Trading

Monitoring Performance

- **Immediate Profitability** : If the market remains sideways and the strategy does not show any profit within the first hour, it indicates that there may be an issue with the setup.
- **Market Conditions** : The strategy should ideally start showing positive results if the market stays neutral, due to the faster decay of the sold options compared to the bought options.
- **IV Issues** : If implied volatility behaves unexpectedly, it can impact the strategy's performance. A significant increase or decrease in IV can affect the premiums of the options involved.

Intraday Trading Considerations

1. Initial Hour Assessment

- **Sideways Market** : If the market remains sideways and there is no profit within the first hour, reassess the setup.
- **IV Impact** : Check if there is an unusual change in implied volatility that could be affecting the strategy.

2. Quick Adjustments

- **Exit Strategy** : Be prepared to exit the position if it does not show the expected results in a sideways market within a short time frame.
- **Revaluation** : Consider if the strikes chosen were appropriate and if the current market conditions align with the strategy's requirements.

Comparison to Two-Leg ATM Spread

- **Double Benefits :** The four-leg spread offers the benefits of two separate two-leg spreads, potentially doubling the theta and IV advantages.
- **Increased Cushion :** There is a wider cushion area, providing more room for the strategy to remain profitable.
- **Higher Risk :** The risk is higher compared to a two-leg spread due to the increased number of legs involved.

Summary

The four-leg ATM time spread can be effective in intraday trading, offering substantial theta and IV benefits. However, it requires close monitoring, especially in the initial hour. If the expected profit is not realized in a sideways market, it may indicate an issue with the setup, possibly due to unexpected IV changes. Like the two-leg ATM spread, quick adjustments and readiness to exit are crucial for managing risk and optimizing returns.

Behaviour in Positional Trading

Advantages

- **Theta Decay :** The strategy is theta positive, meaning it benefits from the passage of time, as the value of the options sold decays faster than that of the options bought.
- **IV Changes :** Profits from increases in implied volatility, as it generally benefits the long options more than it hurts the short options.

Risks

- **Breakeven Breach :** If the price breaches either the upper or lower breakeven levels, the strategy can incur significant losses rapidly. This is due to the nature of options, where the rate of loss can accelerate as the underlying price moves further from the breakeven points.

Adjustments and Exits

1. **Monitoring** : Regularly monitor the underlying asset's price relative to the breakeven levels.
2. **Preemptive Adjustments** : Make adjustments to the position if the price is approaching the breakeven levels. This could include:
 - Rolling the sold options to further expiries.
 - Adjusting strike prices to reset the breakeven levels.
 - Adding other protective strategies (e.g., buying additional puts or calls).
3. **Exit Strategy** : Be prepared to exit the trade before significant losses occur if the price breaches the breakeven points. This involves closing all legs of the spread to limit further losses.

Summary

The four-leg ATM time spread is a powerful strategy for positional trading, offering substantial theta and IV benefits. However, it requires diligent monitoring and proactive management to handle the risk of breakeven breaches. Regular adjustments or timely exits are essential to protect against rapid loss acceleration once the breakeven levels are breached.

Best Time for Positional Trades in Neutral Theta-Friendly Strategies

Positional trading in strategies like the four-leg ATM time spread or iron condor revolves around maximizing theta decay and managing implied volatility (IV) fluctuations. Here's a detailed look at the optimal timing and considerations

Optimal Timing: After 2:45 PM

- **Theta and IV Dynamics** : Positional trades benefit significantly from theta decay and changes in implied volatility. After 2:45 PM, as the trading day nears its end, theta decay accelerates, particularly impacting the options' time value.

- **Delta Risk Management:** Delta risk, which represents sensitivity to price movements of the underlying asset, is crucial to manage. Trading after 3:00 PM reduces the exposure to delta risk because there's less time for the underlying asset to make significant moves before market close.
- **Theta Profit Overnight:** By entering a trade around 3:00 PM, theta (time decay) starts working in your favor overnight. This is advantageous as the next trading day's opening prices can reflect the profitability gained from theta decay.

Strategy Behavior Next Day

- **Delta vs. Theta Balance:** If the market moves against your trade the next day, delta risk may cause initial losses. However, the theta profit accumulated overnight can offset these losses to a large extent.
- **Neutral Theta-Friendly Strategy:** Strategies like the four-leg ATM time spread or iron condor thrive on market stability and minimal price movements. The combination of theta decay and management of delta risk forms the core of their effectiveness.

Summary

Positional trading with neutral theta-friendly strategies benefits from entering trades after 2:45 PM when theta decay accelerates, and delta risk is minimized for the remaining trading day. This approach leverages overnight theta profit accumulation, which can mitigate potential losses from delta movements the following day. Understanding these dynamics allows traders to optimize their entries and exits for maximum profitability and risk management in neutral market conditions.

OTM Four-Leg Time Spread Strategy

This strategy behaves similarly to other time spreads, characterized by the following:

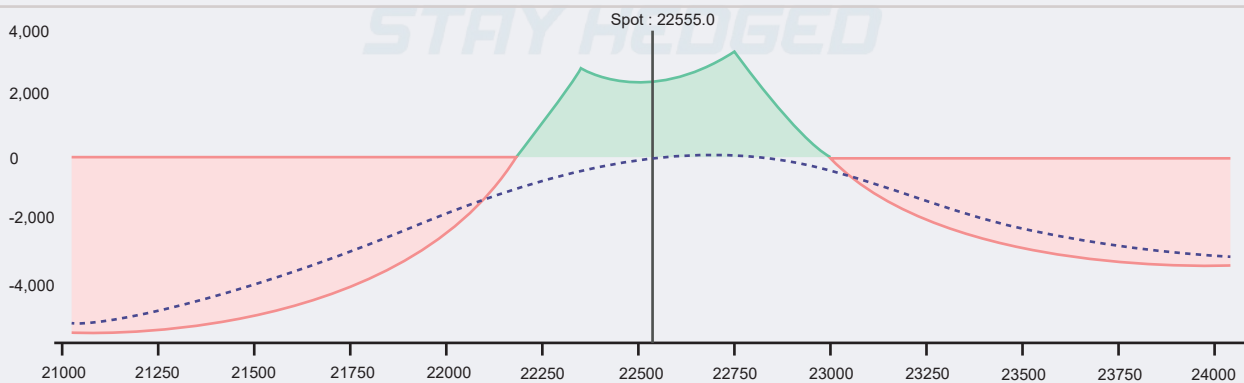
- **Theta-Friendly** : It benefits from the passage of time.
- **IV-Friendly** : It performs well with changes in implied volatility.
- **Delta-Neutral** : It is not affected by small price movements in the underlying asset.

This system is constructed using out-of-the-money (OTM) strikes, which provides a good theta advantage and a solid cushion against market movements.

Construction Example (Nifty at 22535)

- **Sell 22750 CE (Current Expiry) @ 103.1**
- **Sell 22350 PE (Current Expiry) @ 132.6**
- **Buy 22750 CE (Far Expiry) @ 240.6**
- **Buy 22350 PE (Far Expiry) @ 183.8**

Est. Margin: ₹26,188 P&L: ₹0 (0.0%) Max Profit: ₹3,385 (12.9%) Max Loss: ₹-5,680 (-21.7%) R.R: 1.7 : 1 POP: 57.72% Net Credit: ₹-4,717.5 Breakevens: 22185 (-1.6%) -22997 (2.1%)



Positions	Greeks	Target P&L (blue line)								
		Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	06 May, 09.16	22350 PE	16 May'24	13.8	0.31	8.9	-0.0007	-13.289
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	06 May, 09.16	22750 CE	16 May'24	12.9	-0.39	9.1	-0.0008	-14.542
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	06 May, 09.16	22350 PE	30 May'24	13.5	-0.34	-6.0	0.0005	21.479
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	06 May, 09.16	22750 CE	30 May'24	12.3	0.45	-5.9	0.0006	23.126
							0.03	6.1	-0.0004	16.77

Key Points

- **Cushion Effect** : The strategy's structure offers a buffer against adverse market movements.
- **Theta Benefit** : It yields a theta benefit of 6.1 points.
- **IV Dynamics**
 - Profits from a drop in current expiry IV, as long as the IV of far expiry options doesn't drop as much.
 - In the event of a drastic market move, both IVs tend to increase at a similar rate initially. Due to the monthly options' vega being almost double that of weekly options, the premiums adjust significantly in both directions, widening the payoff cushion.

This dynamic adjustment mechanism ensures the strategy remains robust against varying market conditions, automatically balancing the spread for optimal performance.

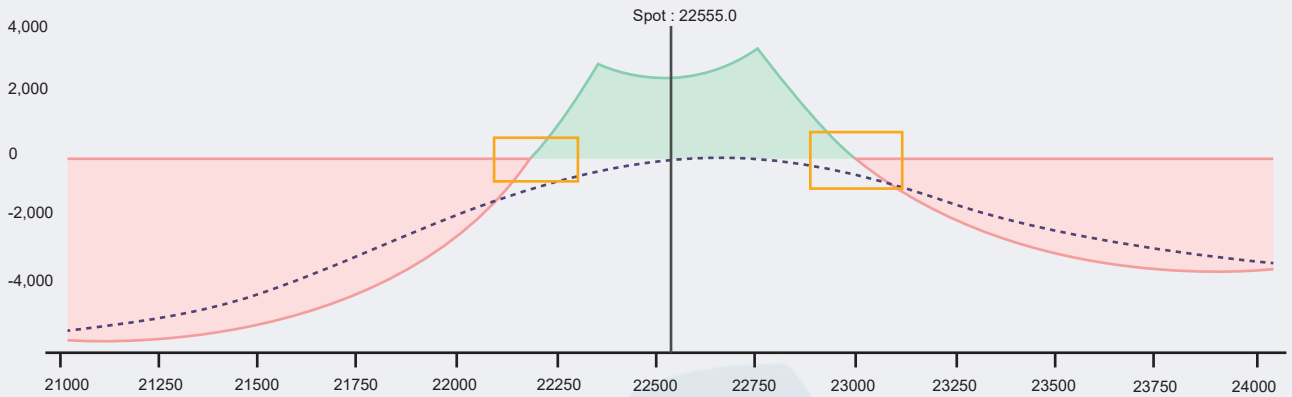
T+0 Line Management

Managing the T+0 line is crucial because this strategy involves options with two different expiries, each behaving differently.

- **Imbalance Issue** : The T+0 line shows an imbalance. If the market moves down, losses increase, whereas the upside remains stable.
- **Impact on Adjustments** : This imbalance can cause significant issues if the market moves against our position and complicates the adjustment strategy.

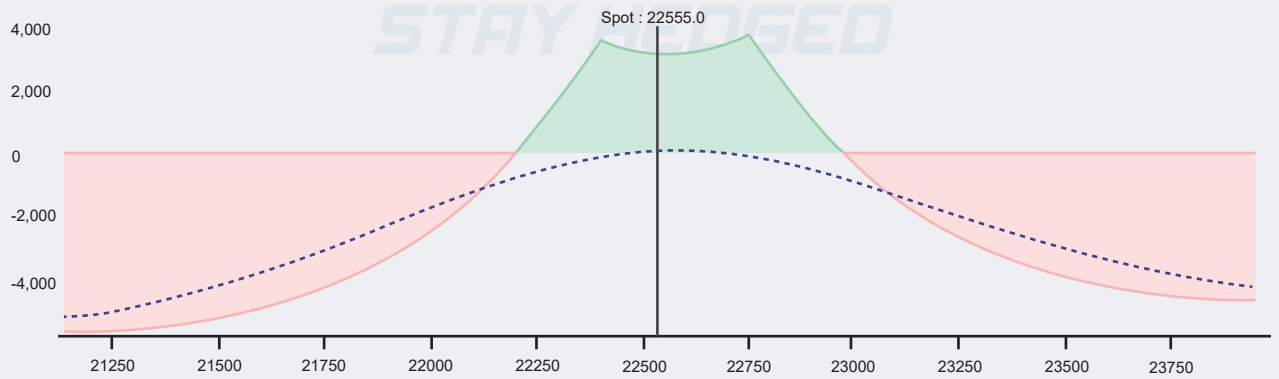
Effective T+0 line management is essential to maintain a balanced and effective strategy.

Est. Margin: ₹26,188 P&L: ₹0 (0.0%) Max Profit: ₹3,385 (12.9%) Max Loss: ₹-5,680 (-21.7%) R.R: 1.7 : 1 POP: 57.72% Net Credit: ₹-4,717.5 Breakevens: 22185 (-1.6%) -22997 (2.1%)



Positions	Greeks	Target P&L (blue line)							
	Lots	Date	Strike	Expiry	IV	Delta	Theta	Gamma	Vega
<input checked="" type="checkbox"/> S	1	06 May, 09.16	22350 PE	16 May'24	13.8	0.31	8.9	-0.0007	-13.289
<input checked="" type="checkbox"/> S	1	06 May, 09.16	22750 CE	16 May'24	12.9	-0.39	9.1	-0.0008	-14.542
<input checked="" type="checkbox"/> B	1	06 May, 09.16	22350 PE	30 May'24	13.5	-0.34	-6.0	0.0005	21.479
<input checked="" type="checkbox"/> B	1	06 May, 09.16	22750 CE	30 May'24	12.3	0.45	-5.9	0.0006	23.126
						0.03	6.1	-0.0004	16.77

Est. Margin: ₹27,232 P&L: ₹0 (0.0%) Max Profit: ₹3,519 (12.9%) Max Loss: ₹-5,571 (-20.5%) R.R: 1.6 : 1 POP: 55.26% Net Credit: ₹-3,297.5 Breakevens: 22203 (-1.5%) -22973 (1.9%)



Positions	Greeks	Target P&L (blue line)							
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/> S	1	06 May, 09.16	22400 PE	16 May'24	118.6	118.6	0.34	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> S	1	06 May, 09.16	22750 CE	16 May'24	132.6	132.6	-0.39	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> B	1	06 May, 09.16	22350 PE	30 May'24	183.8	183.6	-0.34	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> B	1	06 May, 09.16	22850 CE	30 May'24	199.3	199.3	0.40	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>
							0.01	₹ 0	Exit Clear

I made some changes to the strike prices to achieve a more neutral position. When creating these types of four-leg neutral strategies, it's important to ensure the T+0 line is well-balanced.

Intraday Trading

In intraday trading, this strategy behaves similarly to a strangle because we sell two OTM strikes in the current expiry. However, we also buy OTM far expiry strikes, providing additional protection compared to a standard strangle.

The behaviour of this time spread is like other time spreads: if the trade doesn't show a profit within one hour, it's unlikely to do so later. For intraday trading, it's best to establish this position as soon as possible, ideally after 9:20 AM, similar to other time spreads.

Positional Trading

This four-leg OTM time spread is designed for positional trading. It can yield good profits because we sell OTM strike prices, offering substantial theta coverage and IV protection.

The best time to enter a positional trade, like other four-leg non-directional strategies, is after 2:45 PM to minimize delta risk.

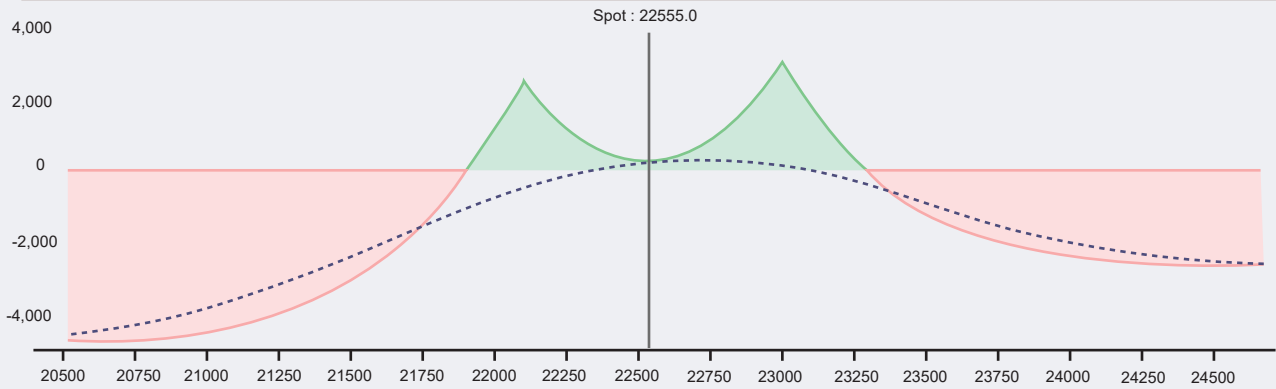
Common Mistakes in Creating Four-Leg OTM Time Spreads

A common mistake traders make with four-leg OTM time spreads is assuming that increasing the strike difference of the sold strikes, as in other non-directional strategies, will provide a good cushion and high probability of profit, even if the profit is small. However, this approach doesn't work well in this strategy.

Selling deep OTM call and put options in the current expiry and buying deep OTM call and put options in the monthly expiry might initially show a good payoff difference, but it is not effective in the long run.

"Options offer strategic flexibility."

Est. Margin: ₹25,478 P&L: ₹0 (0.0%) Max Profit: ₹3,004(11.8%) Max Loss: ₹-4,771 (-18.7%) R.R: 1.6 : 1 POP: 81.40% Net Credit: ₹-3,765 Breakevens: 21905 (-2.8%) -23290 (3.4%)

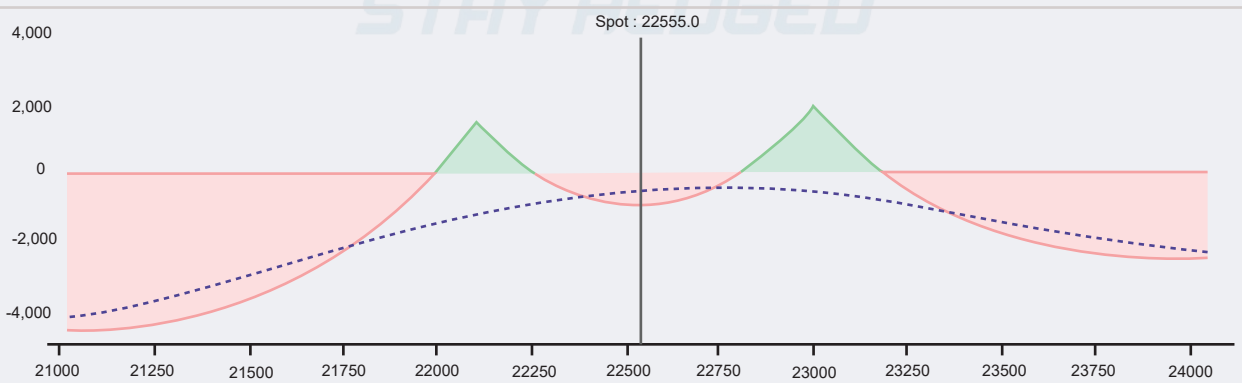


Positions	Greeks	Target P&L (blue line)									
✓	✓	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
✓	S	1	06 May, 09.16	22100 PE	16 May'24	51.4	51.4	0.17	0(0%)	1	✕
✓	S	1	06 May, 09.16	23000 CE	16 May'24	56.5	56.5	-0.21	0(0%)	1	✕
✓	B	1	06 May, 09.16	22100 PE	30 May'24	119.8	119.8	-0.24	0(0%)	1	✕
✓	B	1	06 May, 09.16	23000 CE	30 May'24	138.7	138.7	0.31	0(0%)	1	✕
									₹ 0	Exit Clear	

Problem with Deep OTM Time Spreads

The advantage of time spreads lies in gaining easy profits from theta decay in the current expiry position. However, if the buy legs are also deep OTM, the higher theta decay in those positions reduces the overall effectiveness. This leads to a less favorable payoff structure.

Est. Margin: ₹25,478 P&L: ₹0 (0.0%) Max Profit: ₹1,926 (7.6%) Max Loss: ₹-4,773 (-18.7%) R.R: 2.5 : 1 POP: 34.68% Net Credit: ₹-3,765 Breakevens: 21992 (-2.4%) -22257 (-1.2%) -22805 (1.2%) -23184 (2.9%)



Positions	Greeks	Target P&L (blue line)									
✓	✓	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
✓	S	1	06 May, 09.16	22100 PE	16 May'24	51.4	51.4	0.17	0(0%)	1	✕
✓	S	1	06 May, 09.16	23000 CE	16 May'24	56.5	56.5	-0.21	0(0%)	1	✕
✓	B	1	06 May, 09.16	22100 PE	30 May'24	119.8	119.8	-0.24	0(0%)	1	✕
✓	B	1	06 May, 09.16	23000 CE	30 May'24	138.7	138.7	0.31	0(0%)	1	✕
									₹ 0	Exit Clear	

Loss Area Transition in the Profit Cushion

The profit cushion in our strategy shifts towards a loss area.

Time Spread Strategy Summary

Time spread is one of the more complex strategies in the options market due to the significant role of implied volatility (IV) and the involvement of multiple expiration dates.

Key Points

- **Timing Matters** : Unlike other strategies, time spreads are not suitable at all times. Trading in the second half of the expiration period can be problematic due to rapid theta decay, which negatively impacts the strategy.
- **Intra-Day Trading** : For intra-day trades, a simple two-leg time spread is recommended. It's easier to manage compared to more complex strategies.
- **Positional Trading** : Four-leg strategies are more suitable for positional trades.
- **IV Consideration** : Always implement time spreads in conditions of high implied volatility to maximize effectiveness.

STAY HEDGED

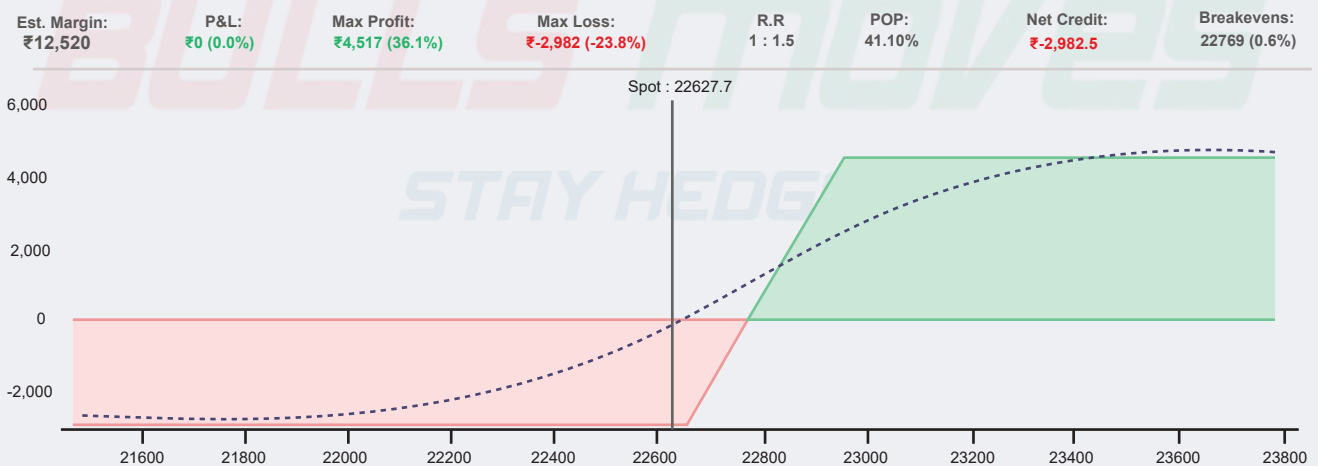
UNIT 8 - OPTION ADJUSTMENTS

In the world of option trading, adjustments play a crucial role, particularly in positional trades. Intraday strategies rarely involve adjustments because most adjustments rely on the benefit of theta decay, which requires more time to be effective.

Debit Spread Adjustments

Bull Call Spread

- **Scenario** : Nifty is at 22,627, and you're bullish.
- **Position** :
 - Bought 22,650 CE at 168
 - Sold 22,950 CE at 48.8

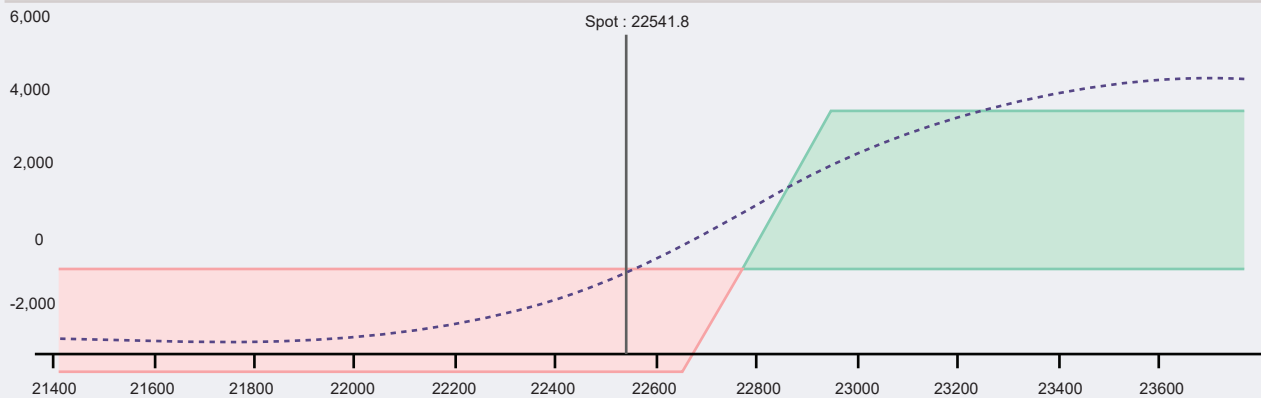


Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> B	1	02 May, 09:29	22650 CE	09 May'24	168.1	168.1	0.54	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/> S	1	02 May, 09:29	22950 CE	09 May'24	48.8	48.8	-0.23	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
							0.31	₹ 0		<input type="button" value="Exit"/> <input type="button" value="Clear"/>

Calculations

- **Maximum Loss** : $168 - 48.8 = 119.2$ points (or $119.2 * 25 = ₹2,980$)
- **Maximum Profit** : $300 - 119 = 181$ points (or $181 * 25 = ₹4,525$)

Est. Margin: ₹12,233 P&L: ₹-763 (-6.2%) Max Profit: ₹4,517 (36.9%) Max Loss: ₹-2,982 (-24.4%) R.R: 1 : 1.5 POP: 32.10% Net Credit: ₹-2,982.5 Breakevens: 22769 (1.0%)



Positions	Greeks	Target P&L (blue line)									
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit	
<input checked="" type="checkbox"/>	1	02 May, 09:29	22650 CE	09 May'24	168.1	121.2	0.45	-1172 (-27%)	1	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	1	02 May, 09:29	22950 CE	09 May'24	48.8	32.4	-0.17	409 (33%)	1	<input type="checkbox"/>	<input type="checkbox"/>
							0.28	₹ -763		Exit	Clear

Nifty drops to 22,541, you face a loss of ₹763.

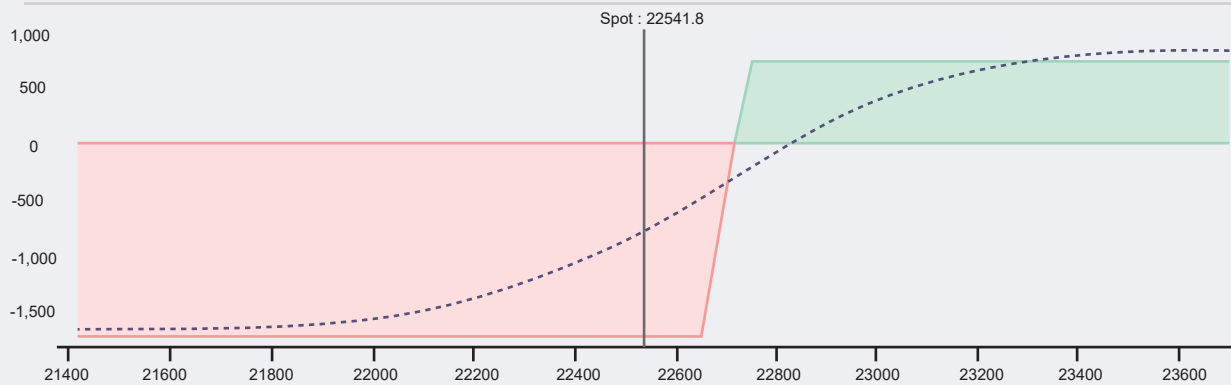
- **Breakdown :** Buy leg is in loss, sell leg is in profit, resulting in a net loss of ₹763. The maximum possible loss is ₹2,982, leaving a potential additional loss of ₹2,219 if the market does not recover.

How to Adjust and Increase Credit

To adjust your position and increase credit in a scenario where the total spread is in loss but the sell leg is in profit, follow these steps:

1. **Identify the Current Position**
 - **Buy Leg :** 22,650 CE bought at 168 (currently in loss).
 - **Sell Leg :** 22,950 CE sold at 48.8 (currently in profit, now at 32.4).
2. **Exit the Profitable Sell Leg**
 - Close the sell leg by buying back the 22,950 CE at 32.4, locking in a profit.
3. **Add a New Sell Leg with Higher Premium**
 - Sell a new strike with a higher premium to increase the total credit. In this case, sell the 22,750 CE at 81.7.
4. **Calculate the Extra Credit**
 - The net extra credit added is $(81.7 - 32.4) = 49.3$ points.

Est. Margin: ₹12,257 P&L: ₹-763 (-6.2%) Max Profit: ₹750 (6.1%) Max Loss: ₹-1,749 (-14.3%) R.R: 2.3 : 1 POP: 37.00% Net Credit: ₹-1,751 Breakevens: 227720 ()



Positions	Greeks	Target P&L (blue line)									
<input checked="" type="checkbox"/>			Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/>	B		1	02 May, 09:29	22650 CE	09 May'24	168.1	121.2	0.45	-1172 (-27%)	1 <input type="button" value="↻"/> <input type="button" value="🗑"/>
<input checked="" type="checkbox"/>	S		1	02 May, 09:29 (03 May, 12:45)	22950 CE	09 May'24	48.8	32.4	-0.17	409 (33%)	<input type="button" value="↻"/> <input type="button" value="🗑"/>
<input checked="" type="checkbox"/>	S		1	03 May, 12:45	22750 CE	09 May'24	81.7	81.7	-0.34	0 (0%)	1 <input type="button" value="↻"/> <input type="button" value="🗑"/>
									0.11	₹ -763	<input type="button" value="Exit"/> <input type="button" value="Clear"/>

Impact on the Strategy

1. Maximum Loss Reduction

- Initial maximum loss : ₹2,980
- New maximum loss : $₹2,980 - (49.3 * 25) = ₹1,747.5$ (approximately ₹1,749)

2. Current Loss and Adjusted Maximum Loss

- Current loss : ₹763
- New maximum loss : ₹1,749
- Potential additional loss : $₹1,749 - ₹763 = ₹986$ (reduced from ₹2,219)

Summary

By exiting the old sell leg and adding a new, higher premium sell leg, you effectively increase the credit received. This adjustment reduces your maximum possible loss and provides more cushion, allowing you to wait for the market to move in your favor. The strategy's running loss is now ₹763, with the maximum additional loss limited to ₹986. This illustrates the advantage of making strategic adjustments to your options position.

When to Adjust

There are many ways to determine the right time to adjust an options position, but a common approach is to make adjustments when the sell leg achieves a 50% profit. Here's an example to illustrate this:

Example

- **Position**
 - Bought 100 CE at 30
 - Sold 110 CE at 20

Market Movement

- If the market moves against your position:
 - 100 CE now trades at 20 (resulting in a 10-point loss)
 - 110 CE now trades at 10 (resulting in a 10-point profit)
 - In this scenario, since the sell leg has achieved a 50% profit (from 20 to 10), it's time to adjust.

Adjustment Guidelines

- **Standard Adjustment** : Make adjustments when the sell leg achieves a 50% profit.
- **Custom Timing** : Traders may use different timing for adjustments based on their individual trading styles and strategies.

Adjustments help manage risk and optimize the position, ensuring better control over potential losses and gains.

Bear Put Spread Adjustments

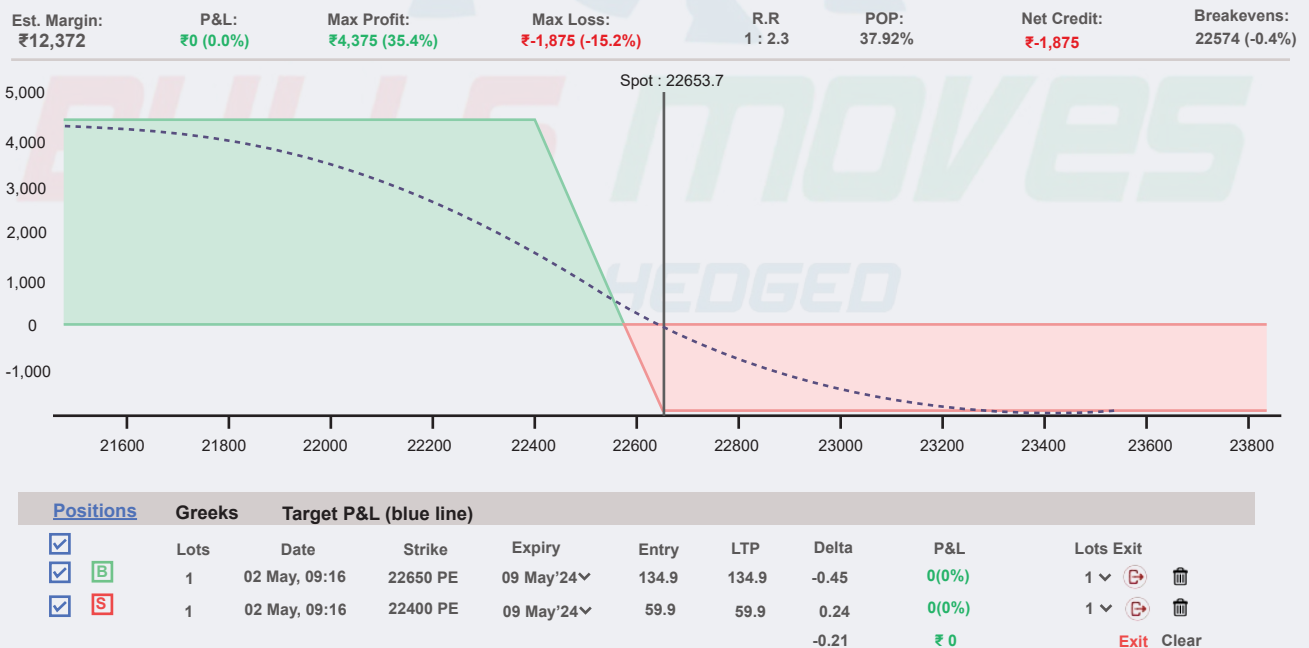
The adjustment concept for a bear put spread is similar to that for a bull call spread. The goal is to add extra credit to the strategy to reduce potential losses and increase the cushion against market movements.

Current Position

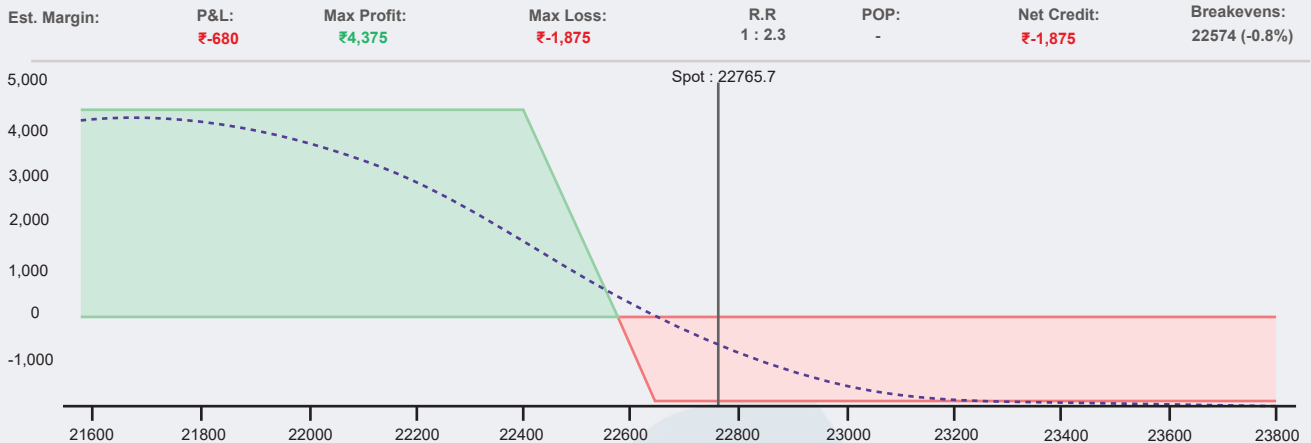
- Nifty is at 22,653.
- Bought 22,650 PE at 134.9
- Sold 22,400 PE at 59.9

Calculations

- **Maximum Loss** : $134.9 - 59.9 = 75$ points (or $75 * 25 = ₹1,875$)
- **Maximum Profit** : $250 - 75 = 175$ points (or $175 * 25 = ₹4,375$)



Now nifty went against our directions. Nifty is now 22763.



Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/>	1	02 May, 09.:16	22650 PE	09 May'24	134.9	75.4	-0.33	-1487 (-44%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/>	1	02 May, 09.:16	22400 PE	09 May'24	59.9	27.6	0.14	807 (53%)	1	<input type="checkbox"/>
							-0.19	₹ -680		Exit Clear

Adjustment Process

1. Monitor the Position

- Keep an eye on the premiums of the bought and sold legs.

2. Identify Adjustment Timing

- Similar to other strategies, consider adjusting when the sell leg achieves a 50% profit. For example, if the 22,400 PE premium drops from 59.9 to around 30.

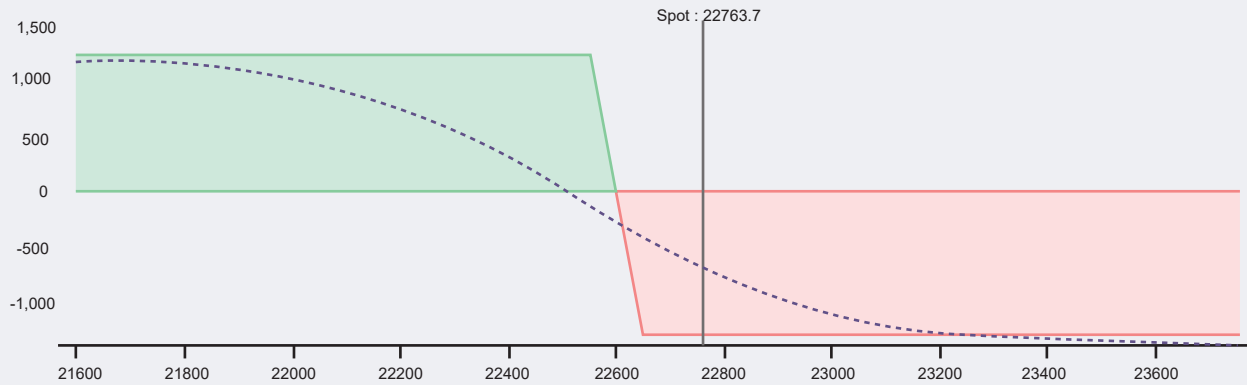
3. Execute the Adjustment

- Exit the Current Sell Leg: Buy back the 22,400 PE at the reduced price (e.g., 30).
- Sell a New Higher Premium Leg: Sell a new put option at a strike price that provides higher premium, adding extra credit to the strategy.

Adjustment

- Sell 22,200 PE at 81.7.
- Net Extra Credit Added** : $(81.7 - 30) = 51.7$ points.

Est. Margin: ₹12,127 P&L: ₹-680 (-5.6%) Max Profit: ₹1,207 (10.0%) Max Loss: ₹-1,292 (-10.7%) R.R: 1.1 : 1 POP: 27.84% Net Credit: ₹-1,293 Breakevens: 22598



Positions	Greeks	Target P&L (blue line)								
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22650 PE	09 May'24	134.9	75.4	-0.33	-1487 (-44%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> [S]	1	02 May, 09:16 (03 May, 09:16)	22400 PE	09 May'24	59.9	27.6	0.14	807 (53%)	<input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> [S]	1	03 May, 09:16	22550 PE	09 May'24	50.9	50.9	0.24	0 (0%)	1 <input type="checkbox"/> <input type="checkbox"/>	
							-0.09	₹ -680	<input type="checkbox"/> <input type="checkbox"/> Exit Clear	

Impact on the Strategy

1. Maximum Loss Reduction

- Initial maximum loss : ₹1,875
- New maximum loss : ₹1,875 - (51.7 * 25) = ₹525 (approximately)

2. Enhanced Cushion

- By adjusting the position and adding extra credit, the maximum potential loss is reduced, providing a better cushion against adverse market movements.

Summary

Adjustments in a bear put spread, like in other strategies, involve adding extra credit to reduce potential losses. Monitoring the sell leg for a 50% profit can serve as a standard trigger for making these adjustments, helping to optimize the strategy's risk and reward profile.

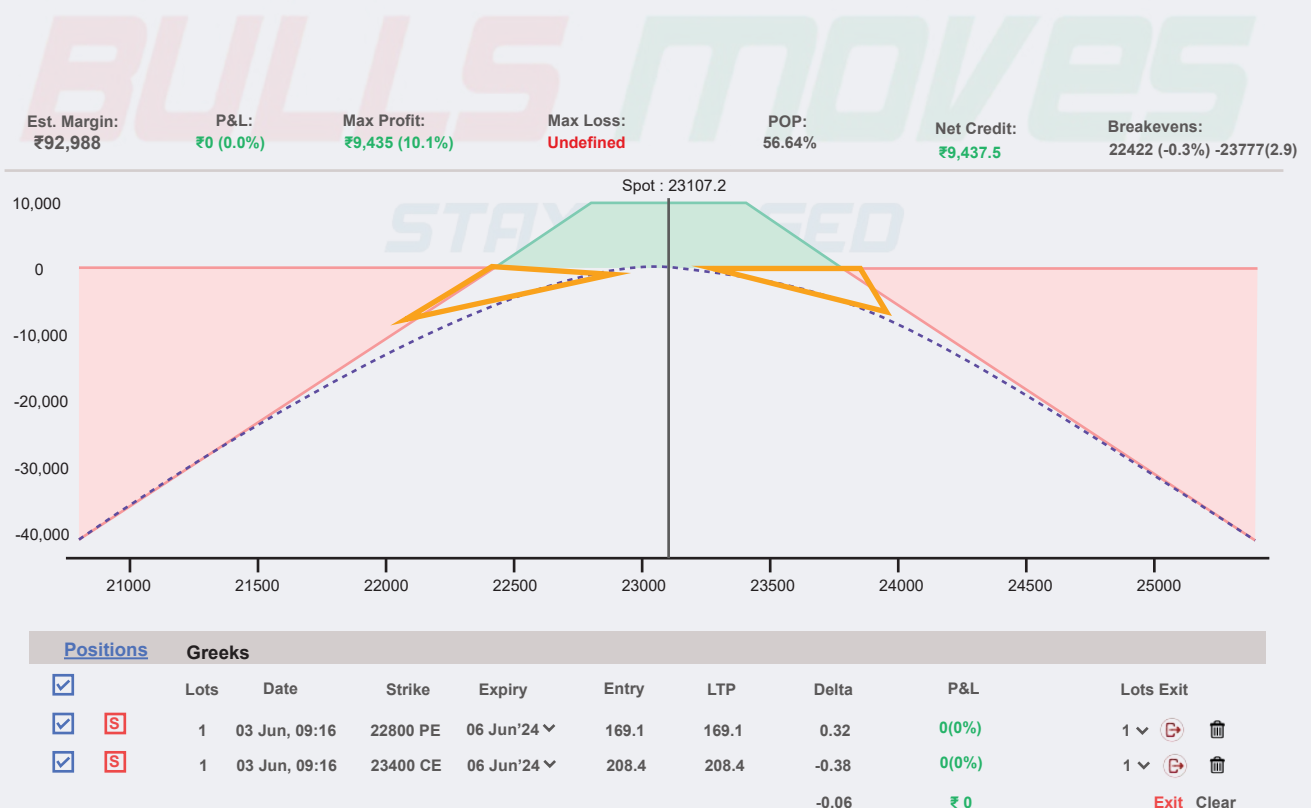
Strangle Adjustments

The strangle strategy is one of the simplest trading strategies due to its construction with out-of-the-money (OTM) options, allowing traders to profit from Theta and implied volatility (IV) decay. However, a significant challenge in both intraday and positional trading is the speed of loss. When the market moves drastically in one direction, the benefits of Theta and IV melting can be outweighed, leading to rapid losses.

A strangle is fundamentally a 100% delta-neutral strategy. Therefore, careful consideration must be given to its construction before making any adjustments. Typically, we sell OTM strikes equidistant from the current stock price. For example, if Nifty is at 23107, creating a 300-point difference would involve:

- Selling the 23400 CE at 208.4
- Selling the 22800 PE at 169.1

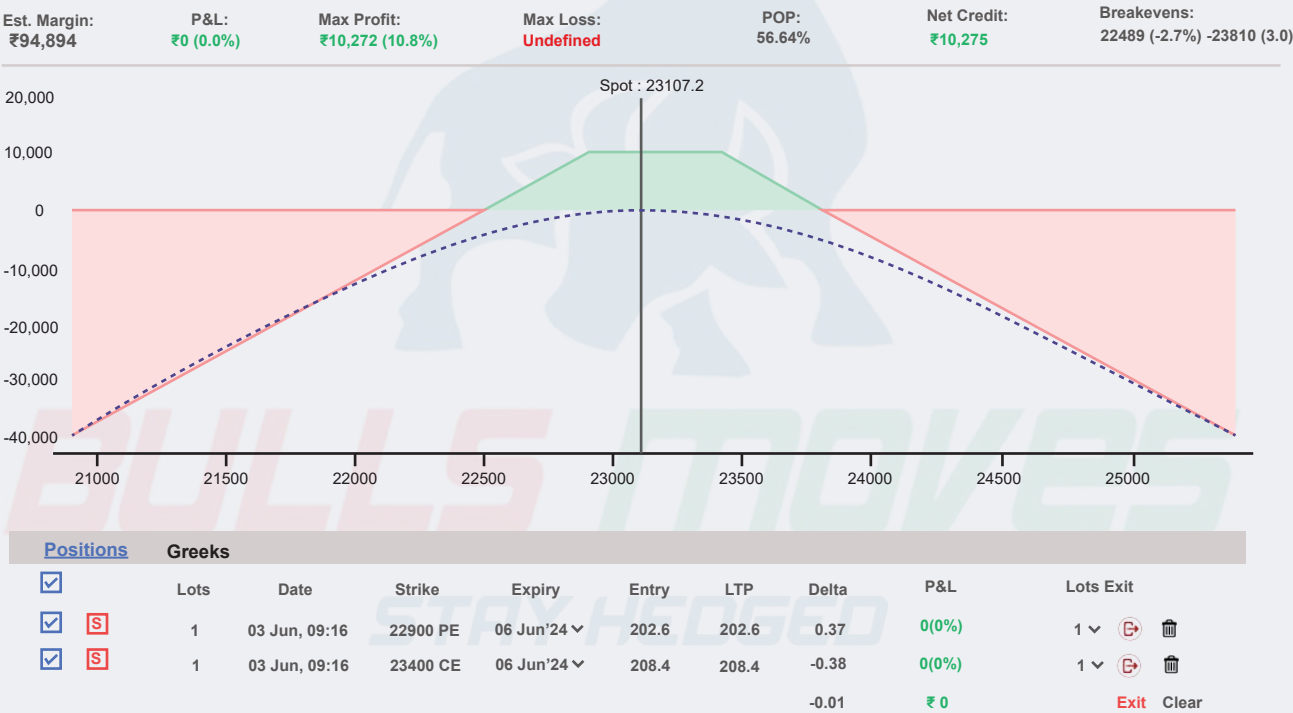
In this standard strangle, the strategy



In this standard strangle, the strategy is not entirely neutral because the premiums are not equal (208.4 vs. 169.1). This imbalance can impact the trading performance over time. To achieve a more neutral position, the adjustments would be

- Selling the 23400 CE at 208.4
- Selling the 22900 PE at 202.6

This adjustment results in a more balanced strangle, enhancing the neutrality of the strategy.



Now it s almost ok !!!

Understanding Strangle Losses

While the maximum loss in a strangle strategy is theoretically unlimited, it is effectively hedged to some extent by the premiums collected. Once the premium balance in the spread is exhausted, the speed of loss can increase rapidly.

Example

- Call option sold at 100
- Put option sold at 100

If the market moves upwards, the risk on the call side increases, but the profit from the put side helps reduce the overall loss. For instance, if the market rises:

- Call option premium increases to 150, resulting in a 50-point loss
- Put option premium decreases to 60, resulting in a 40-point profit
- Net loss is 10 points

In this scenario, the loss on the call side is partially offset by the profit on the put side. However, if the market continues to move up, the call option premium will increase more rapidly due to a higher delta. Conversely, the delta on the put side will decrease, reducing its premium further. Consequently, the protection from the put side weakens, while the potential for loss from the call side intensifies.

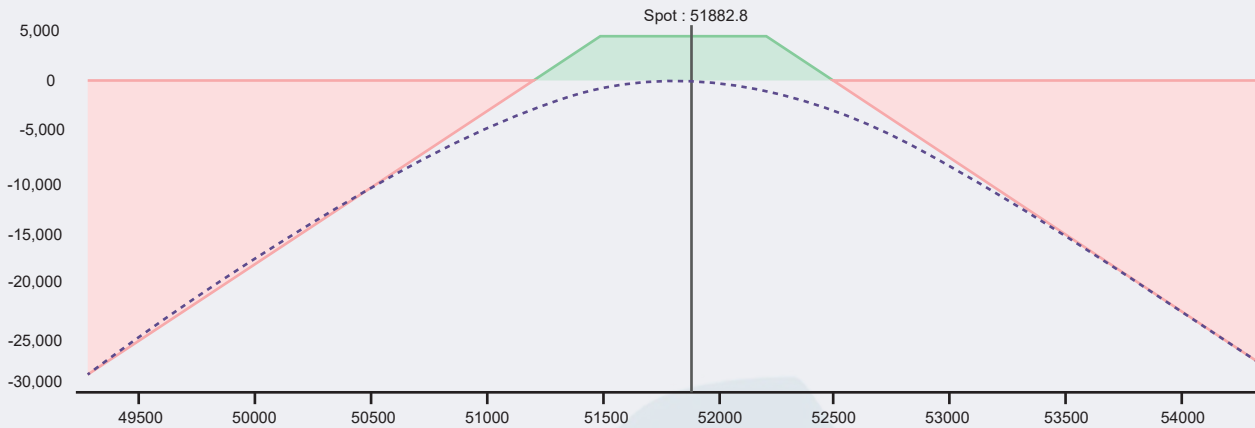
How to Adjust a Strangle

When there is a significant difference between the strike price premiums in a strangle strategy, adjustments are necessary to restore balance. If the market moves and the call side premium increases while the put side premium decreases, you should exit the current put position and sell a new put option with a higher premium. This adjustment maintains the balance of the strike prices and reduces the speed of further losses.

Example

- Initial Position
 - Banknifty is at 51822
 - Selling 52200 CE at 146.4
 - Selling 51500 PE at 145.5

Est. Margin: ₹1.18L P&L: ₹0 (0.0%) Max Profit: ₹4,377 (3.7%) Max Loss: Undefined POP: 61.40% Net Credit: ₹4,378.5 Breakevens: 51208 (-1.3%) -52491



Positions		Greeks								
<input checked="" type="checkbox"/>		Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	25 Jun, 09:21	51500 PE	26 Jun'24	145.5	145.5	0.30	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	25 Jun, 09:21	52200 CE	26 Jun'24	146.4	146.4	-0.32	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>
								-0.02	₹ 0	Exit Clear

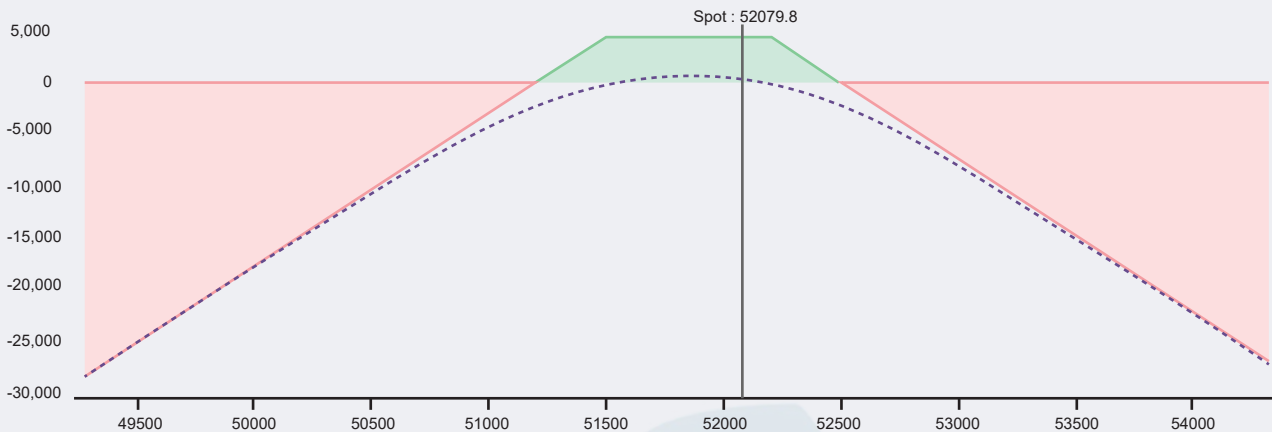
Market Movement

- After some time, the market moves up
 - Call premium now 205.4 (sold at 146.4)
 - Put premium now 62 (sold at 145.5)

Adjustment Steps

1. **Exit the Current Put Position**
 - Buy back the 51500 PE at 62 to close the position.
2. **Sell a New Put Option with a Higher Premium**
 - Choose a new put strike price that brings in a higher premium to balance the increased call premium.

Est. Margin: ₹1.18L P&L: ₹360 (0.3%) Max Profit: ₹4,377 (3.7%) Max Loss: Undefined POP: 62.30% Net Credit: ₹4,378.5 Breakevens: 51208 (-1.7%) -52491



Positions		Greeks								
<input checked="" type="checkbox"/>		Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/>	S	1	25 Jun, 09:21	51500 PE	26 Jun'24	145.5	62	0.17	1252 (57%)	1 <input type="button" value="↕"/> <input type="button" value="🗑️"/>
<input checked="" type="checkbox"/>	S	1	25 Jun, 09:21	52200 CE	26 Jun'24	146.4	205.9	-0.45	-892 (-40%)	1 <input type="button" value="↕"/> <input type="button" value="🗑️"/>
							205.9		₹360	Exit Clear

Example Adjustment

Assuming Banknifty has moved to around 52300, you might:

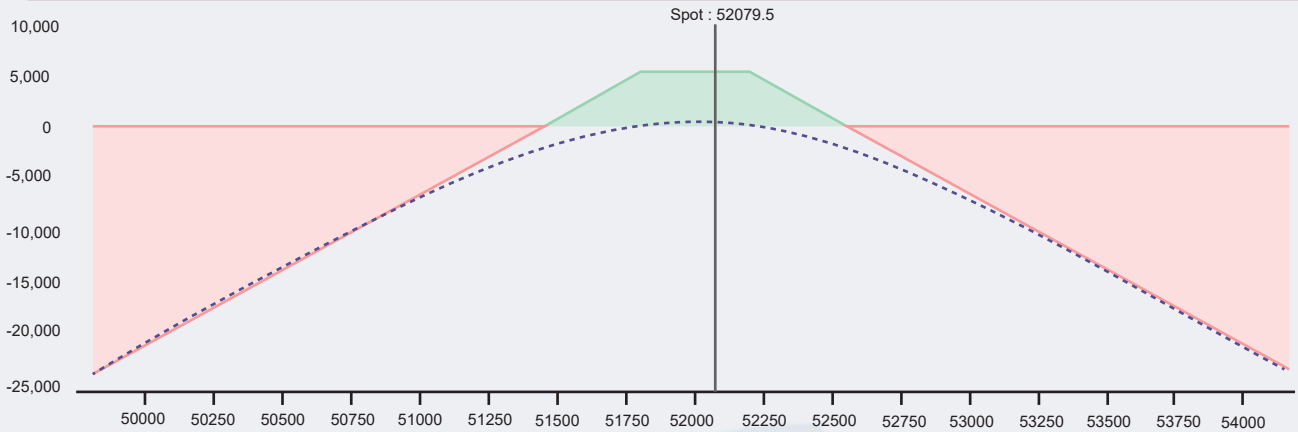
- Sell a new put option closer to the current market price, such as the 51800 PE, to achieve a higher premium.
 - Selling 51800 PE at 119

Adjusted Position

- Selling 52200 CE at 146.4 (now 205.4)
- Selling 51800 PE at 119

While the call premium is 205.4 and the new put premium is 119, which still shows some difference, this conservative adjustment helps reduce the imbalance. Ideally, matching the call premium with an equivalent put premium would be optimal, but this approach avoids the risk of a sudden market reversal that could cause significant losses on the put side. By adding the higher premium put option, you gain additional credit into the strategy, improving overall protection while maintaining a cautious approach.

Est. Margin: ₹1.23L P&L: ₹360 (0.3%) Max Profit: ₹5.232 (4.3%) Max Loss: Undefined POP: 59.87% Net Credit: ₹5,233 Breakevens: 51451 (-1.2%) -52548



Positions		Greeks								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	1	25 Jun, 09:21 (25 Jun, 11:51)	51500 PE	26 Jun'24	145.5	62	0.17	1252 (57%)	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	1	25 Jun, 09:21	52200 CE	26 Jun'24	146.4	205.9	-0.45	-892 (-40%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/>	1	25 Jun, 11:51	51800 PE	26 Jun'24	119	119	0.30	0(0%)	1	<input type="checkbox"/>
							-0.15	₹360	<input type="checkbox"/>	Exit Clear

Due to a significant upward movement in the market, the option premiums have shifted as follows:

- **Call Premium : 356.6**
- **Put Premium : 96.3**

Given the sharp increase in the market, it is necessary to adjust the put strike. The put premium is now relatively low compared to the call premium due to the sudden rise in the Nifty index.

To address this, we will exit our existing put position at 96.3 and replace it with a higher premium strike. Specifically, we will add a 52,200 put option at 205.1.

Following this adjustment, our updated premiums are:

- **Call Premium : 356.9**
- **Put Premium : 205.1**



Positions		Greeks								
<input checked="" type="checkbox"/>		Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	25 Jun, 09:21 <small>(25 Jun, 11:51)</small>	51500 PE	26 Jun'24	145.5	62	0.17	1252 (57%)	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	25 Jun, 09:21	52200 CE	26 Jun'24	146.4	356.9	-0.59	-3157(-143%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	25 Jun, 11:51 <small>(25 Jun, 12:31)</small>	51800 PE	26 Jun'24	119	96.3	0.22	340(19%)	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	1	25 Jun, 12:31	52200 PE	26 Jun'24	205.1	205.1	0.41	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>
								-0.18	₹-1565	Exit Clear

Certainly! Here's a more professional version of the content

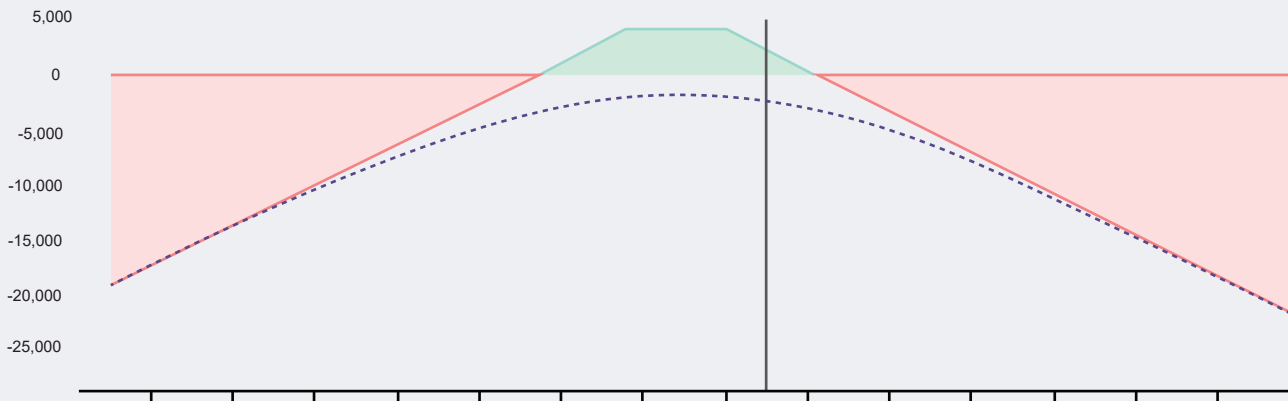
The market has moved upward once again, resulting in a change in premium values. Currently, the call side premium is 474.6, and the put side premium is 164.9. Given the observed premium imbalance, we will proceed with our established adjustment process.

We will exit the put sell position at a premium of 164.9 and add a new strike. Specifically, we will add the 52500 put at a premium of 275.1.

Our revised position is as follows:

- Sold 52200 call
- Sold 52500 put

That's a clear explanation of how you adjust strangle positions both intraday and positionally. It shows your process of managing premiums and strikes effectively.



Here are some important considerations for strangle adjustments based on your insights:

- **Avoid Aggressiveness** : It's crucial not to adjust strangles aggressively. Sudden reversals can lead to significant losses if adjustments are too drastic.
- **Avoid Mechanical Adjustments** : Instead of mechanical adjustments, it's wise to consider each adjustment thoughtfully, considering market conditions and the specific position dynamics.
- **Set Mental Stop-Loss Limits** : Always set mental stop-loss levels. This ensures that you have predefined exit points beyond which you'll exit the trade, mitigating potential losses.

These principles emphasize a balanced and cautious approach to managing strangle positions effectively.

Iron Condor Adjustments

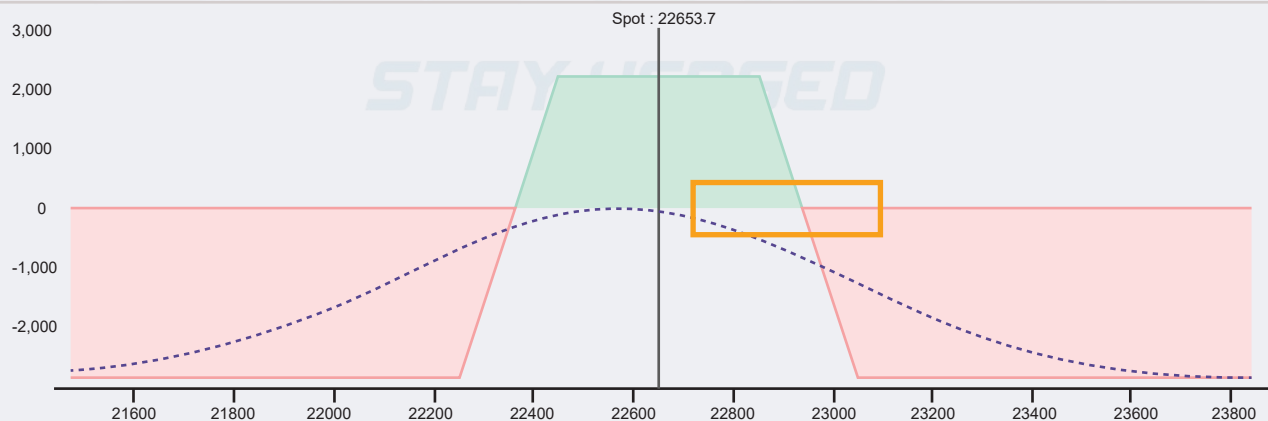
In iron condors, there are two types of adjustments: credit adjustments and debit adjustments

- **Credit Adjustments** : These adjustments provide additional credit, increasing potential profits and offering an extra cushion.
- **Debit Adjustments** : These adjustments offer better protection but may reduce profits.

Key Considerations for Constructing an Iron Condor

- **Nifty Current Value** : 22,653.7
- **Short Positions**
 - Nifty 22,450 PE sold at 71.3
 - Nifty 22,850 CE sold at 81.3
- **Long Positions**
 - Nifty 22,250 PE bought at 35.8
 - Nifty 23,050 CE bought at 29.6

Est. Margin: ₹28,700 P&L: ₹0 (0.0%) Max Profit: ₹2,180 (7.6%) Max Loss: ₹-2,820 (-9.8%) R:R 1.3:1 POP: 52.98% Net Credit: ₹2,180 Breakevens: 22362 (-1.3%) -22937 (1.3%)



Positions		Greeks									
✓		Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
✓	B	1	02 May, 09:16	22250 PE	09 May'24	35.8	35.8	-0.15	0 (0%)	1	
✓	S	1	02 May, 09:16	22450 PE	09 May'24	71.3	71.3	0.28	0 (0%)	1	
✓	S	1	02 May, 09:16	22850 CE	09 May'24	81.3	81.3	-0.34	0 (0%)	1	
✓	B	1	02 May, 09:16	23050 CE	09 May'24	29.6	29.6	0.16	0 (0%)	1	
									-0.05	₹0	Exit Clear

Payoff Analysis and Adjustment

In the given payoff, the T+0 line is not balanced on the upside. This imbalance can negatively affect the strategy if there is a sudden upward movement.

To address the weak upside protection, it's necessary to increase the call buy premium. This adjustment will help balance the strategy and provide better protection against upward market movements.



So now you can see the balanced iron condor..

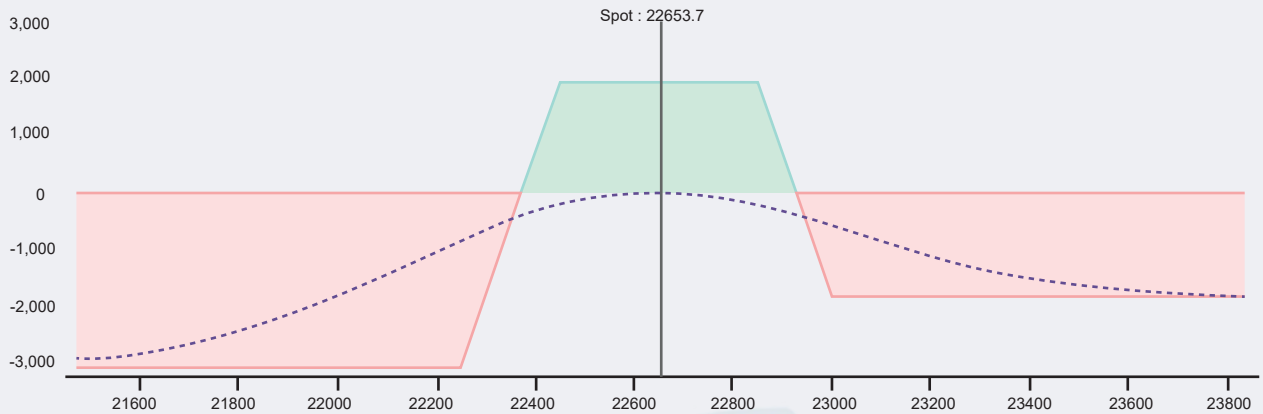
Credit Adjustments

The updated positions are as follows:

- **Nifty Current Value : 22,653.7**
- **Short Positions**
 - Nifty 22,450 PE sold at 71.3
 - Nifty 22,850 CE sold at 81.3
- **Long Positions**
 - Nifty 22,250 PE bought at 35.8
 - Nifty 23,000 CE bought at 40.1

"Options provide strategic defense."

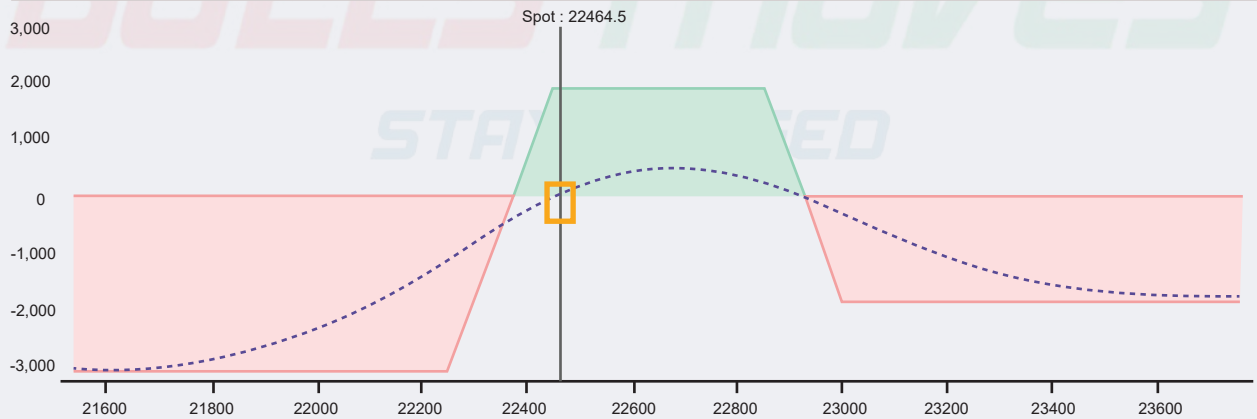
Est. Margin: ₹28,311 P&L: ₹0 (0.0%) Max Profit: ₹1,917 (6.8%) Max Loss: ₹-3,082 (-10.9%) R:R 1.6:1 POP: 51.22% Net Credit: ₹1,917.5 Breakevens: 22373 (-1.2%) -22926(1.2%)



Positions	Greeks	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	22250 PE	09 May'24	35.8	35.8	-0.15	0 (0%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	22450 PE	09 May'24	71.3	71.3	0.28	0 (0%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	22850 CE	09 May'24	81.3	81.3	-0.34	0 (0%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	23000 CE	09 May'24	40.1	40.1	0.20	0 (0%)	1 <input type="checkbox"/> <input type="checkbox"/>	
									-0.01	₹0	<input type="checkbox"/> Exit <input type="checkbox"/> Clear

After a few days, the market moved downwards and nearly reached the breakeven point on the downside.

Est. Margin: ₹28,380 P&L: ₹67 (0.2%) Max Profit: ₹1,917 (6.8%) Max Loss: ₹-3,082 (-10.9%) R:R 1.6:1 POP: 56.28% Net Credit: ₹1,917.5 Breakevens: 22373 (-0.4%) -22926(2.2%)



Positions	Greeks	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	22250 PE	09 May'24	35.8	42.1	-0.23	157 (17%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	22450 PE	09 May'24	71.3	106.5	0.46	-880 (-89%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	22850 CE	09 May'24	81.3	15.4	-0.11	1647 (81%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	23000 CE	09 May'24	40.1	5.8	0.05	-857 (-85%)	1 <input type="checkbox"/> <input type="checkbox"/>	
									0.17	₹67	<input type="checkbox"/> Exit <input type="checkbox"/> Clear

Credit Adjustments Strategy

We will perform credit adjustments similar to a strangle. Here are the steps:

- Exit the current call sell leg, as it is in profit.

Credit Adjustments Strategy

1. Exit the Current Call Sell Leg

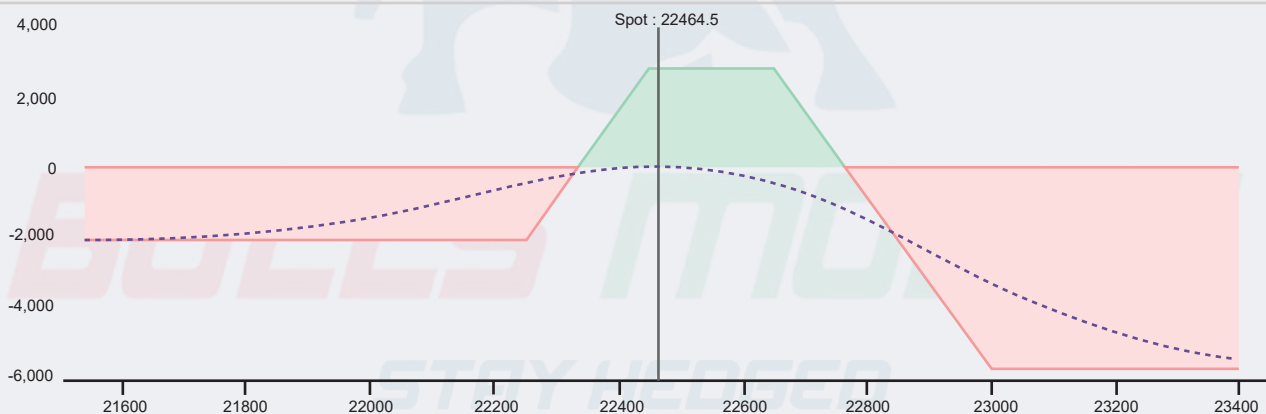
- Close the 22,850 CE at 15.4 (originally sold at 81.3).

2. Add a New Call Sell Leg

- Sell the 22,650 CE at 51.5.

This adjustment improves the overall position. The new payoff structure is more balanced and provides better protection.

Est. Margin: ₹32,349 P&L: ₹67 (0.2%) Max Profit: ₹2,820 (8.7%) Max Loss: ₹-5,930 (-18.3%) R:R: 2.1:1 POP: 50.52% Net Credit: ₹2,819.5 Breakevens: 22337 (-0.6%) -22762 (1.3%)



Positions	Greeks									
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> B	1	02 May, 09:16	22250 PE	09 May'24	35.8	42.1	-0.23	157 (17%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> S	1	02 May, 09:16	22450 PE	09 May'24	71.3	106.5	0.46	-880 (-49%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> S	1	02 May, 09:16 (07 May, 09:46)	22850 CE	09 May'24	81.3	15.4	-0.11	1647 (81%)		<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> B	1	02 May, 09:16	23000 CE	09 May'24	40.1	5.8	0.05	-857 (-85%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> S	1	07 May, 09:46	23650 CE	09 May'24	51.5	51.5	-0.28	0 (0%)	1	<input type="checkbox"/> <input type="checkbox"/>
							0.00	₹67		Exit Clear

To better protect against a drastic upward market movement, we will make the following changes:

1. Exit the Current Call Buy Leg

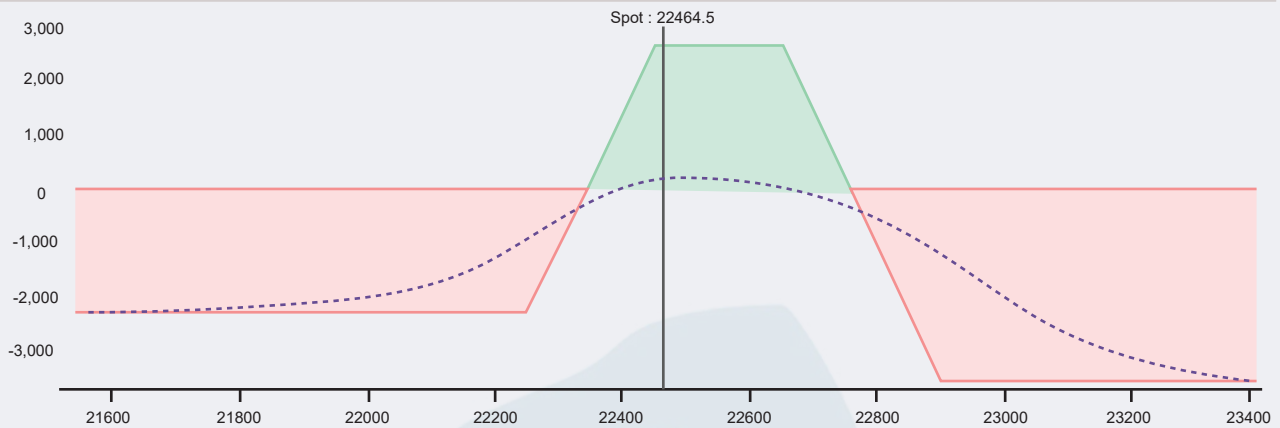
- Close the 23,000 CE at 5.8 (originally bought at 40.1).

2. Add a New Call Buy Leg

- Buy the 22,900 CE at 11.1.

This adjustment enhances upside protection, creating a more balanced and secure payoff structure

Est. Margin: ₹29,787 P&L: ₹67 (0.2%) Max Profit: ₹2,687 (9.0%) Max Loss: ₹-3,562 (-12.0%) R:R 1.3:1 POP: 49.52% Net Credit: ₹2,687.5 Breakevens: 22342 (-0.5%) -22757 (1.3%)



Positions		Greeks								
✓		Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
✓	B	1	02 May, 09:16	22250 PE	09 May'24	35.8	42.1	-0.23	157 (17%)	1 ↓ [Exit] [Clear]
✓	S	1	02 May, 09:16	22450 PE	09 May'24	71.3	106.5	0.46	-880 (-49%)	1 ↓ [Exit] [Clear]
✓	S	1	02 May, 09:16 (07 May, 09:46)	22850 CE	09 May'24	81.3	15.4	-0.11	1647 (81%)	[Exit] [Clear]
✓	B	1	02 May, 09:16 (07 May, 09:46)	23000 CE	09 May'24	40.1	5.8	0.05	-857 (-85%)	[Exit] [Clear]
✓	S	1	07 May, 09:46	22650 CE	09 May'24	51.5	51.5	-0.28	0 (0%)	1 ↓ [Exit] [Clear]
✓	B	1	07 May, 09:46	22900 CE	09 May'24	11.1	11.1	0.08 0.03	0 (0%) ₹67	1 ↓ [Exit] [Clear]

The market has moved down further and breached the downside level.

Action Steps

1. Evaluate the Current Positions

- Assess the potential losses due to the breach on the downside.

2. Consider Additional Adjustments

- To mitigate further risk, consider adjusting the put positions by closing existing positions and opening new ones with different strikes or premiums.

Would you like to proceed with specific adjustments, or do you need a detailed analysis of the current payoff structure?



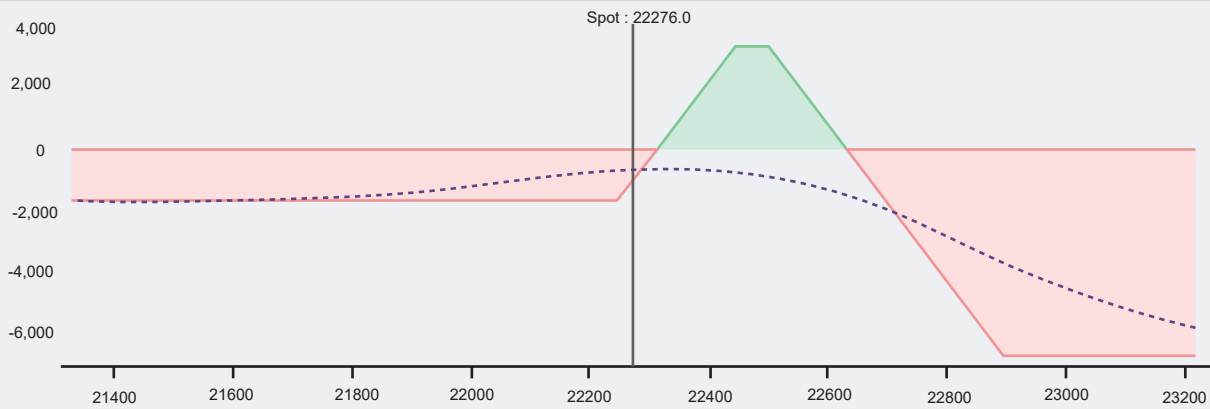
Given the market's downward movement, we will adjust the positions more aggressively:

- 1. Exit the Current Profitable Call Sell Position**
 - Close the 22,650 CE at 22.1 (originally sold at 51.5).
- 2. Add a New High Premium Call Sell Position**
 - Sell the 22,500 CE at 46.5.

This aggressive adjustment aims to enhance potential profits and provide better downside protection. The new payoff structure should now reflect these changes, offering a more balanced and resilient strategy.

"Hedge to control market risk."

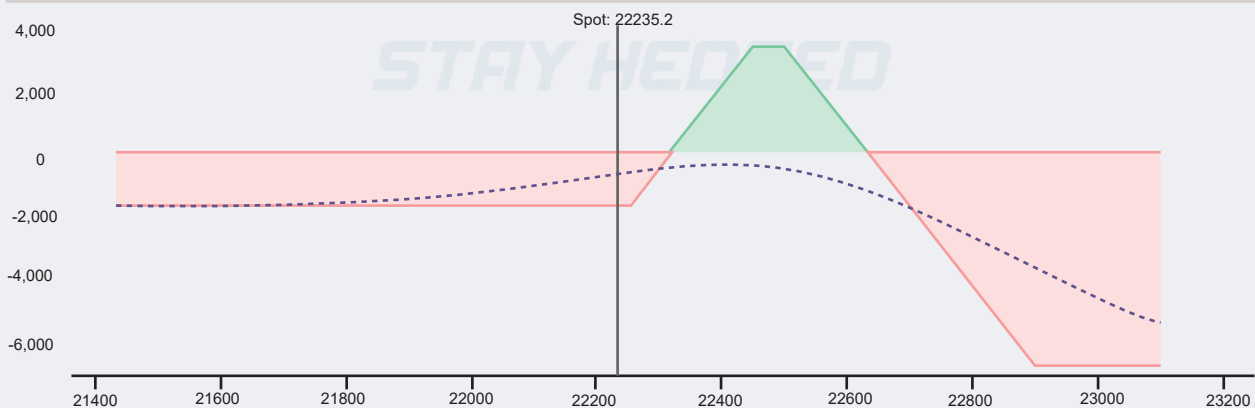
Est. Margin: ₹33,632 P&L: ₹-679 (-2.0%) Max Profit: ₹3,297 (9.8%) Max Loss: ₹-6,702 (-19.9%) R:R 2:1 POP: 30.07% Net Credit: ₹3,297.5 Breakevens: 22318 (0.2%) -22631 (1.6%)



Positions	Greeks	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22250 PE	09 May'24	35.8	104	-0.45	1705(190%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22450 PE	09 May'24	71.3	223.1	0.70	-3795 (-212%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16 (07 May, 09:46)	22850 CE	09 May'24	81.3	15.4	-0.11	1647 (81%)	<input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16 (07 May, 09:46)	23000 CE	09 May'24	40.1	5.8	0.05	-857 (-85%)	<input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	07 May, 09:46 (07 May, 11:46)	22650 CE	09 May'24	51.5	22.1	-0.14	735 (57%)	<input type="checkbox"/> <input type="checkbox"/>	
									0.04	₹-679	Exit Clear

Now you can see the difference in the cushion it increasing
Again stock price went down , so we do the same way

Est. Margin: ₹33,612 P&L: ₹-625 (-1.9%) Max Profit: ₹3,297 (9.8%) Max Loss: ₹-6,702 (-19.9%) R:R 2:1 POP: 30.34% Net Credit: ₹3,297.5 Breakevens: 22318 (0.4%) -22631 (1.8%)



Positions	Greeks	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22250 PE	09 May'24	35.8	103.5	-0.50	1692(189%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22450 PE	09 May'24	71.3	237.9	0.77	-4165 (-233%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16 (07 May, 09:46)	22850 CE	09 May'24	81.3	15.4	-0.11	1647 (81%)	<input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16 (07 May, 09:46)	23000 CE	09 May'24	40.1	5.8	0.05	-857 (-85%)	<input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	07 May, 09:46 (07 May, 11:46)	22650 CE	09 May'24	51.5	22.1	-0.14	735 (57%)	<input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	07 May, 09:46	22900 CE	09 May'24	11.1	2.9	0.02	-204 (-73%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	07 May, 11:46	22500 CE	09 May'24	46.5	25.4	-0.18	527 (45%)	1 <input type="checkbox"/> <input type="checkbox"/>	
									0.11	₹-625	Exit Clear

Continued Adjustment for Improved Cushion

As the stock price continues to decline, we will adjust our positions accordingly to enhance cushion and reduce maximum downside risk:

- 1. Exit the Current Profitable Call Sell Position**
 - Close the 22,500 CE at 25.4 (originally sold at 46.5).
- 2. Add a New High Premium Call Sell Position**
 - Sell the 22,350 CE at 60.6.

This adjustment strategy aims to consistently increase cushion and mitigate potential losses on the downside. These proactive adjustments can be maintained throughout to optimize the overall position.

Exiting 22500 CE at 25.4 (Sold at 46.5) and adding 22350 CE at 60.6 now the payoff is

From all the adjustment you can see our cushion is increasing and maximum loss of the down side is reducing.

Debit Adjustments in Iron Condor Strategy

We will now review the debit adjustments made in the Iron Condor strategy. Following these adjustments, we will also include details of a credit adjustment.

Current Nifty Index : 22,653.7

Positions

- Sold 22,450 Put Option at 71.3
- Sold 22,850 Call Option at 81.3
- Bought 22,250 Put Option at 35.8
- Bought 23,000 Call Option at 40.1

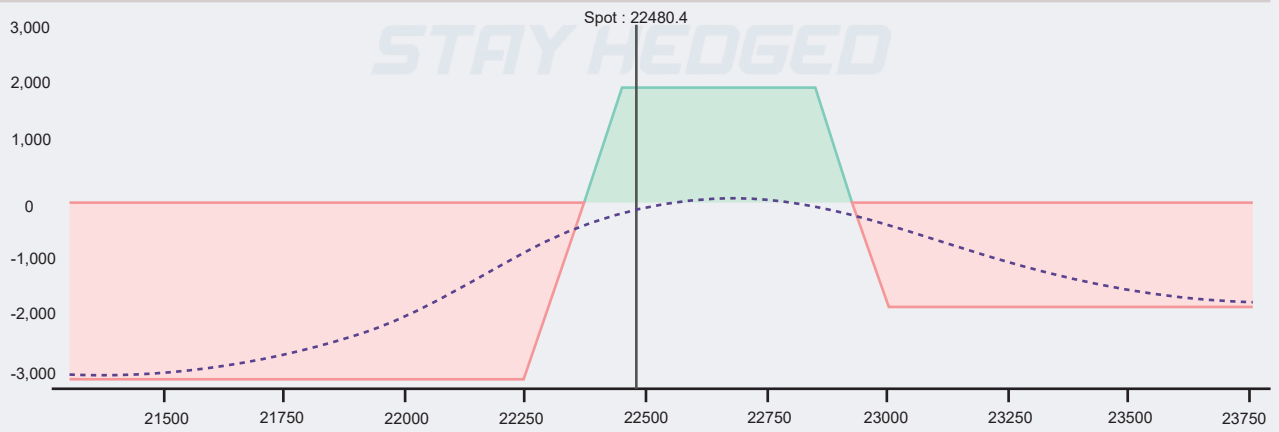
Est. Margin: ₹28,311 P&L: ₹0 (0.0%) Max Profit: ₹1,917 (6.8%) Max Loss: ₹-3,082 (-10.9%) R:R 1.6:1 POP: 51.22% Net Credit: ₹1,917.5 Breakevens: 22373 (-1.2%) -22926 (1.2%)



Positions	Greeks	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22250 PE	09 May'24	35.8	35.8	-0.15	0 (0%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22450 PE	09 May'24	71.3	71.3	0.28	0 (0%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22850 CE	09 May'24	81.3	81.3	-0.34	0 (0%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	23000 CE	09 May'24	40.1	40.1	0.20	0 (0%)	1 <input type="checkbox"/> <input type="checkbox"/>	
									-0.01	₹0	<input type="checkbox"/> Exit <input type="checkbox"/> Clear

We will be executing adjustments for the debit in our iron condor strategy. Additionally, the T+0 line indicates favourable conditions.

Est. Margin: ₹28,012 P&L: ₹-141 (-0.5%) Max Profit: ₹1,917 (6.8%) Max Loss: ₹-3,082 (-11.0%) R:R 1.6:1 POP: 51.26% Net Credit: ₹1,917.5 Breakevens: 22373 (-0.5%) -22926 (2.0%)



Positions	Greeks	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22250 PE	09 May'24	35.8	58.1	-0.24	557 (62%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22450 PE	09 May'24	71.3	119.5	0.42	-1205 (-67%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22850 CE	09 May'24	81.3	40.5	-0.20	1019 (50%)	1 <input type="checkbox"/> <input type="checkbox"/>	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	23000 CE	09 May'24	40.1	19.6	0.11	-512 (-51%)	1 <input type="checkbox"/> <input type="checkbox"/>	
									0.09	₹-141	<input type="checkbox"/> Exit <input type="checkbox"/> Clear

The market has moved beyond our initial expectations, approaching the lower breakeven point. As a result, we are initiating our first debit adjustment. Our analysis reveals a potential downside risk, prompting the need for increased protection.

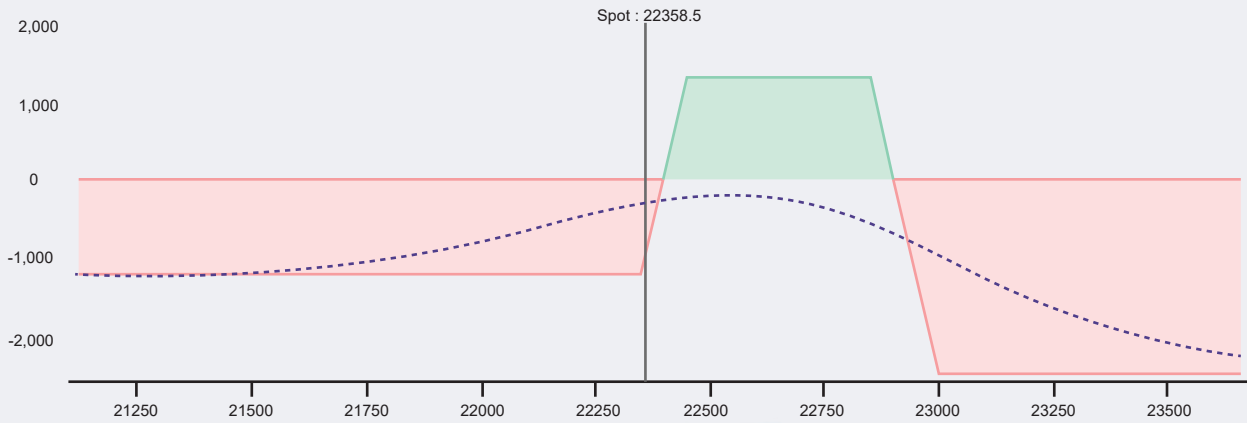
To address this, we will adjust our position by exiting the purchased put option at 22250 strike, originally bought at 35.8 and currently valued at 58.1, and replace it with a higher delta or premium put option at the 22350 strike, priced at 83.5. This adjustment enhances our downside protection significantly.

Below is the updated payoff structure reflecting these changes



As illustrated, the adjustment has effectively mitigated the downside risk, albeit at the cost of reducing both the maximum profit potential and the cushion marginally.

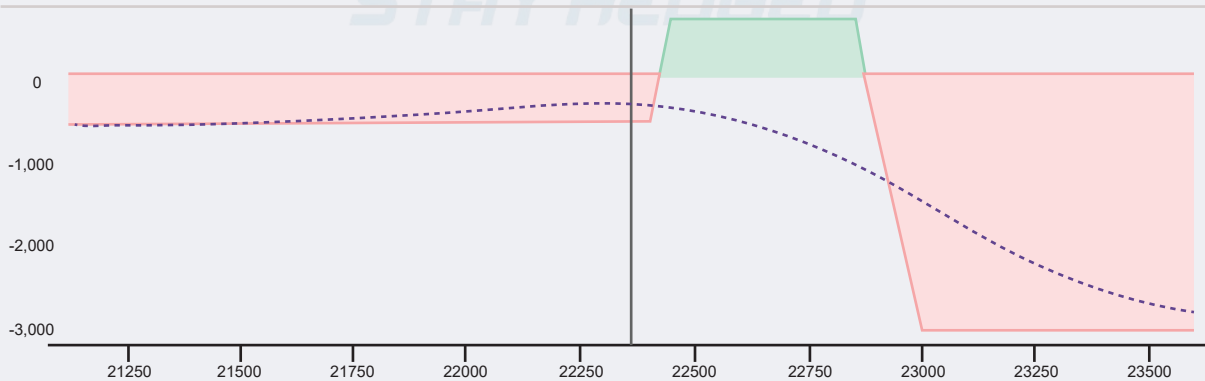
Est. Margin: ₹27,684 P&L: ₹-296 (-1.1%) Max Profit: ₹1,282 (4.6%) Max Loss: ₹-2,467 (-8.9%) R:R 1.9:1 POP: 39.24% Net Credit: ₹1,282 Breakevens: 22398 (0.2%) -22901 (2.4%)



Positions	Greeks	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/> <input type="checkbox"/>	Lots: 1, Date: 02 May, 09:16 (03 May, 12:52)	22250 PE	09 May'24	35.8	58.1	-0.24	557 (62%)	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Lots: 1, Date: 02 May, 09:16	22450 PE	09 May'24	71.3	184.1	0.54	-2820 (-158%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Lots: 1, Date: 02 May, 09:16	22850 CE	09 May'24	81.3	29.7	-0.14	1290 (63%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	Lots: 1, Date: 02 May, 09:16	23000 CE	09 May'24	40.1	15.5	0.08	-615(-61%)	1 <input type="checkbox"/> <input type="checkbox"/>

Given the recent downward movement in the market, we are executing a similar adjustment strategy. This involves replacing the current purchased put option at the 22350 strike, initially acquired at 83.5 and now valued at 135.5, with a higher delta put option at the 22400 strike, priced at 158.5. The updated payoff structure is shown below:

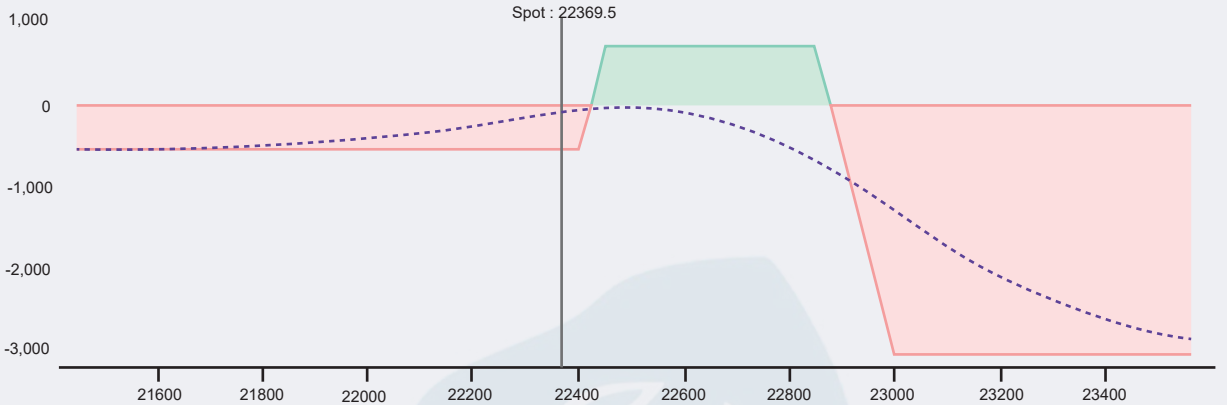
Est. Margin: ₹27,800 P&L: ₹-296 (-1.1%) Max Profit: ₹700 (2.5%) Max Loss: ₹-3,050 (-11.0%) R:R 404:1 POP: 39.02% Net Credit: ₹699 Breakevens: 22421 (0.3%) -22878 (2.3%)



Positions	Greeks	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/> <input type="checkbox"/>	Lots: 1, Date: 02 May, 09:16 (03 May, 12:52)	22250 PE	09 May'24	35.8	58.1	-0.24	557 (62%)	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Lots: 1, Date: 02 May, 09:16	22450 PE	09 May'24	71.3	184.1	0.54	-2820 (-158%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Lots: 1, Date: 02 May, 09:16	22850 CE	09 May'24	81.3	29.7	-0.14	1290 (63%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	Lots: 1, Date: 02 May, 09:16	23000 CE	09 May'24	40.1	15.5	0.08	-615 (-61%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	Lots: 1, Date: 03 May, 12:52 (03 May, 13:52)	22350 CE	09 May'24	83.5	135.2	-0.44	1292(61%)	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	Lots: 1, Date: 03 May, 13:52	22400 PE	09 May'24	158.5	158.5	-0.49	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>

As observed, our maximum profit potential and cushion have notably diminished, primarily due to the adjustments made. However, the downside risk has been significantly mitigated as a result

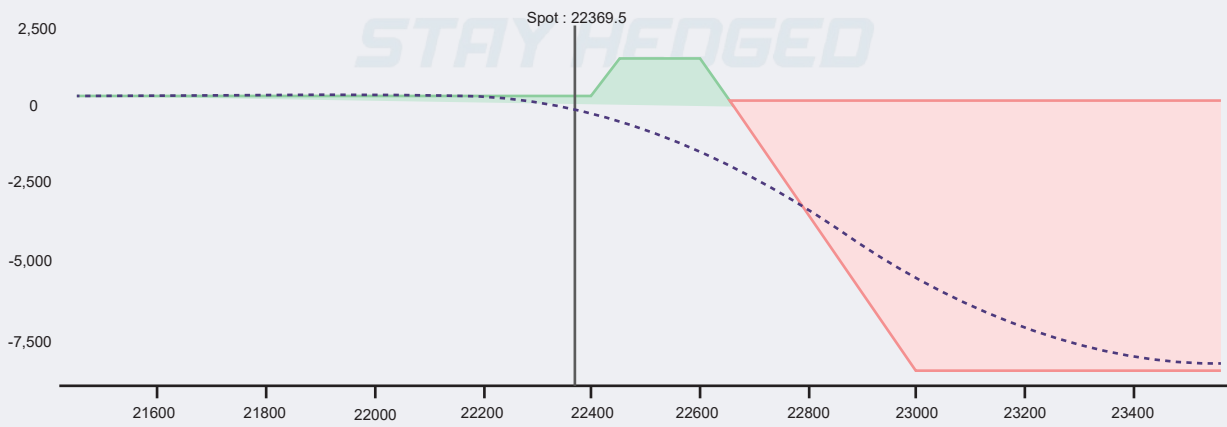
Est. Margin: ₹27,651 P&L: ₹-98 (-0.4%) Max Profit: ₹700 (2.5%) Max Loss: ₹-3,050 (-11.0%) R:R 4.4:1 POP: 38.62% Net Credit: ₹699 Breakevens: 22421 (0.2%) -22878 (2.3%)



Positions	Greeks									
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> B	1	02 May, 09:16 <small>(03 May, 12:52)</small>	22250 PE	09 May'24	35.8	58.1	-0.24	557 (62%)	<input type="radio"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> S	1	02 May, 09:16	22450 PE	09 May'24	71.3	155.4	0.59	-2102 (-117%)	1 <input type="radio"/>	<input type="checkbox"/>

Given the recent downward movement in the market, further debit adjustments would exacerbate the reduction in potential profit and cushion. Therefore, a credit adjustment strategy is advisable. I will exit the current call option sell position and replace it with a new higher premium sell position

Est. Margin: ₹34,208 P&L: ₹-98 (-0.3%) Max Profit: ₹1,462(4.3%) Max Loss: ₹-8,537 (-25.0%) R:R 5.8:1 POP: 81.64% Net Credit: ₹1,461 Breakevens: 22658



Positions	Greeks									
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> B	1	02 May, 09:16 <small>(03 May, 12:52)</small>	22250 PE	09 May'24	35.8	58.1	-0.24	557 (62%)	<input type="radio"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> S	1	02 May, 09:16	22450 PE	09 May'24	71.3	155.4	0.59	-2102 (-117%)	1 <input type="radio"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> S	1	02 May, 09:16 <small>(07 May, 10:24)</small>	22850 CE	09 May'24	81.3	10.6	-0.07	1767 (86%)	<input type="radio"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> B	1	02 May, 09:16	23000 CE	09 May'24	40.1	5.2	0.04	-872(-87%)	1 <input type="radio"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> B	1	03 May, 12:52	22350 PE	09 May'24	83.5	135.2	-0.44	1292 (61%)	<input type="radio"/>	<input type="checkbox"/>
							-0.13	₹-98	Exit Clear	

While the combined debit and credit adjustments have shown their effectiveness, one concern remains: the T+0 Line. A significant upward market movement could result in sudden substantial losses. To address this, we are increasing the premium of the buy leg on the call side for upside protection.

We have exited the 23000 CE, originally purchased at 40.1 and now at 5.2, and replaced it with the 22800 CE bought at 14.1. The updated payoff structure is as follows



So this is the beauty of iron condor adjustments

Summary of Iron Condor Adjustments

Adjusting an iron condor involves strategic manoeuvres aimed at minimizing risk. The most effective approach combines both debit and credit spread adjustments to achieve this goal.

While there are various alternative adjustment strategies, such as adding extra legs or employing additional strategies, these methods tend to be complex and often require additional margin.

For optimal risk management, a balanced combination of debit and credit spread adjustments is recommended.

Adjustments For ATM Two-Leg Time Spread

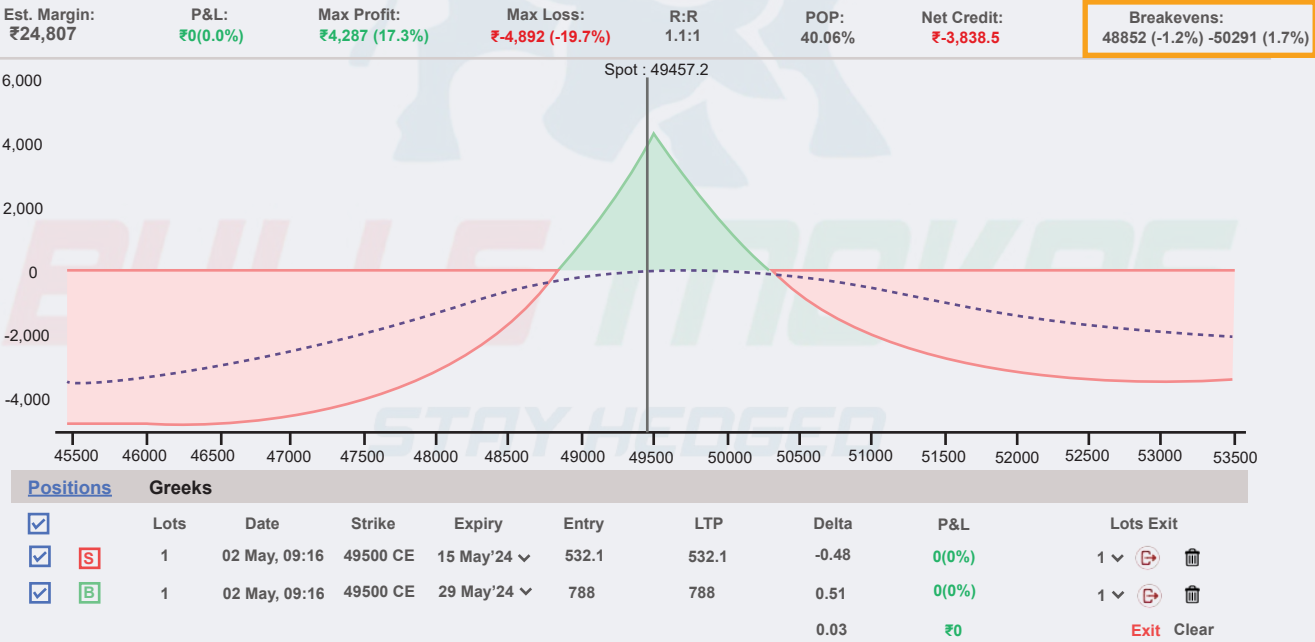
The time spread strategy can be intricate due to its unique behavior. Adjusting it requires a different approach compared to other strategies. However, a two-leg time spread is simpler to construct and manage .

Let's consider constructing a two-leg time spread for Bank Nifty, which is currently at 49,457:

- Sell the current expiry 49,500 call at 532.1
- Buy the far expiry 49,500 call at 788

With these positions, the breakeven points are:

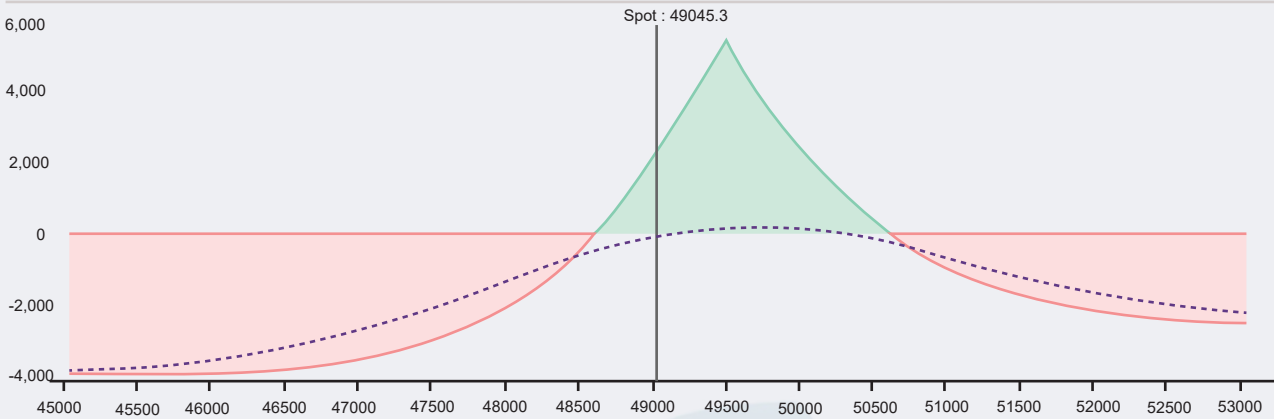
- **Upside breakeven : 50,291**
- **Downside breakeven : 48,852**



The following day, the market experienced a significant decline, nearing the downside breakeven point of the two-leg time spread strategy. It's crucial to monitor this closely as it approaches this level, as further adjustments may be necessary to manage risk effectively. Evaluating the market conditions and considering potential adjustments will be key to navigating this situation prudently.

"Options provide strategic flexibility."

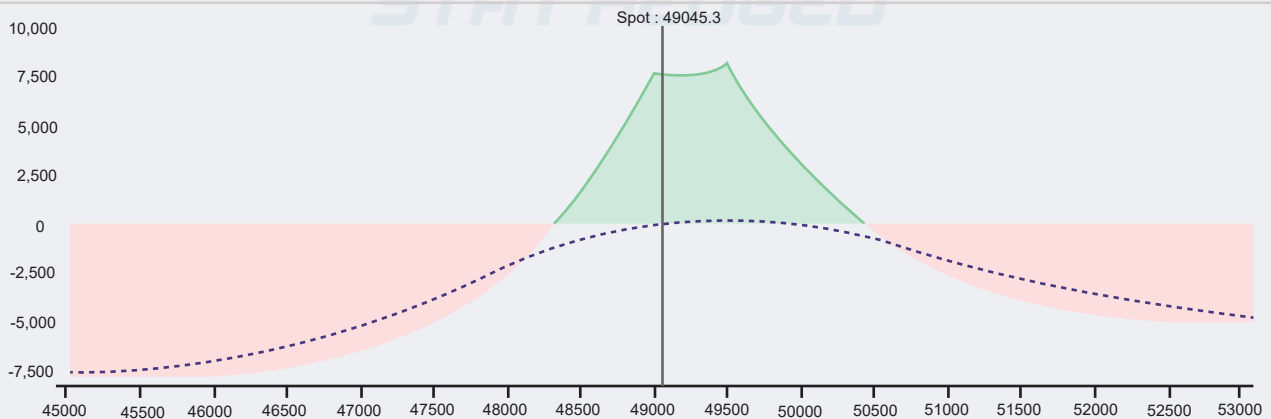
Est. Margin: ₹23,081 P&L: ₹-41 (-0.2%) Max Profit: ₹5,493 (23.8%) Max Loss: ₹-4,038 (-17.5%) R:R 1:1.4 POP: 51.64% Net Credit: ₹-3,838.5 Breakevens: 48612 (-0.9%) -50616 (3.2%)



Positions	Greeks	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	49500 CE	15 May'24	532.1	346.8	-0.39	2779(34%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	49500 CE	29 May'24	788	600	0.44	-2820(-23%)	1 <input type="checkbox"/> <input type="checkbox"/>
									₹-41	<input type="button" value="Exit"/> <input type="button" value="Clear"/>

Now, we will adjust the position by introducing another time spread, specifically focusing on the put side. Given the recent downward movement in the market, premiums on the put side are likely elevated, presenting a favourable opportunity for potential profit. Therefore, we will incorporate an ATM put spread into our strategy.

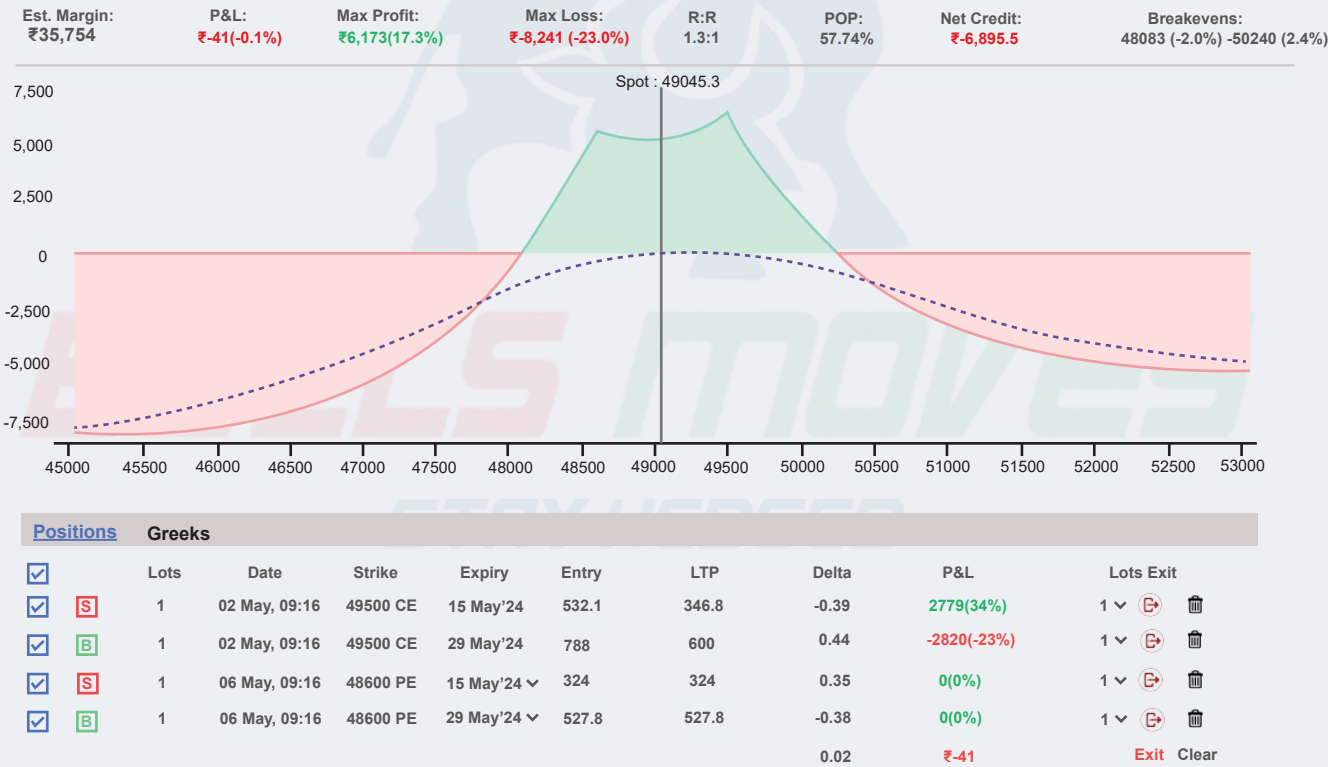
Est. Margin: ₹36,489 P&L: ₹-41 (-0.1%) Max Profit: ₹8,803(22.2%) Max Loss: ₹-7,914 (-21.7%) R:R 1:1 POP: 55.56% Net Credit: ₹-6,589.5 Breakevens: 48324 (-1.5%) -50414 (2.8%)



Positions	Greeks	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	49500 CE	15 May'24	532.1	346.8	-0.39	2779(34%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	49500 CE	29 May'24	788	600	0.44	-2820(-23%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	06 May, 09:16	49000 PE	15 May'24	492.2	492.2	0.46	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	06 May, 09:16	49000 PE	29 May'24	675.6	675.6	-0.46	0(0%)	1 <input type="checkbox"/> <input type="checkbox"/>
									₹-41	<input type="button" value="Exit"/> <input type="button" value="Clear"/>

As observed, the downward adjustment has shifted our downside breakeven point to 48,324, providing an additional cushion of nearly 500 points compared to the previous breakeven level of 48,852. This adjustment enhances our risk management by extending the protective range against market movements, thereby improving the overall stability of our position.

In addition to the previous adjustment involving the ATM put time spread, we are now implementing a further modification by adding an OTM put time spread centered around the 48,600 strike price. This adjustment will alter the total payoff structure of our position, potentially enhancing its overall performance under current market conditions.



As a result of adding the OTM put time spread centered at the 48,600 strike price, our downside breakeven has improved to 48,083. This represents an additional 300 points of protection compared to the previous adjustment, which had a breakeven of 48,324. This flexibility demonstrates how we can tailor our adjustment strategies to enhance protection and adapt to varying market conditions effectively.

Benefits of these adjustments

- **Increased Breakeven Points** : Each adjustment has raised the breakeven levels, providing more room for the underlying asset to move without resulting in losses.
- **Enhanced Maximum Profit Potential** : By strategically adding spreads, the potential maximum profit from the position has been increased.
- **Ease of Adjustment** : The adjustments made are straightforward to execute and manage, making it easier to respond to changing market conditions.

Risks of these adjustments

- **Potential for Further Adjustments** : If the market continues to move against our position, additional adjustments may be necessary, which could increase complexity and transaction costs.
- **Overall Increased Risk** : Despite improvements in breakeven points and potential profits, the overall risk exposure of the position has increased due to the addition of more spreads and potential market movements.

It's essential to continuously monitor the position and market conditions to assess whether further adjustments are needed to manage risk effectively.

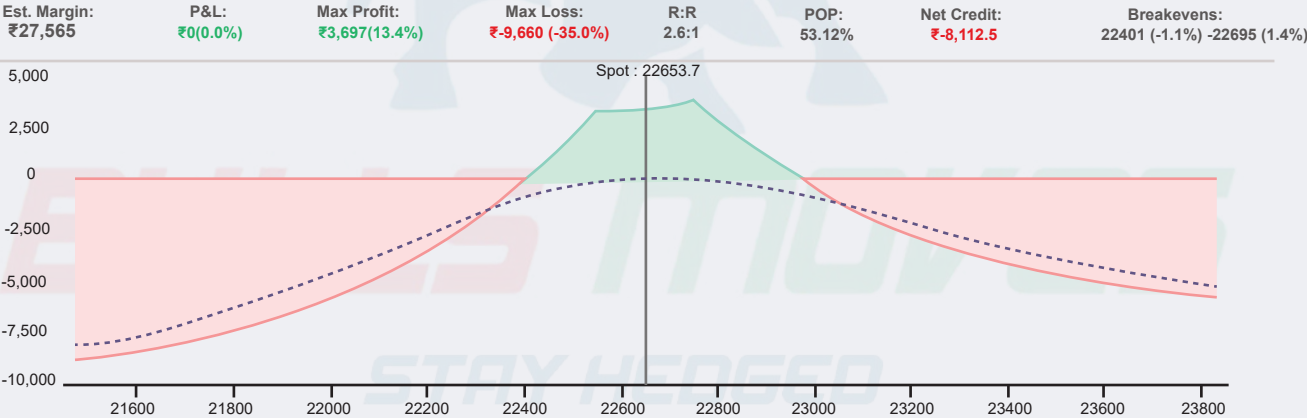
STAY HEDGED

Four-Legged Time Spread Adjustment

In a four-legged time spread strategy, out-of-the-money (OTM) strikes are utilized to capitalize on both theta decay and implied volatility (IV) advantages, similar to an iron condor. However, due to multiple expiry dates involved in this spread, there are distinct considerations, particularly concerning IV dynamics and adjustment strategies.

Current Position Details

- **Nifty Spot Price** : 22,653.7
- **Sold Current Expiry** : 22,750 Call at 122.7
- **Sold Current Expiry** : 22,550 Put at 99.5
- **Bought Next Month Expiry** : 22,550 Put at 241.8
- **Bought Next Month Expiry** : 22,750 Call at 304.9

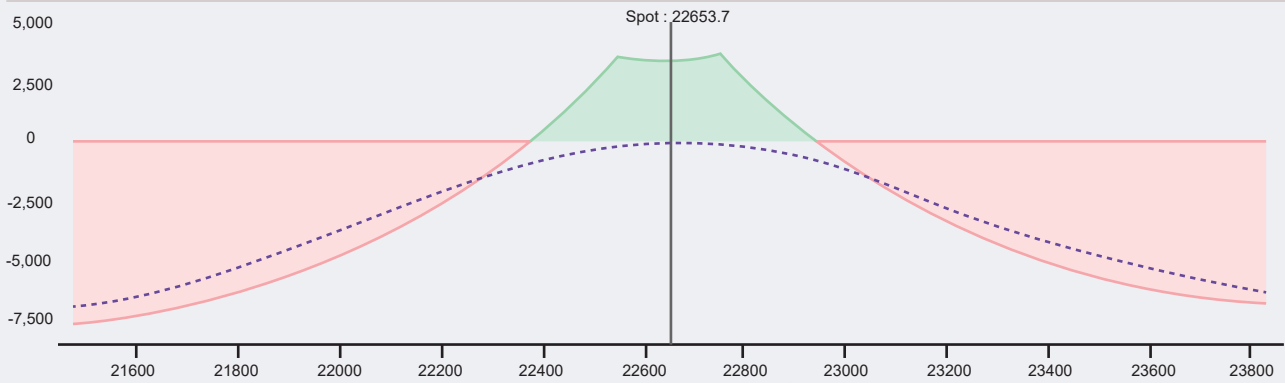


Positions	Greeks	Target P&L (blue line)									
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit		
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22750 CE	09 May'24	122.7	122.7	-0.44	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22550 PE	09 May'24	99.5	99.5	0.36	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22550 PE	30 May'24	241.8	241.8	-0.40	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22750 CE	30 May'24	304.9	304.9	0.50	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
							0.02	₹0	<input type="button" value="Exit"/> <input type="button" value="Clear"/>		

In normal market conditions, there is an issue with the spread. Please refer to the payoff chart. The T+0 line is unbalanced, so it's crucial to balance the payoff during construction to ensure a smooth overall journey.

To address this, we should increase the call side by purchasing premium. Specifically, we should remove the 22750 CE from the spread and instead include the 22850 CE at 246.3.

Est. Margin: ₹27,272 P&L: ₹0(0.0%) Max Profit: ₹3,637(13.3%) Max Loss: ₹-8,194 (-30.0%) R:R 2.3:1 POP: 52.70% Net Credit: ₹-6,647.5 Breakevens: 22375 (-1.2%) -22942 (1.3%)



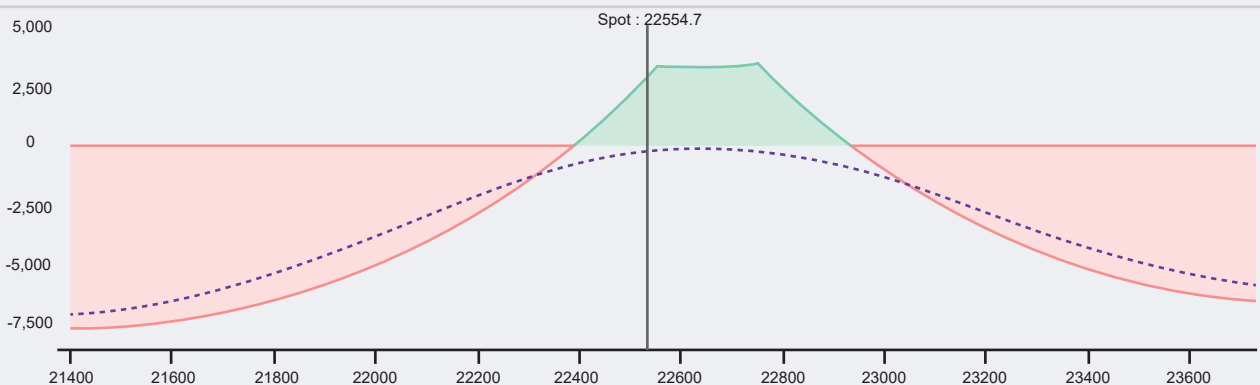
Positions	Greeks	Target P&L (blue line)								
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22750 CE	09 May'24	122.7	122.7	-0.44	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22550 PE	09 May'24	99.5	99.5	0.36	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22550 PE	30 May'24	241.8	241.8	-0.40	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22850 CE	30 May'24	246.3	246.3	0.44	0(0%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
							-0.04	₹0	Exit Clear	

Now the payoff is well-balanced, as you can clearly observe.

Adjustments

Adjustments were necessary as the market has declined, and now the price is approaching the downside protection level.

Est. Margin: ₹27,253 P&L: ₹-150(-0.6%) Max Profit: ₹3,458(12.7%) Max Loss: ₹-8,225 (-30.2%) R:R 2.4:1 POP: 52.42% Net Credit: ₹-6,647.5 Breakevens: 22385 (-0.7%) -22932 (1.3%)



Positions	Greeks	Target P&L (blue line)								
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22750 CE	09 May'24	122.7	80	-0.33	1067(34%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22550 PE	09 May'24	99.5	128.9	0.45	-735(-29%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22550 PE	30 May'24	241.8	258.4	-0.44	415(6%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22850 CE	30 May'24	246.3	210.4	0.41	-897(-14%)	1	<input type="button" value="Exit"/> <input type="button" value="Clear"/>
							0.09	₹-150	Exit Clear	

Here's the revised adjustment plan: Since the market has declined, we are exiting the current Put spread and replacing it with a new out-of-the-money Put spread.

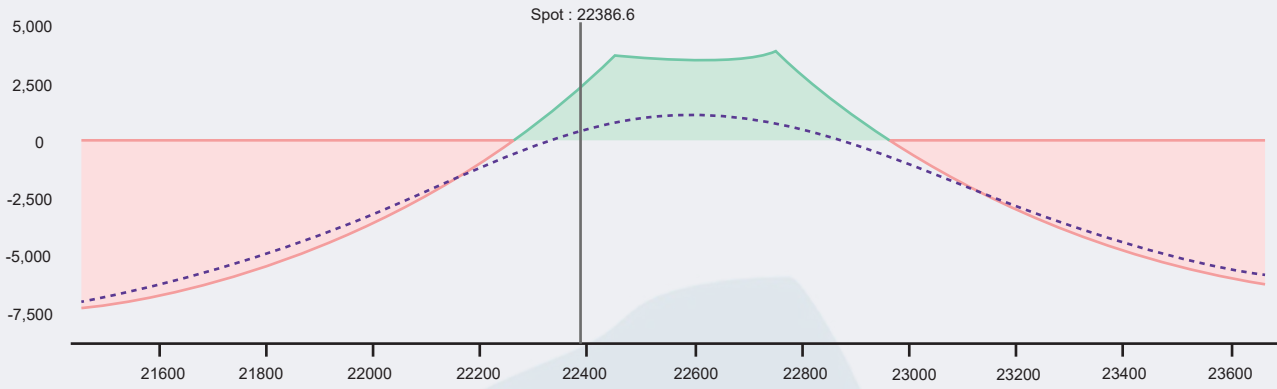
We have exited all the Put spreads and added the 22450 PE sold in the current expiry at 91, while simultaneously buying the 22450 PE in the next month's expiry at 221.7.



As a result of these adjustments, you will notice that the breakeven point has shifted, and there is now an increased cushion against potential losses.

The market has declined once more and is approaching the breakeven point.

Est. Margin: ₹28,415 P&L: ₹433(1.5%) Max Profit: ₹3,813(13.4%) Max Loss: ₹-8,354 (-29.4%) R:R 2.2:1 POP: 63.04% Net Credit: ₹-6,677.5 Breakevens: 22260 (-0.6%) -22962 (2.6%)

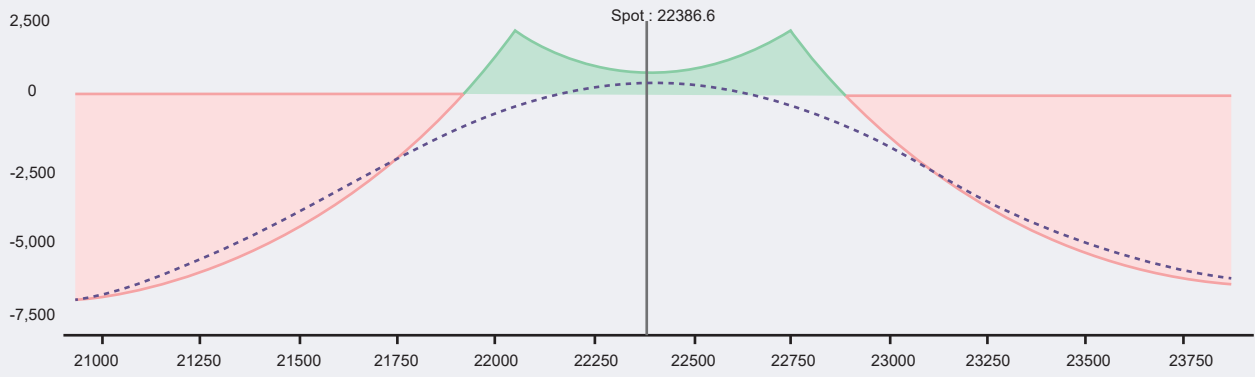


Positions	Greeks	Taret P&L (blue line)									
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit		
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	22750 CE	09 May'24	122.7	20.2	-0.13	2562(83%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16 (03 May, 12:47)	22550 PE	09 May'24	99.5	128.9	0.45	-735(-29%)		<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16 (03 May, 12:47)	22550 PE	30 May'24	241.8	258.4	-0.44	415(6%)		<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	22850 CE	30 May'24	246.3	149.8	0.32	-2412(-39%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	03 May, 12:47	22450 PE	09 May'24	91	145.7	0.56	-1367(-60%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	03 May, 12:47	22450 PE	30 May'24	221.7	300.5	-0.48	1970(35%)	1	<input type="checkbox"/> <input type="checkbox"/>
							0.27	₹433	Exit Clear		

Here's the adjustment we're making now: We're exiting all the Put spreads and adding the 22050 PE sold in the current expiry at 21.9, while simultaneously buying the 22050 PE in the next month's expiry at 162.9.

"Options provide strategic control."

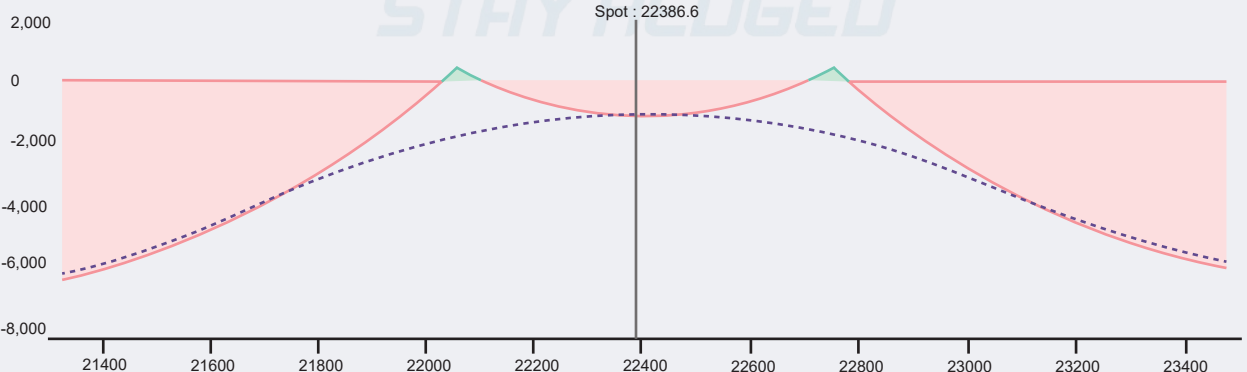
Est. Margin: ₹27,175 P&L: ₹433(1.5%) Max Profit: ₹2,239(8.2%) Max Loss: ₹-7,871 (-29.0%) R:R 3.5:1 POP: 87.24% Net Credit: ₹-6,332 Breakevens: 21913 (-2.1%) -22894 (2.3%)



Positions	Greeks	Target P&L (blue line)		Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	22750 CE	09 May'24	122.7	20.2	-0.13	2562(83%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16 (03 May, 12:47)	22550 PE	09 May'24	99.5	128.9	0.45	-735(-29%)	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16 (03 May, 12:47)	22550 PE	30 May'24	241.8	258.4	-0.44	415(6%)	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	22850 CE	30 May'24	246.3	149.8	0.32	-2412(-39%)	1 <input type="checkbox"/> <input type="checkbox"/>

Now that we've made these adjustments, you'll notice that our breakeven point has shifted and our cushion against losses has increased. However, there's a consideration to keep in mind: by adding very out-of-the-money options both for selling and buying, we expose ourselves to decay, especially affecting the buy leg due to theta. Additionally, if there's a decrease in implied volatility (IV), our payoff could resemble the following scenario:

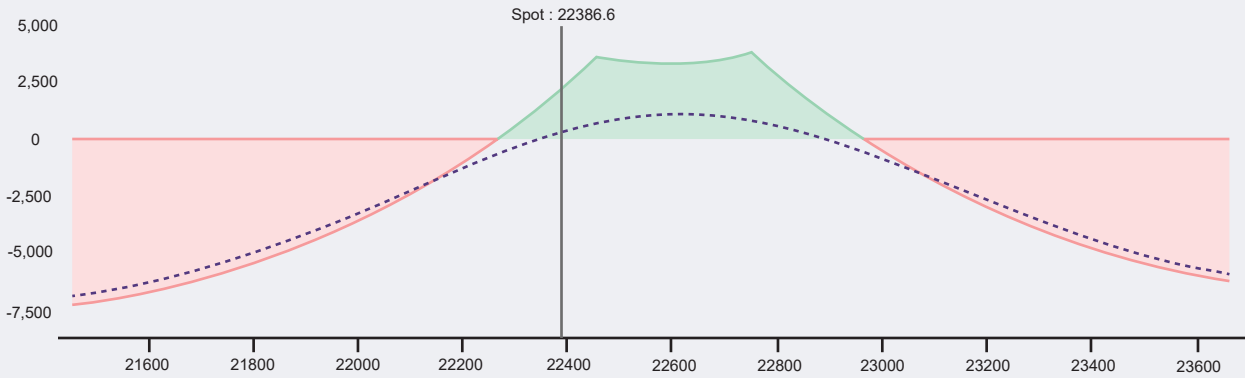
Est. Margin: ₹27,175 P&L: ₹433(1.6%) Max Profit: ₹463(1.7%) Max Loss: ₹-7,896 (-29.1%) R:R 17.1:1 POP: 11.62% Net Credit: ₹-6,332 Breakevens: 22022 (-1.6%) -22103 (-1.3%) -22693 (1.4%) -22779 (1.8%)



Positions	Greeks	Target P&L (blue line)		Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	22750 CE	09 May'24	122.7	20.2	-0.13	2562(83%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16 (03 May, 12:47)	22550 PE	09 May'24	99.5	128.9	0.45	-735(-29%)	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16 (03 May, 12:47)	22550 PE	30 May'24	241.8	258.4	-0.44	415(6%)	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	22850 CE	30 May'24	246.3	149.8	0.32	-2412(-39%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16 (07 May, 10:19)	22450 PE	09 May'24	91	145.7	0.56	-1367(-60%)	<input type="checkbox"/> <input type="checkbox"/>

"Hedge to balance your trades."

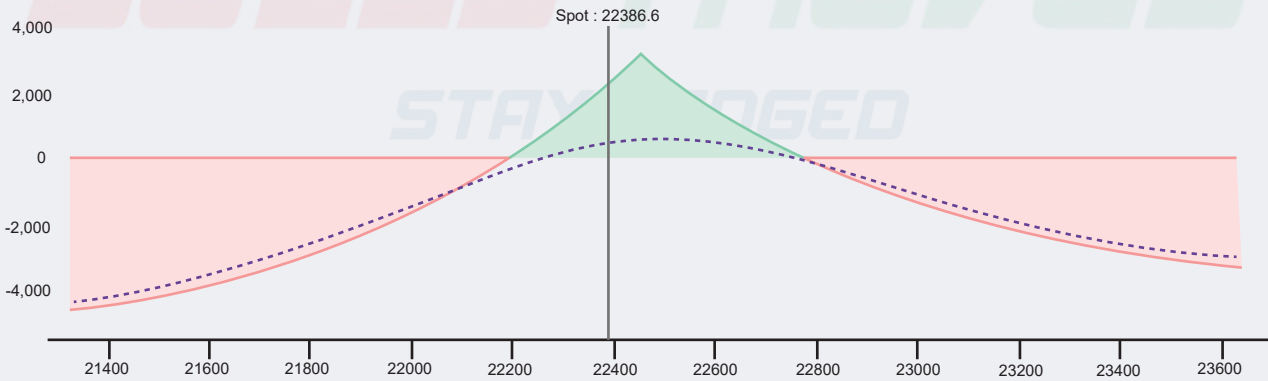
Est. Margin: ₹28,415 P&L: ₹433(1.5%) Max Profit: ₹3,813(13.4%) Max Loss: ₹-8,354 (-29.4%) R:R: 2.2:1 POP: 63.04% Net Credit: ₹-6,677.5 Breakevens: 22260 (-0.6%) -22962 (2.6%)



Positions	Greeks	Target P&L (blue line)									
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit		
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16	22750 CE	09 May'24	122.7	20.2	-0.13	2562(83%)	1	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16 (03 May, 12:47)	22550 PE	09 May'24	99.5	128.9	0.45	-735(-29%)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16 (03 May, 12:47)	22550 PE	30 May'24	241.8	258.4	-0.44	415(6%)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16	22850 CE	30 May'24	246.3	149.8	0.32	-2412(-39%)	1	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	03 May, 12:47	22450 PE	09 May'24	91	145.7	0.56	-1367(-60%)	1	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	03 May, 12:47	22450 PE	30 May'24	221.7	300.5	-0.48	1970(35%)	1	<input checked="" type="checkbox"/>
								0.27	₹433	Exit Clear	

This is the payoff, and we are going to exit the entire call spread. Now, it acts as a two-leg time spread and looks like this

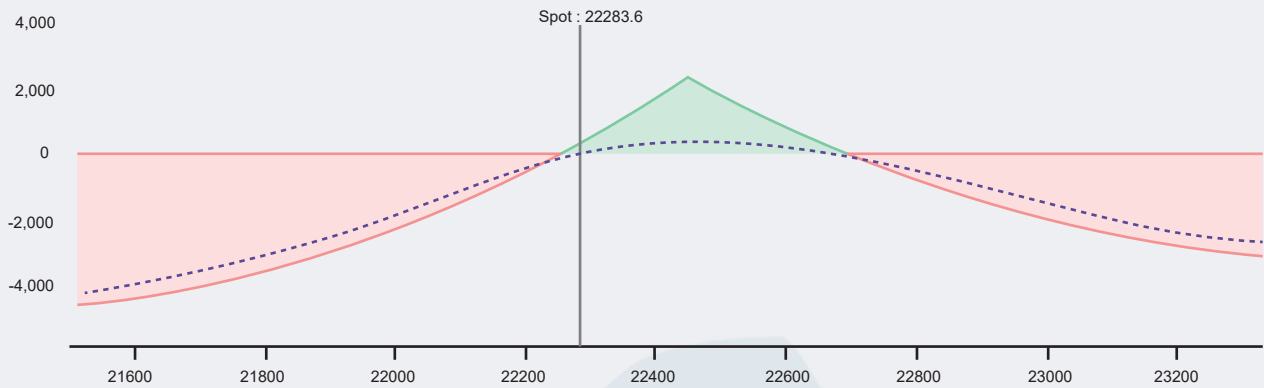
Est. Margin: ₹20,785 P&L: ₹433(2.1%) Max Profit: ₹3,019(14.5%) Max Loss: ₹-8,306 (-25.5%) R:R: 1.8:1 POP: 62.74% Net Credit: ₹-3,437.5 Breakevens: 22194 (-0.9%) -22769 (1.7%)



Positions	Greeks	Target P&L (blue line)									
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit		
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16 (07 May, 10:49)	22750 CE	09 May'24	122.7	20.2	-0.13	2562(83%)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16 (03 May, 12:47)	22550 PE	09 May'24	99.5	128.9	0.45	-735(-29%)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16 (03 May, 12:47)	22550 PE	30 May'24	241.8	258.4	-0.44	415(6%)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16 (07 May, 10:49)	22850 CE	30 May'24	246.3	149.8	0.32	-2412(-39%)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	03 May, 12:47	22450 PE	09 May'24	91	145.7	0.56	-1367(-60%)	1	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	03 May, 12:47	22450 PE	30 May'24	221.7	300.5	-0.48	1970(35%)	1	<input checked="" type="checkbox"/>

Now we can wait and treat it as a two-leg time spread.

Est. Margin: ₹21,437 P&L: ₹-107(-0.5%) Max Profit: ₹2,361(11.0%) Max Loss: ₹-5,653 (-26.4%) R:R: 2.4:1 POP: 49.60% Net Credit: ₹-3,437.5 Breakevens: 22256 (-0.1%) -22689 (1.7%)



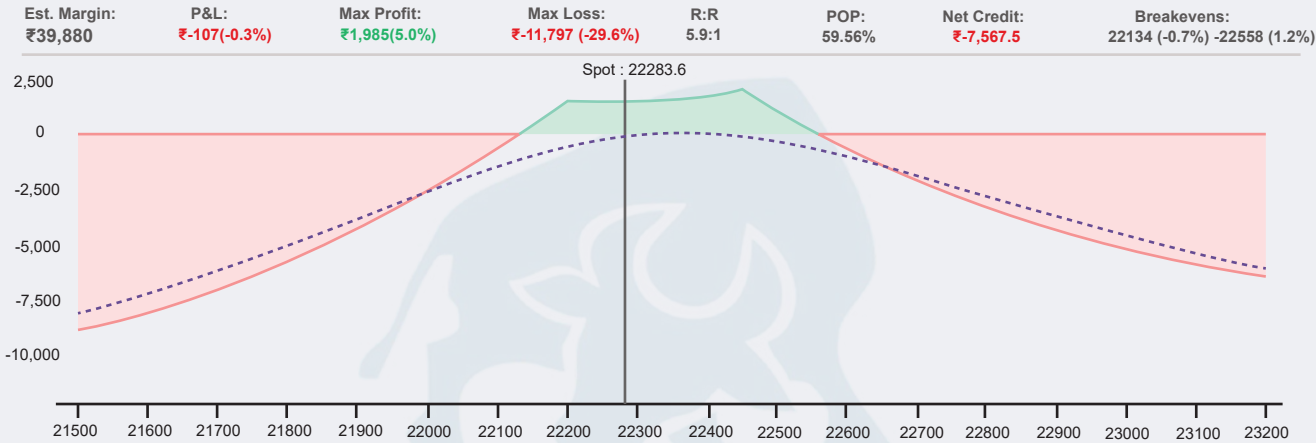
Positions	Greeks	Target P&L (blue line)								
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16 (07 May, 10:49)	22750 CE	09 May'24	122.7	20.2	-0.13	2562(83%)	<input type="radio"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	02 May, 09:16 (03 May, 12:47)	22550 PE	09 May'24	99.5	128.9	0.45	-735(-29%)	<input type="radio"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16 (03 May, 12:47)	22550 PE	30 May'24	241.8	258.4	-0.44	415(6%)	<input type="radio"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	02 May, 09:16 (07 May, 10:49)	22850 CE	30 May'24	246.3	149.8	0.32	-2412(-39%)	<input type="radio"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> S	1	03 May, 12:47	22450 PE	09 May'24	91	188.7	0.72	-2442(-107%)	1 <input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> B	1	03 May, 12:47	22450 PE	30 May'24	221.7	321.9	-0.52	2505(45%)	1 <input type="checkbox"/> <input type="checkbox"/>
							0.20	₹-107	Exit Clear	

BULLS MOVES

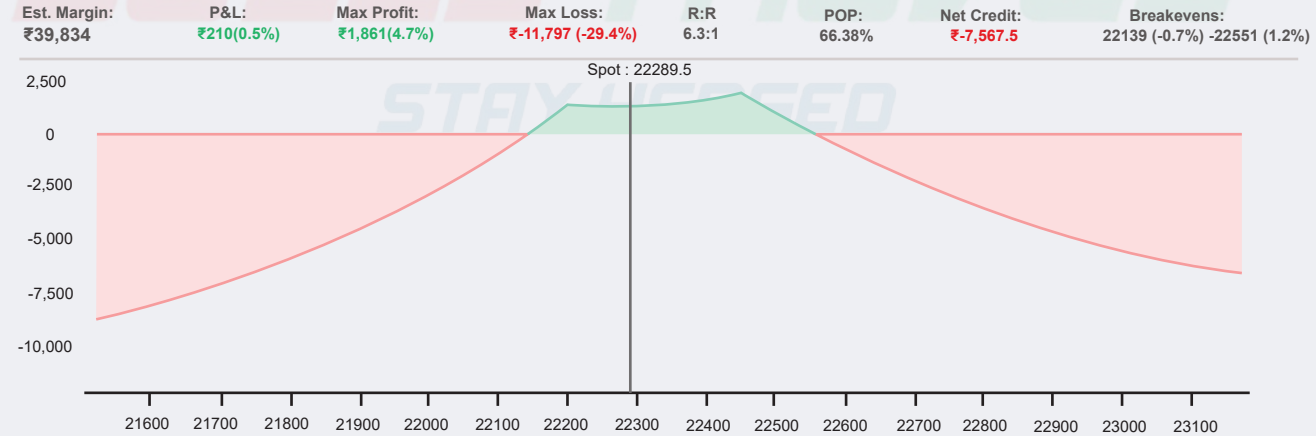
STAY HEDGED

Now, you can see the market has gone down again and is near the lower break-even point. Therefore, we will adjust the two-leg time spread by adding a put spread.

We will sell the 22200 PE with the current expiration and buy the 22200 PE with the next month's expiration. The new payoff will become:



This adjustment will generate a quick profit due to the impact of theta.



Positions	Greeks	Target P&L (blue line)							
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16 (07 May, 10:49)	22750 CE	09 May'24	122.7	20.2	-0.13	2562(83%)	<input type="radio"/> <input type="trash"/>
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16 (03 May, 12:47)	22550 PE	09 May'24	99.5	128.9	0.45	-735(-29%)	<input type="radio"/> <input type="trash"/>
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16 (03 May, 12:47)	22550 PE	30 May'24	241.8	258.4	-0.44	415(6%)	<input type="radio"/> <input type="trash"/>
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16 (07 May, 10:49)	22850 CE	30 May'24	246.3	149.8	0.32	-2412(-39%)	<input type="radio"/> <input type="trash"/>

Like this .

UNIT 9 - ADVANCED ADJUSTMENTS IN OPTION TRADING

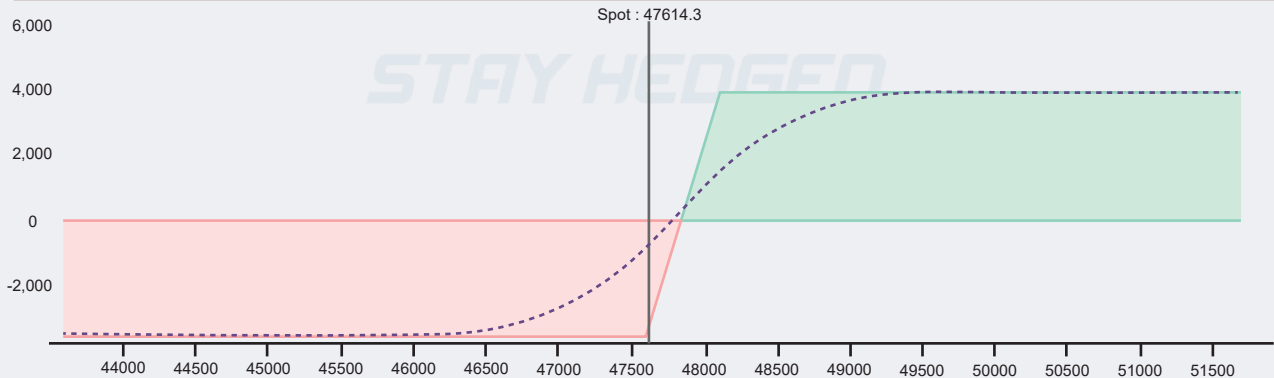
So far, we've covered a range of structured adjustments. Now, we're diving into more aggressive strategies. These adjustments can potentially increase our cushion significantly, but they come with higher overall risk. They are best suited for seasoned option hedging traders.

Bull Call Spread Strategy

Given the current BANKNIFTY level of 47614, we're initiating a new bull call spread anticipating a bullish market movement.

- **Position Details**
 - Bought 47600 CE at 597.4
 - Sold 48100 CE at 356.4

Est. Margin: ₹16,685 P&L: ₹0(0.0%) Max Profit: ₹3,885(23.3%) Max Loss: ₹-3,615 (-27.7%) R:R 1:1.1 POP: 46.77% Net Credit: ₹-3,615 Breakevens: 47841 (0.5%)



Positions	Greeks	Target P&L (blue line)							
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit
<input checked="" type="checkbox"/> B	1	11 Mar, 11:16	47600 CE	20 Mar'24	597.4	597.4	0.54	0(0%)	1 <input type="text"/> <input type="button" value="Exit"/> <input type="button" value="Clear"/>
<input checked="" type="checkbox"/> S	1	11 Mar, 11:16	48100 CE	20 Mar'24	356.4	356.4	-0.39	0(0%)	1 <input type="text"/> <input type="button" value="Exit"/> <input type="button" value="Clear"/>
							0.15	₹0	<input type="button" value="Exit"/> <input type="button" value="Clear"/>

After the market declined the following day, our current payoff appears as follows



I am proceeding with standard adjustments by closing the 48100 CE position at 242.1 (previously sold at 356.4) and initiating a new position by selling the 47800 CE at 347.4. The updated payoff is as follows

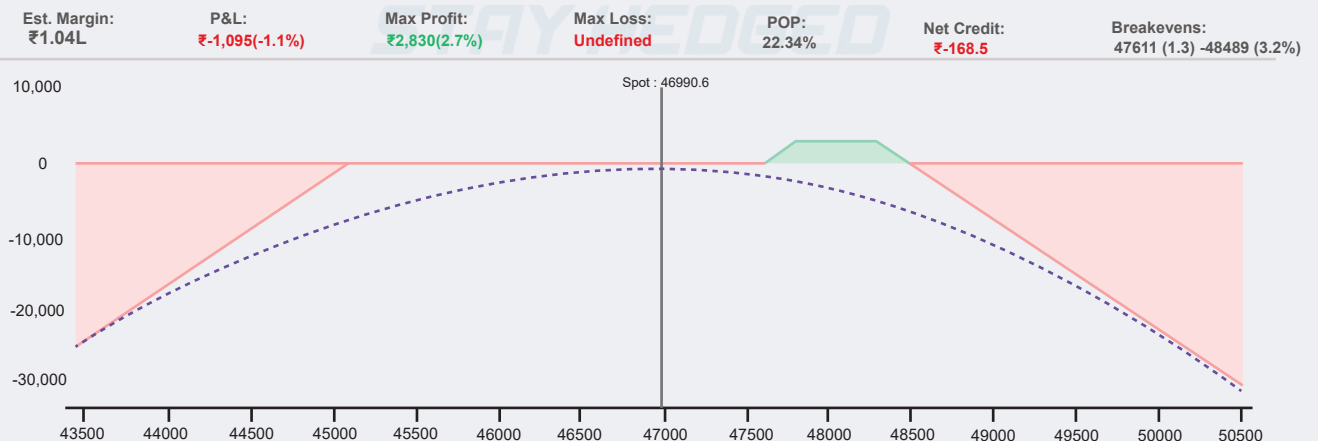


After another market movement against our position, the current payoff stands at



Positions	Greeks	Target P&L (blue line)								
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	1	11 Mar, 11:16	47600 CE	20 Mar'24	597.4	251.7	0.34	-5185(-57%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	1	11 Mar, 11:16 (12 Mar, 11:16)	48100 CE	20 Mar'24	356.4	242.1	-0.30	1714(32%)		<input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	1	12 Mar, 11:16	47800 CE	20 Mar'24	347.4	189	-0.27	2376(45%)	1	<input type="checkbox"/> <input type="checkbox"/>
								₹-1095	Exit Clear	

Now, we are deviating from traditional adjustments and opting to add additional positions. We have sold the 48300 CE at 84.8 and sold the 45100 PE at 39.7. These credits are now integrated into our strategy, resulting in the following updated payoff



Positions	Greeks	Target P&L (blue line)								
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	1	11 Mar, 11:16	47600 CE	20 Mar'24	597.4	251.7	0.34	-5185(-57%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	1	11 Mar, 11:16 (12 Mar, 11:16)	48100 CE	20 Mar'24	356.4	242.1	-0.30	1714(32%)		<input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	1	12 Mar, 11:16	47800 CE	20 Mar'24	347.4	189	-0.27	2376(45%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	1	14 Mar, 11:02	48300 CE	20 Mar'24	84.8	84.8	-0.15	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	1	14 Mar, 11:02	45100 PE	20 Mar'24	39.7	39.7	0.07	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>

Here, you can observe the cushion provided by this type of adjustment strategy. Such adjustments are designed to enhance cushioning within the payoff structure

Advantages of These Adjustments

- **Ease of Management** : These adjustments allow for easier trade management and facilitate quick loss reduction.
- **Accelerated Theta Benefit** : There is a rapid accrual of theta benefit, enhancing profitability with time decay.

Disadvantages of These Adjustments

- **Potential for Loss** : In the event of a significant market movement in one direction, exiting the trade may result in losses.
- **Additional Margin Requirements** : Taking on additional trades necessitates increased margin requirements, impacting capital allocation.

BULLS MOVES
STAY HEDGED

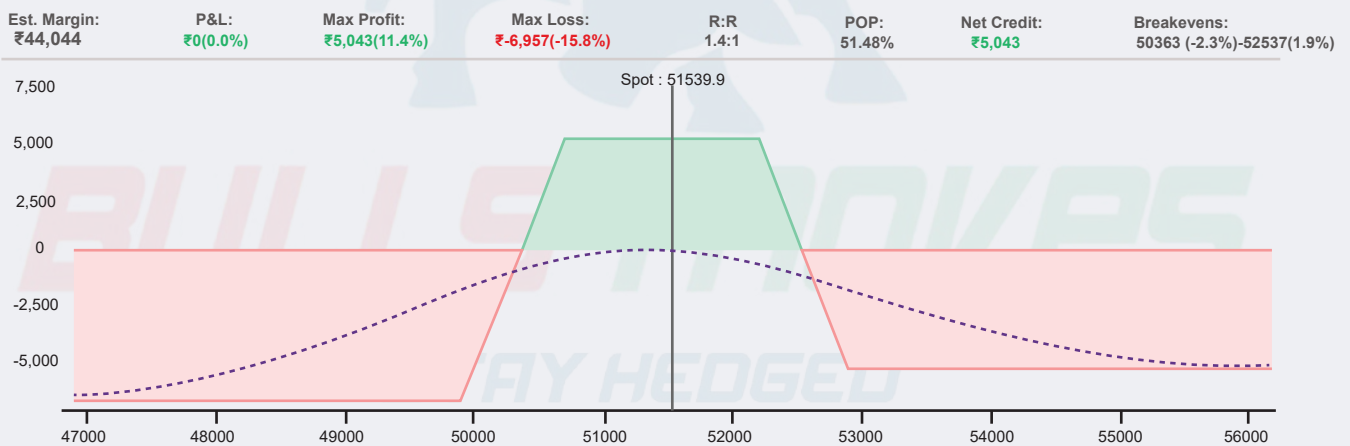
Iron Condor Advanced Adjustments

Advanced adjustments in any strategy typically require more capital and may increase the overall risk. However, these adjustments often offer significant benefits in terms of potential profit and added protection.

Example Iron Condor on BANKNIFTY (Current: 51,539)

- Sell 50700 PE at 308
- Sell 52200 CE at 326.6
- Buy 49900 PE at 148.5
- Buy 52900 CE at 149.9

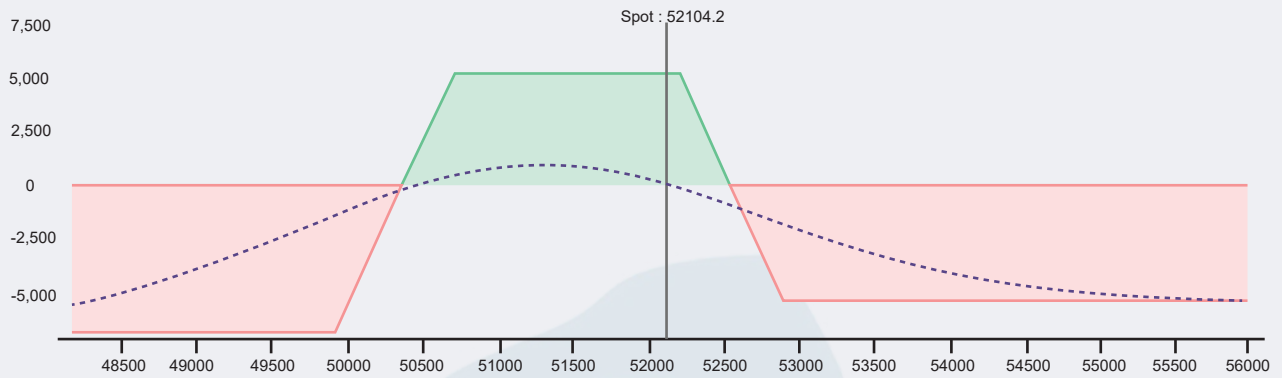
The payoff for this iron condor strategy is illustrated as follows:



Positions	Greeks	Target P&L (blue line)								
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	20 Jun, 11:16	49900 PE	03 Jul'24	148.5	148.5	-0.16	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	20 Jun, 11:16	50700 PE	03 Jul'24	308	308	0.30	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	20 Jun, 11:16	52200 CE	03 Jul'24	326.6	326.6	-0.34	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	20 Jun, 11:16	52900 CE	03 Jul'24	149.9	149.9	0.19	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
							-0.01	₹0		Exit Clear

A few days later, the market rose and approached the upper break-even point, necessitating an adjustment to our position.

Est. Margin: ₹44,373 P&L: ₹-2(-0.0%) Max Profit: ₹5,043(11.4%) Max Loss: ₹-6,957 (-15.7%) R:R 1.4:1 POP: 50.48% Net Credit: ₹5,043 Breakevens: 50363 (-3.3%)-52537(0.8%)



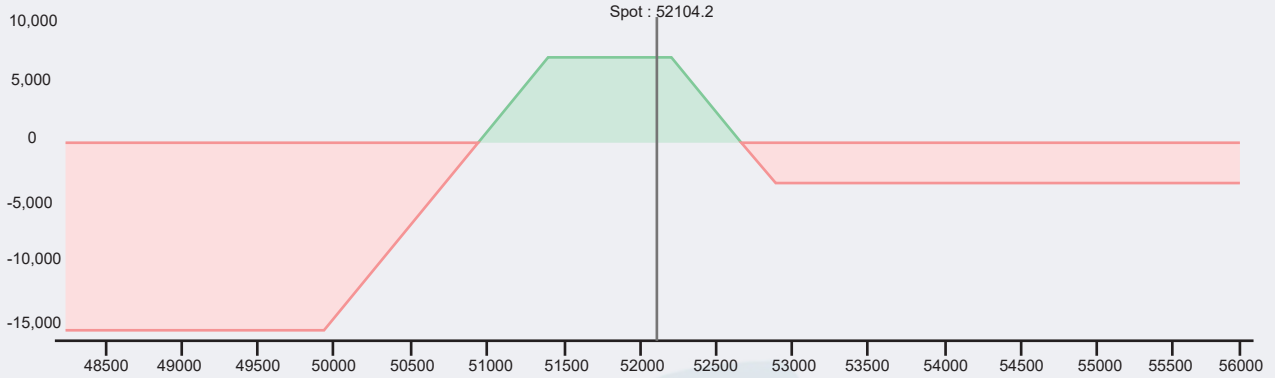
Positions	Greeks	Target P&L (blue line)										
✓	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots Exit			
✓	B	1	20 Jun, 11:16	49900 PE	03 Jul'24	148.5	54	-0.07	-1417(-63%)	1	⊞	🗑️
✓	S	1	20 Jun, 11:16	50700 PE	03 Jul'24	308	119.7	0.16	2824(61%)	1	⊞	🗑️
✓	S	1	20 Jun, 11:16	52200 CE	03 Jul'24	326.6	466.4	-0.48	-2097(-42%)	1	⊞	🗑️
✓	B	1	20 Jun, 11:16	52900 CE	03 Jul'24	149.9	195.8	0.27	688(30%)	1	⊞	🗑️
							-0.12	₹-2	Clear			

I am implementing the basic adjustment we learned. This involves exiting the current short put position and adding a new short put position with a higher premium.

I exited the 50700 PE sell position (originally sold at 308) at 119.7 and added the 51400 PE sell position at 248.8.

"Hedge to manage financial exposure."

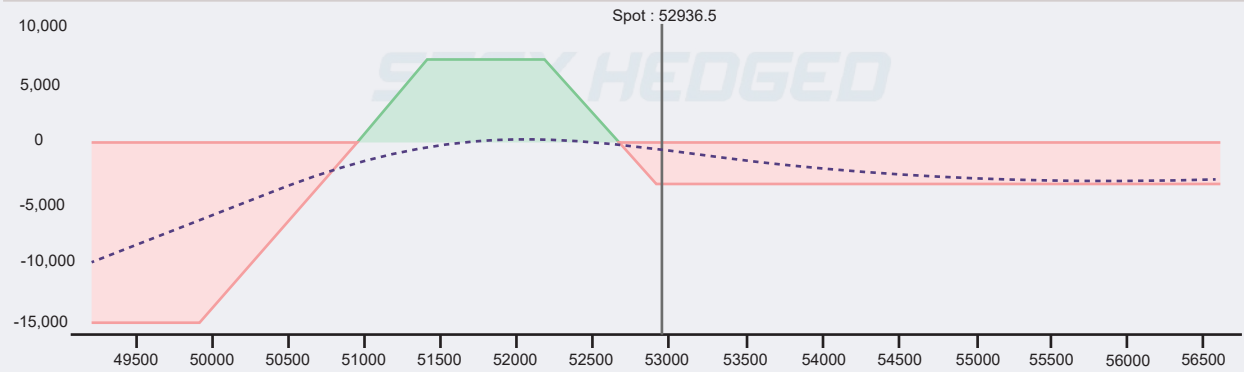
Est. Margin: ₹54,280 P&L: ₹-2(-0.0%) Max Profit: ₹6,979(12.9%) Max Loss: ₹-15,520 (-28.6%) R:R 2.2:1 POP: 47.25% Net Credit: ₹6,979 Breakevens: 50935 (-2.2%)-52665(1.1%)



Positions	Greeks	Target P&L (blue line)								
✓	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
✓ B	1	20 Jun, 11:16	49900 PE	03 Jul'24	148.5	54	-0.07	-1417(-63%)	1	⊖ ⓧ
✓ S	1	20 Jun, 11:16 (25 Jun, 11:16)	50700 PE	03 Jul'24	308	119.7	0.16	2824(61%)	1	⊕ ⓧ
✓ S	1	20 Jun, 11:16	52200 CE	03 Jul'24	326.6	466.4	-0.48	-2097(-42%)	1	⊖ ⓧ
✓ B	1	20 Jun, 11:16	52900 CE	03 Jul'24	149.5	195.8	0.27	688(30%)	1	⊖ ⓧ
✓ S	1	25 Jun, 11:16	51400 PE	03 Jul'24	248.8	248.8	0.29	0(0%)	1	⊖ ⓧ
							0.01	₹-2	Exit Clear	

The market continued to rise and breached the break-even point

Est. Margin: ₹56,471 P&L: ₹-608(-1.1%) Max Profit: ₹6,979(12.4%) Max Loss: ₹-15,520 (-27.5%) R:R 2.2:1 POP: 33.60% Net Credit: ₹6,979 Breakevens: 50935 (-3.6%)-52665(-0.5%)



Positions	Greeks	Target P&L (blue line)								
✓	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
✓ B	1	20 Jun, 11:16	49900 PE	03 Jul'24	148.5	24.1	-0.04	-1866(-83%)	1	⊖ ⓧ
✓ S	1	20 Jun, 11:16 (25 Jun, 11:16)	50700 PE	03 Jul'24	308	119.7	0.16	2824(61%)	1	⊕ ⓧ
✓ S	1	20 Jun, 11:16	52200 CE	03 Jul'24	326.6	912.7	-0.71	-8791(-179%)	1	⊖ ⓧ
✓ B	1	20 Jun, 11:16	52900 CE	03 Jul'24	149.5	476.8	0.50	4903(218%)	1	⊖ ⓧ
✓ S	1	25 Jun, 11:16	51400 PE	03 Jul'24	248.8	94	0.13	2322(62%)	1	⊖ ⓧ
							-0.12	₹-608	Exit Clear	

Now we can proceed with an advanced adjustment in two ways. The first approach is to create a strangle by selling an out-of-the-money (OTM) call and an out-of-the-money (OTM) put.

Here, I am adding the 53700 CE at 181.8 and the 51800 PE at 145.1.

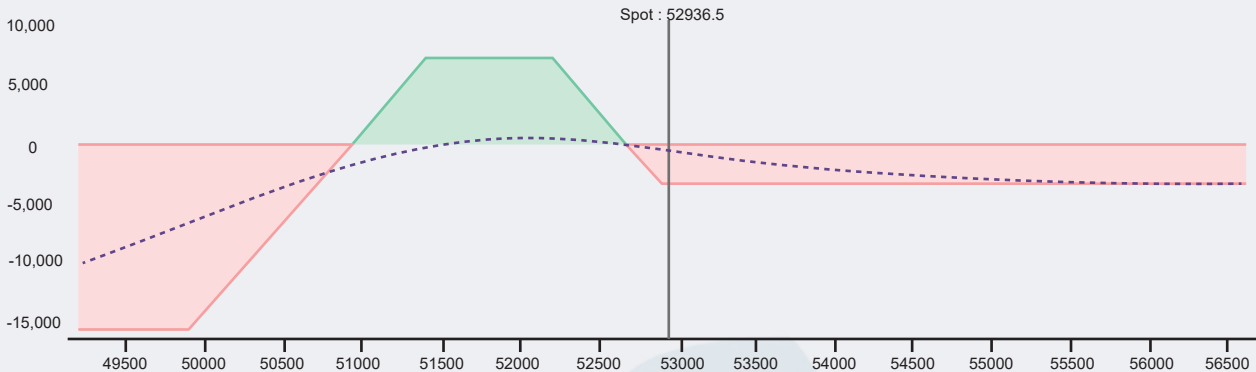
The resulting payoff is as follows



As you can see, our cushion has increased and our maximum profit potential has also risen. However, the downside is that the risk has increased as well.

Second way

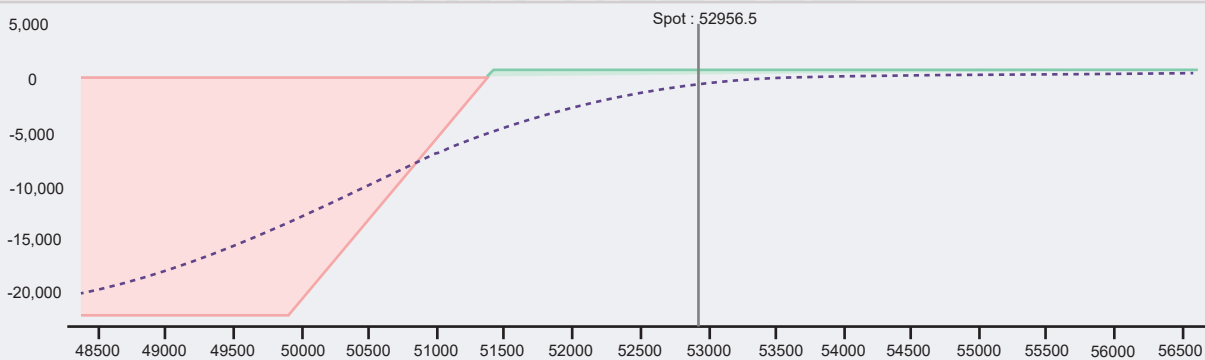
Est. Margin: ₹56,471 P&L: ₹-608(-1.1%) Max Profit: ₹6,979(12.4%) Max Loss: ₹-15,520 (-27.5%) R:R: 2.2:1 POP: 33.60% Net Credit: ₹6,979 Breakevens: 50935 (-3.6%)-52665(-0.5%)



Positions	Greeks	Target P&L (blue line)		Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	B	1	20 Jun, 11:16	49900 PE	03 Jul'24	148.5	24.1	-0.04	-1866(-83%)	1 <input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
<input checked="" type="checkbox"/>	S	1	20 Jun, 11:16 (25 Jun, 11:16)	50700 PE	03 Jul'24	308	119.7	0.16	2824(61%)	<input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
<input checked="" type="checkbox"/>	S	1	20 Jun, 11:16	52200 CE	03 Jul'24	326.6	912.7	-0.71	-8791(-179%)	1 <input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
<input checked="" type="checkbox"/>	B	1	20 Jun, 11:16	52900 CE	03 Jul'24	149.8	476.8	0.50	4903(218%)	1 <input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
<input checked="" type="checkbox"/>	S	1	25 Jun, 11:16	51400 PE	03 Jul'24	248.8	94	0.13	2322(62%)	1 <input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
								-0.12	₹-608	<input type="button" value="Exit"/> <input type="button" value="Clear"/>

Here is our current position. We will now exit all the call spread positions. The updated payoff is as follows: we have booked the call sell and call buy positions

Est. Margin: ₹38,285 P&L: ₹-608(-1.6%) Max Profit: ₹441(1.2%) Max Loss: ₹-22,059 (-57.6%) R:R: 50:1 POP: 87.29% Net Credit: ₹440.5 Breakevens: 51371 (-3.0%)



Positions	Greeks	Target P&L (blue line)		Expiry	Entry	LTP	Delta	P&L	Lots Exit	
<input checked="" type="checkbox"/>	B	1	20 Jun, 11:16	49900 PE	03 Jul'24	148.5	24.1	-0.04	-1866(-83%)	1 <input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
<input checked="" type="checkbox"/>	S	1	20 Jun, 11:16 (25 Jun, 11:16)	50700 PE	03 Jul'24	308	119.7	0.16	2824(61%)	<input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
<input checked="" type="checkbox"/>	S	1	20 Jun, 11:16 (26 Jun, 15:02)	52200 CE	03 Jul'24	326.6	912.7	-0.71	-8791(-179%)	<input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
<input checked="" type="checkbox"/>	B	1	20 Jun, 11:16 (26 Jun, 15:02)	52900 CE	03 Jul'24	149.8	476.8	0.50	4903(218%)	<input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
<input checked="" type="checkbox"/>	S	1	25 Jun, 11:16	51400 PE	03 Jul'24	248.8	94	0.13	2322(62%)	1 <input type="button" value="v"/> <input type="button" value="E"/> <input type="button" value="D"/>
								0.09	₹-608	<input type="button" value="Exit"/> <input type="button" value="Clear"/>

Now, we are going to add another out-of-the-money (OTM) call spread, converting our position back into an iron condor.

I exited the 52200 CE sell position and the 52900 CE buy position. I then added the 53900 CE sell position at 141.4 and the 54800 CE buy position at 46.3.

The updated payoff now looks like this



As you can see, the profit cushion has increased and the break-even points have also moved higher

Here are some key considerations to keep in mind when making advanced adjustments

- Always monitor the T+0 line to assess immediate risk after making advanced adjustments.
- Reserve advanced adjustments for situations where normal adjustments are insufficient.
- Approach adjustments in a conservative manner to manage risk effectively.

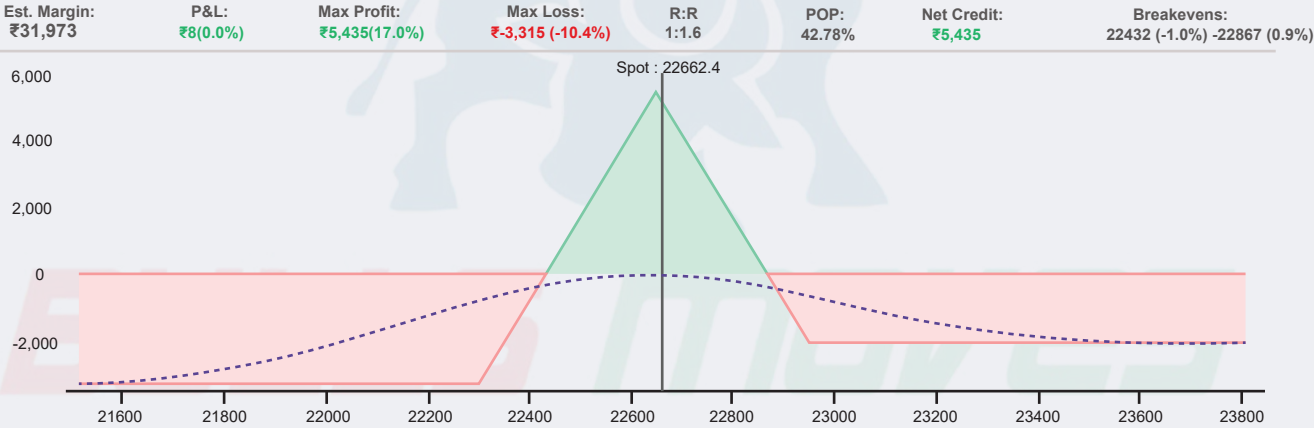
Advanced Adjustments for Iron Fly Strategy

Just like the iron condor, the iron fly strategy allows for various advanced adjustments. These adjustments typically require additional margin.

Here is the current position with the Nifty at 22,662

- Sold 22650 PE at 134.9
- Sold 22650 CE at 175.9
- Bought 22300 PE at 42.7
- Bought 22950 CE at 50.7

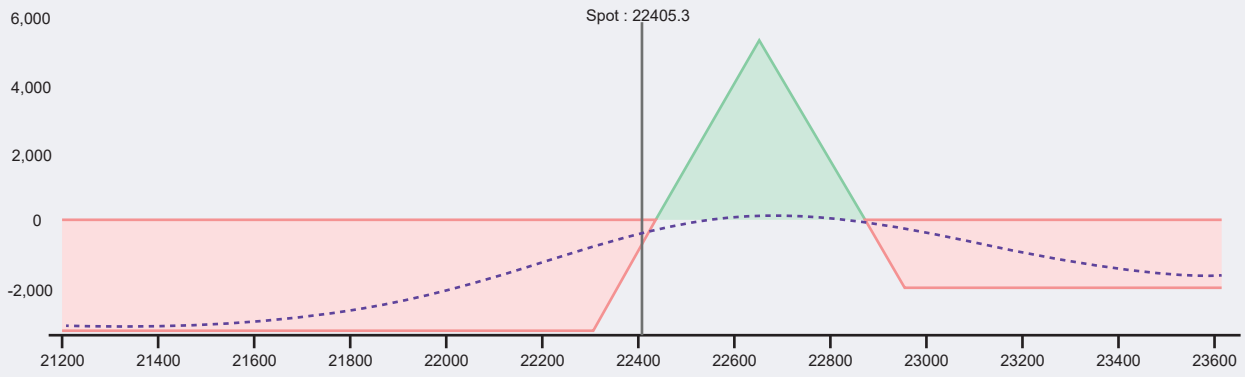
Now the payoff is



Positions	Greeks	Target P&L (blue line)									
	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit	
<input checked="" type="checkbox"/>	B	1	02 May, 09:16	22300 PE	09 May'24	42.7	33.2	-0.15	-237(-22%)	1	<input type="button" value="↕"/> <input type="button" value="🗑️"/>
<input checked="" type="checkbox"/>	S	1	02 May, 09:16	22650 PE	09 May'24	134.9	117.3	0.42	440(13%)	1	<input type="button" value="↕"/> <input type="button" value="🗑️"/>
<input checked="" type="checkbox"/>	S	1	02 May, 09:16	22650 CE	09 May'24	175.9	188.9	-0.58	-325(-7%)	1	<input type="button" value="↕"/> <input type="button" value="🗑️"/>
<input checked="" type="checkbox"/>	B	1	02 May, 09:16	22950 CE	09 May'24	50.7	55.9	0.26	130(10%)	1	<input type="button" value="↕"/> <input type="button" value="🗑️"/>
							-0.05	₹8	Exit <input type="button" value="Clear"/>		

After a period of decline, the market eventually breached the downside break-even point.

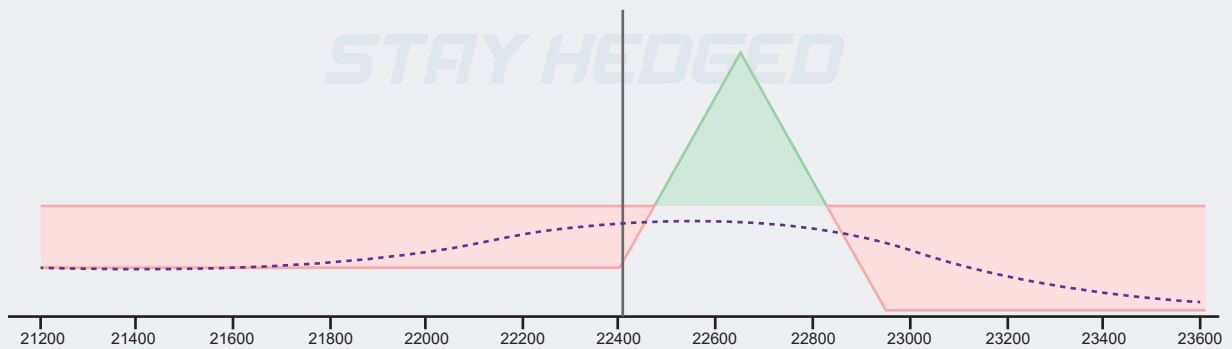
"Hedge to balance your portfolio."



Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22300 PE	09 May'24	42.7	92.5	-0.34	1245(116%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22650 PE	09 May'24	134.9	270.4	0.68	-3387(-100%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22650 CE	09 May'24	175.9	78.8	-0.32	2427(55%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22950 CE	09 May'24	50.7	21.9	0.11	-720(-56%)	1	<input type="checkbox"/> <input type="checkbox"/>
							0.13	₹-435	Exit Clear	

We will now proceed with the traditional adjustment method, specifically a debit adjustment. This involves exiting the purchased put option leg and purchasing a higher premium put option to further reduce downside risk. Exited the 22300 PE at 92.5 (originally bought at 42.7) and added a 22400 PE, bought at 130.6.

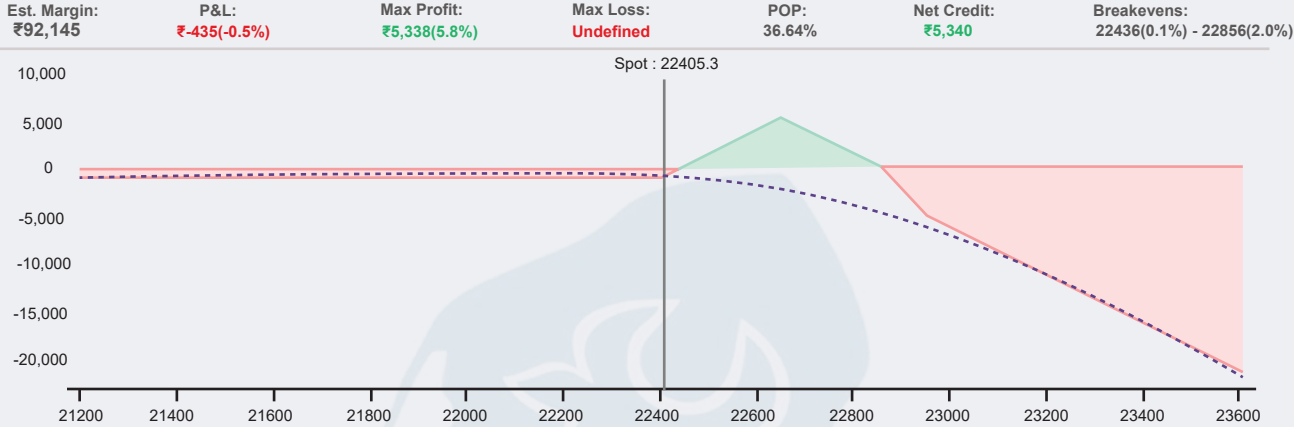
The updated payoff is as follows:



Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16 (03 May, 13:02)	22300 PE	09 May'24	42.7	92.5	-0.34	1245(116%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22650 PE	09 May'24	134.9	270.4	0.68	-3387(-100%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22650 CE	09 May'24	175.9	78.8	-0.32	2427(55%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22950 CE	09 May'24	50.7	21.9	0.11	-720(-56%)	1	<input type="checkbox"/> <input type="checkbox"/>
<input checked="" type="checkbox"/> [B]	1	03 May, 13:02	22400 PE	09 May'24	130.6	130.6	-0.44	0(0%)	1	<input type="checkbox"/> <input type="checkbox"/>
							0.03	₹-435	Exit Clear	

In addition to the aforementioned adjustment, I am also selling the 22850 CE at 34.3. This credit further reduces the downside risk.

The updated payoff is as follows:



Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	02 May, 09:16 (03 May, 13:02)	22300 PE	09 May'24	42.7	92.5	-0.34	1245(116%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	02 May, 09:16	22650 PE	09 May'24	134.9	270.4	0.68	-3387(-100%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	02 May, 09:16	22650 CE	09 May'24	175.9	78.8	-0.32	2427(55%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	02 May, 09:16	22950 CE	09 May'24	50.7	21.9	0.11	-720(-56%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	03 May, 13:02	22400 PE	09 May'24	130.6	130.6	-0.44	0(0%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> <input type="checkbox"/>	1	03 May, 13:02	22850 CE	09 May'24	34.3	34.3	-0.44	0(0%)	1	<input type="checkbox"/>
							-0.13	₹-435	Exit Clear	

STAY HEDGED

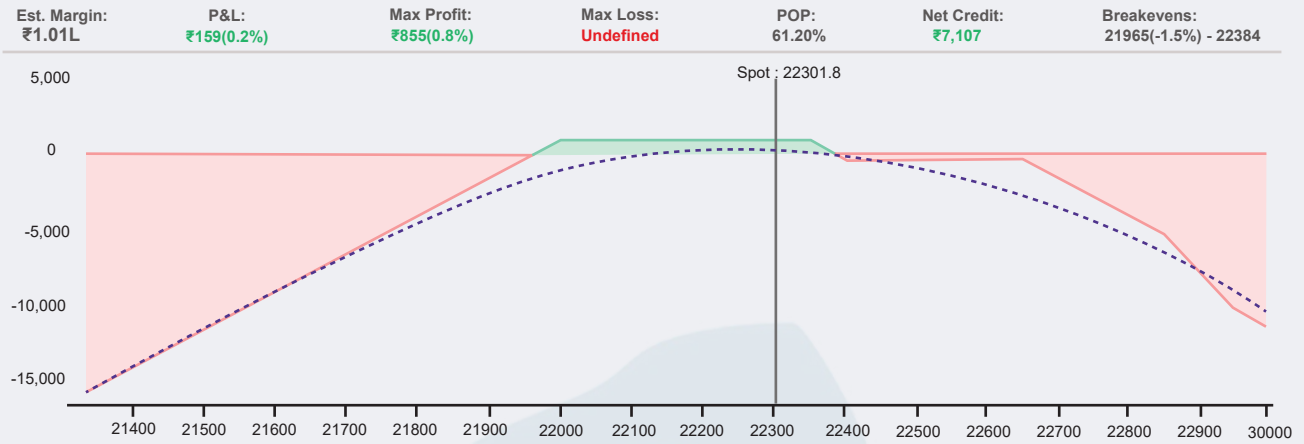
As the market continued to decline, the put option premium increased significantly. To manage this, we will sell a deep out-of-the-money (OTM) put option. Specifically, we will sell the 22000 PE at 23.1.

The updated payoff is now as follows:



Additionally, we have achieved almost the full profit on our 22650 CE option, which we sold at 175.9 and is now at 3.6. Therefore, we will exit this leg at the current price and sell another high premium call option. Specifically, we will sell the 22350 CE at 51.2.

The updated payoff is now as follows:



Positions	Greeks	Target P&L (blue line)								
<input checked="" type="checkbox"/>	Lots	Date	Strike	Expiry	Entry	LTP	Delta	P&L	Lots	Exit
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16 (03 May, 13:02)	22300 PE	09 May'24	42.7	92.5	-0.34	1245(116%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16	22650 PE	09 May'24	134.9	352.1	0.96	-5430(-161%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> [S]	1	02 May, 09:16 (03 May, 15:15)	22650 CE	09 May'24	175.9	3.6	-0.04	4307(97%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> [B]	1	02 May, 09:16	22950 CE	09 May'24	50.7	0.8	0.01	-1247(-98%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> [B]	1	03 May, 13:02	22400 PE	09 May'24	130.6	132.8	-0.70	55(1%)	1	<input type="checkbox"/>
<input checked="" type="checkbox"/> [S]	1	03 May, 13:02	22850 CE	09 May'24	34.3	1.2	-0.01	827(96%)	1	<input type="checkbox"/>
								₹159	Exit Clear	

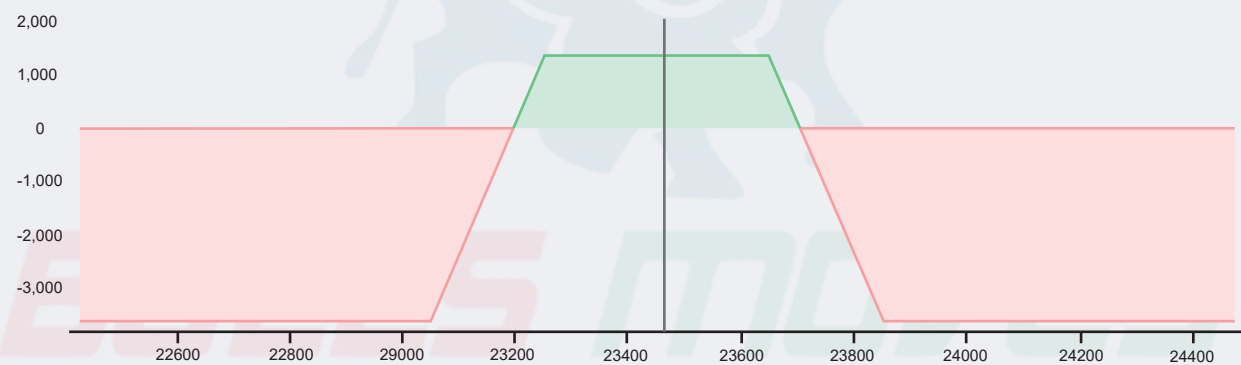
This demonstrates the method of performing advanced adjustments. When executing such advanced strategies, it is crucial to have substantial experience and understanding of the T+0 line and its behavior in various market conditions.

Strategy Vs Strategy Adjustments

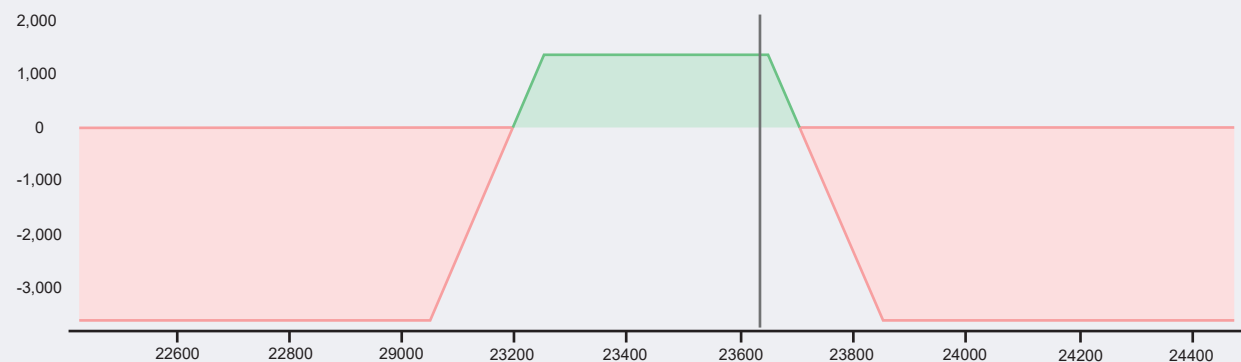
Adjusting strategies with precision requires a thorough understanding of both the strategies themselves and the nuances involved in making adjustments. Within our framework, the process involves a meticulous comparison of two distinct strategies followed by the implementation of tailored adjustments through established methodologies. This approach underscores the importance of clarity and expertise in navigating strategic adaptations effectively.

Iron condor Vs Iron condor combination

In this system, we utilize multiple iron condors by first creating a standard iron condor setup.

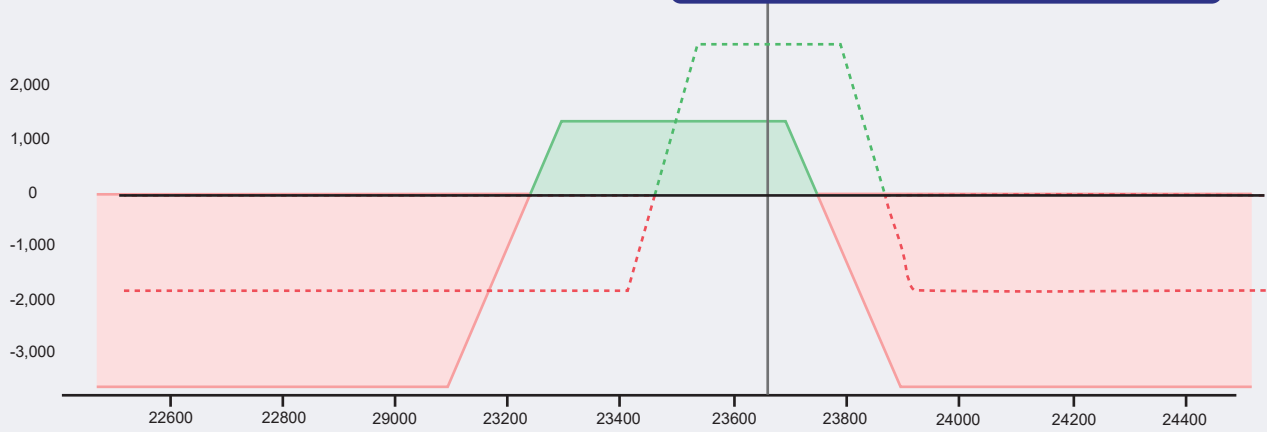


After some time, the market approached near our upper breakeven point



In the above strategy, we make adjustments in the traditional manner, while also incorporating an additional iron condor.

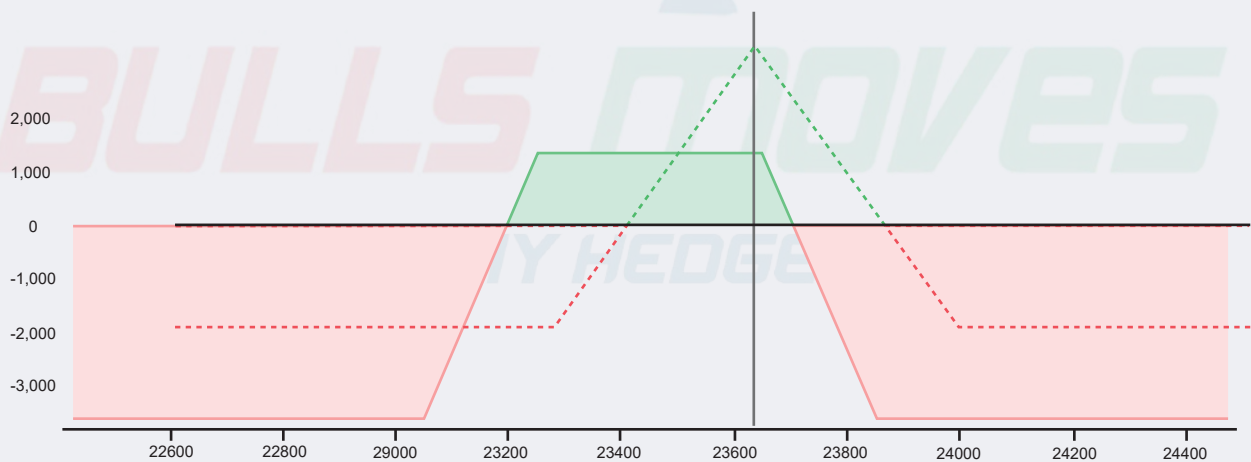
"Options provide strategic defense."



This collaborative approach helps minimize potential notional losses.

Iron Condor Vs Iron Fly combination

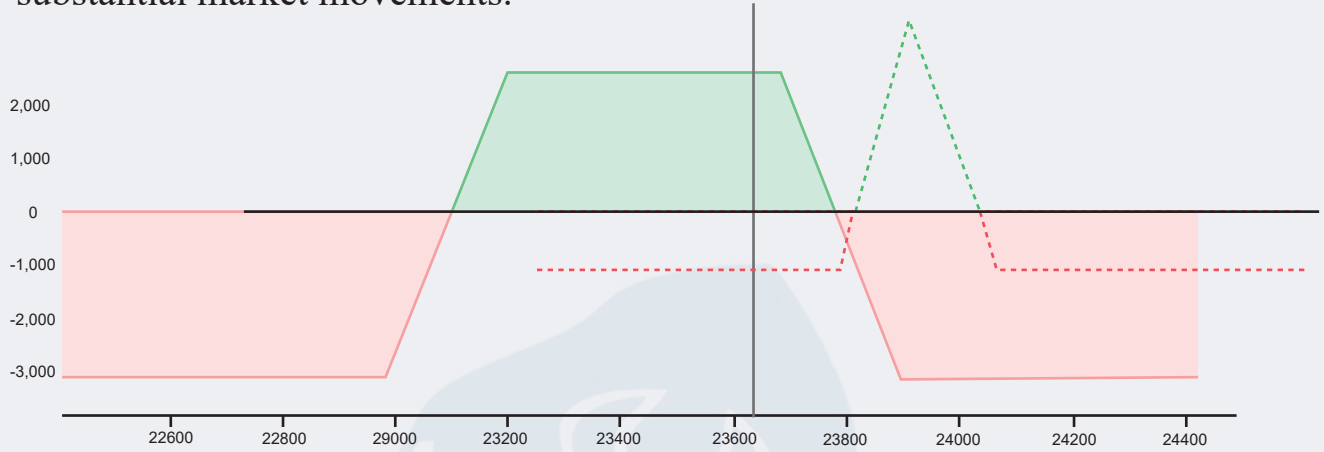
In a similar vein to the previously mentioned combination, this strategy involves adding an iron fly when the price nears the break-even point. This adjustment is designed to further refine the position's risk profile and potentially enhance profitability by capitalizing on the market's proximity to key price levels.



Implementing this strategy provides cushion and comfort by strategically adding an iron fly near the break-even point. This adjustment aims to enhance risk management and potentially improve overall position stability, thereby offering a more favourable trading scenario.

Iron condor VS butterfly combinations

Compared to other combinations, this strategy may have a lower probability of success. However, it offers significant protection and benefits during substantial market movements.



Summary

This system provides an excellent method for managing risk and can be utilized in various ways and combinations. There are numerous combinations available, such as iron condors versus debit spreads, iron condors versus credit spreads, debit spreads versus credit spreads, iron flies versus ratio spreads, and iron condors versus naked buys, among others

STAY HEDGED

UNIT 10 - OPEN INTEREST

Open interest in options and futures trading is the total number of outstanding (not yet settled) contracts for a particular market or asset. It indicates how many contracts are currently active and can give insights into market activity and liquidity. For example, if open interest is increasing, it suggests that new money is entering the market, while decreasing open interest indicates that contracts are being closed out or settled.

Imagine a futures market for Nifty. Here's a simplified scenario

Day 1

- Trader A buys 10 Nifty futures contracts from Trader B.
- Open interest = 10 (because these are new contracts being opened).

Day 2

- Trader C buys 5 Nifty futures contracts from Trader D.
- Open interest = 15 (adding these new 5 contracts to the existing 10).

Day 3

- Trader A sells their 10 Nifty futures contracts to Trader E.
- Open interest remains 15 (no new contracts are created; the ownership just changes hands).

Day 4

- Trader B decides to close out their position by buying back 5 contracts from Trader C.
- Open interest decreases to 10 (since 5 contracts have been closed).

In summary

- Open interest increases when new contracts are created.
- Open interest decreases when existing contracts are settled or closed.
- Simply transferring contracts between traders does not affect open interest.

Open Interest in Trading

1. Identify Highest Open Interest

- Check the strike price with the highest open interest for calls and puts. This helps identify key levels where there are significant positions.

2. Calculate Investment

- **Buyers' Investment**
 - Calculate the average premium for the last week at a particular strike.
 - Multiply the average premium by the lot size to get the cost per lot.
 - Multiply by the number of lots to get the total investment by buyers.
- **Sellers' Investment**
 - Determine the margin required for selling one lot.
 - Multiply by the number of lots to get the total investment by sellers.

3. Analyse Market Sentiment

- **Buyers' Perspective** : Expect the market to move above (for calls) or below (for puts) the strike price.
- **Sellers' Perspective** : Expect the market to stay below (for calls) or above (for puts) the strike price.

4. Decision Making

- **Compare the investments** : Higher investment by sellers usually indicates stronger confidence in the market staying below (for calls) or above (for puts) the strike price.
- **Align with Big Players** : Generally, it's safer to follow the side with higher investment (usually sellers), as they are considered more informed or have higher stakes.

5. Applying to Strategies

- **Bear Call Spread**
 - Sell a call at the strike with high OI, anticipating the market will not go above this level.
- **Iron Condor Adjustment**
 - If the market approaches the upper break-even point and there's high call OI at that level, you might hold your position longer, expecting resistance at that level.

Using this logic, you can choose the right strikes for your options strategies and make informed adjustments based on market movements and OI data.

Four Open Interest (OI) Actions

1. Short Covering

- **OI Effect:** Short covering typically results in a decline in Open Interest as traders repurchase the shares or contracts they previously sold short.
- **Price Effect:** The process of short covering often causes prices to rise, especially when a significant number of short positions are closed. This buying activity, intended to cover the short positions, creates upward pressure on the price. If the short covering is substantial, it can lead to a short squeeze, where the price increases rapidly due to a rush of buy orders.

2. Long Unwinding

- **OI Effect:** Long unwinding leads to a decrease in Open Interest, as traders close their long positions by selling the securities or contracts they hold.
- **Price Effect:** This activity generally results in falling prices. As traders exit their long positions, the selling pressure drives the asset's price down. In the case of significant long unwinding, the price may continue to fall, potentially accelerating the downward momentum.

3. Long Build-Up

- **OI Effect:** A long build-up causes Open Interest to increase, as traders establish new long positions, buying into the market and increasing the total number of contracts or shares in circulation.
- **Price Effect:** The influx of new long positions usually leads to higher prices. Increased buying demand reflects a bullish outlook, and if the buying activity is sustained, it can result in a steady price appreciation.

4. Short Build-Up

- **OI Effect:** A short build-up results in an increase in Open Interest, as traders take on more short positions, betting on a decline in the asset's value.
- **Price Effect:** A short build-up generally contributes to falling prices. As traders short the asset, they exert downward pressure, reflecting a bearish sentiment in the market. However, if short interest becomes excessive and prices unexpectedly rise, it could lead to a short squeeze, forcing short sellers to cover their positions and contributing to a sharp price rally.

Summary of OI and Price Effects

- **Short Covering:** Open Interest decreases, and prices rise.
- **Long Unwinding:** Open Interest decreases, and prices fall.
- **Long Build-Up:** Open Interest increases, and prices rise.
- **Short Build-Up:** Open Interest increases, and prices fall.

Open Interest and Support/Resistance



Open Interest as Resistance

When a high Open Interest is observed at an out-of-the-money (OTM) call strike, it is often considered a **Resistance Level**. The rationale is that high OI signifies significant participation at that strike price, and options sellers are typically betting that the market will not exceed this level. As such, traders tend to align with the sellers' view, assuming the market will not breach this strike.

Open Interest as Support

Similarly, when there is a large Open Interest at an OTM put strike, it can be considered a **Support Level**. Here, OTM put sellers generally expect the market to stay above the strike price. Traders who take the seller's side anticipate that the price will not fall below this level.

Practical Application in Trading

Naked Option Selling

Naked option selling involves selling OTM call and put options, often taking advantage of high Open Interest levels as support or resistance. The logic behind this strategy is based on the premise that the market will likely remain within a certain range, providing a cushion for the option seller.

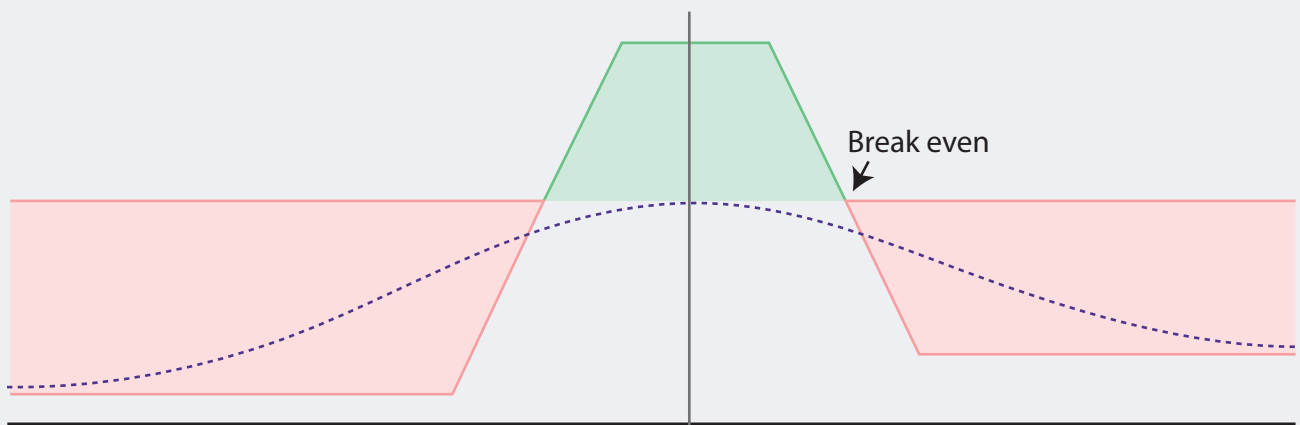
However, it's important to recognize the risk involved. If the market breaks through these levels, the options sellers may face significant losses.

Scenario

Consider the Nifty Index trading at 20,000 with a high Open Interest at the 20,300 CE strike. Based on the OI theory, you might sell the 20,300 call, expecting that Nifty will not rise above this level. However, if the market starts moving upward and breaches the 20,300 level, call option sellers will be forced to buy back their positions to limit losses. This buying action leads to **short covering**, which can push prices even higher, creating a **market rally**.

For option sellers, this is a critical point: when large numbers of call sellers are forced to buy to cover their positions, it generates a rush of buy orders, which drives the price up. This scenario can result in a **scary situation for option sellers**, as they are caught on the wrong side of a sharp price move.

Adjustments & Exit Points



For risk management, it's crucial to set **exit points or adjustment strategies** in advance. For example, suppose you have created an **Iron Condor** with a breakeven at 23,100, and the highest Open Interest on the call side is also at 23,100. Based on OI theory, you may expect that the market will not exceed this level. However, if the market does breach this level, the potential for short covering exists, which can lead to significant losses in your strategy?

To mitigate risk, you can set an **exit or adjustment point** at this level (e.g., 23,100). If the market moves past this level, you can either exit the trade or implement an aggressive adjustment strategy to manage the risk.

By understanding the interplay between **Open Interest, support/resistance levels, and price movement**, traders can make more informed decisions about option strategies and manage risk effectively. The key is to monitor OI closely and be prepared for any unexpected breakouts that might occur when OI-based levels are breached.

Out of the Box Insights on Strangle for Intraday Trading

The strangle strategy is a well-known and widely used options trading technique, particularly popular for intraday trading. It involves buying both a call and a put option on the same underlying asset with different strike prices but the same expiration date. While this strategy can be highly effective in certain market conditions, it requires a deeper understanding to truly unlock its potential for intraday profits.

A common belief is that a strangle works best when implied volatility (IV) is high. The rationale behind this is straightforward: when IV is high, options premiums are inflated. Traders then expect a decrease in IV (and thus in premiums) during the day, which allows them to profit from the premium erosion (known as "time decay"). However, this view, while generally correct, oversimplifies the strategy's execution, particularly for intraday trading.

The Reality of High IV Environments

In a high-IV environment, premiums for options are indeed inflated, but this does not necessarily guarantee profits when IV starts to decline. One critical aspect that many traders overlook is the market's movement. When IV is high, and the market remains relatively sideways, premiums may not "melt" or decay as expected. Instead, the premium remains elevated or even stagnant for an extended period, offering little opportunity for profit.

Additionally, when the market does move—whether in a sharp direction or through a volatile swing—option premiums can skyrocket quickly. This sudden spike in premiums can result in substantial losses, especially if the market moves against your position. Therefore, while high IV may seem like a promising setup for a strangle strategy, it doesn't always lead to the desired outcomes in intraday trading.

The Ideal Strangle Setup for Intraday Trading

To improve your chances of success with strangle trades, it is crucial not to execute the strategy during periods of high IV alone. Instead, you should focus on entering the trade **after an IV spike**, but only once IV starts to **decline**. This creates a scenario where you can take advantage of the premium erosion while avoiding the risk of extreme volatility.

Here's a step-by-step guide on how to approach intraday strangle trading more effectively:

1. Identify the Strike Prices and Combined Premiums

At the beginning of the trading session, make a note of all the possible strangle combinations for the underlying asset you're trading (e.g., Nifty, Bank Nifty, etc.). You'll want to consider a range of strike prices both above and below the current market price. For example, if the Nifty index is at 25,000, you might look at the following combinations:

- **25,300 CE & 24,700 PE**
- **25,200 CE & 24,800 PE**
- **25,100 CE & 24,900 PE**
- **25,400 CE & 24,600 PE**

2. Track the Combined Premiums

For each combination, note down the combined premium (the sum of the premiums for the call and put options). For example:

- **25,300 CE** is trading at 100
- **24,700 PE** is trading at 106

So, the combined premium for the **25,300 CE & 24,700 PE** strangle is **206**.

Repeat this for all the other possible combinations you've identified.

3. Monitor IV (or VIX) Movements

Track the IV (or the VIX) of the underlying asset. IV is a measure of the market's expectations of future volatility and is crucial to understanding how option premiums might behave. Watch for a spike in IV.

4. Wait for IV to Drop

After the IV spike, be patient and wait for it to start dropping. As IV decreases, option premiums will gradually begin to "melt" or decay, and this is the point where strangle trades typically become profitable.

5. Evaluate the Combined Premiums Post-IV Drop

Once you spot a decline in IV, return to your previously noted strangle combinations. For example, if you are considering the **25,300 CE & 24,700 PE** combination, check the combined premium after the IV drop. Suppose the combined premium has risen to 211, while it was 206 when you first recorded it.

If the premium hasn't melted significantly, this is an indication that **it may not be the right time to enter** the trade. Ideally, you want to see premiums erode enough to ensure that you're buying at a relatively cheaper price, setting you up for a potential profit if the market remains stable or moves in your favour.

6. Practice and Refine Your Strategy

The key to mastering this approach is consistent practice. By closely tracking the combined premiums and the movements in IV, you'll gradually develop a keen sense of timing and be able to make more informed decisions about when to enter or avoid a strangle trade. This discipline will give you a significant edge over other traders who rely on simple, high-IV strategies without considering the nuances of premium decay and market movement.

Conclusion

Executing a successful intraday strangle strategy requires more than just waiting for high IV conditions. To truly capitalize on this strategy, focus on the moments after an IV spike when volatility begins to subside. By noting down the combined premiums of various strangle combinations and monitoring IV closely, you can identify the optimal time to enter a trade, thereby improving your chances of profiting from time decay while mitigating the risks associated with volatile market movements.

With careful observation and practice, you can gain a deeper understanding of how premiums behave in relation to IV and market conditions, giving you a distinct edge in intraday options trading.

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Message From The Bullsmoves Team

Trading, particularly options trading, is a complex and challenging endeavor. Success in this field requires consistent learning and dedication. A thorough understanding of option Greeks is crucial, as they are key indicators of option behavior. Gaining live experience with each Greek is essential to mastering their impact on your trades.

In option hedging, especially within non-directional trading strategies, adjustments are more critical than entry points. Even if a trade is initiated at an inopportune time, effective adjustments can rectify the situation. Mastery of trade adjustments is therefore the cornerstone of successful option hedging.

The more you practice adjustments and refine your strategies, the closer you will come to becoming an expert in option hedging.

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