
OPTION BUYING SYSTEM





OUR TEAM

- Jitendra Jain – The Strategist
- Yogesh Nanda - Data crunching & Back-testing
- Yogeeswar Pal – Master Option Seller
- Jenil Dedhia – Unmatchable Executioner
- Manek Agicha – Disciplined Intern

OBSERVE FEW RULES

- 1. Keep you microphone on mute to avoid disturbance**
- 2. Restrict questions to the topic under discussion only**
- 3. Slot for Q & A is allotted separately so note down question ask during Q&A only – to avoid disturbing the flow**
- 4. Meanwhile you can post your questions in comment box**



OBJECTIVE OF WEBINAR

- Take you in the mind of option buyer – his psychology and thought process
- Big plans for year 2021 in Trading as well as Market Education Space
- Developing executable strategies for retail traders
- Focusing more on Skill enhancement and Learning of Traders

WELCOME TO CASINO



Structure of today presentation:

1. Introduction
2. Technical Setup
3. Setup & Rules
4. Money Management & Risk Management
5. Examples
6. Compounding
7. Pitfalls

WHY OPTION TRADER

Why you Became Option trader?



Apun Ko Zindagi Mai Kuch
Daring Karna Tha



I. Introduction



KNOW YOUR OPPONENT

You know who are you up against?

Option Sellers:

Its like playing against Australia on Australian pitches

Australian Team

- | | |
|-----------------------|--|
| Home ground advantage | - For option sellers its weekly expiry |
| Strong bowling line | - For option seller its theta |
| Strong Defense | - For option seller its low delta [Straddle delta] |
| Lower batting order | - For option seller its good Success Rate |

STRADDLE SELLERS GREEKS



PAYOFF CHART



GREEKS



P&L



| Position | IV | Delta | Theta | Gamma | Vega |
|-----------------------|-------------------|--------|---------|-------|----------|
| -1x 31DEC2020 13700CE | 14.71 | -58.8 | 782.34 | -0.14 | -738.64 |
| -1x 31DEC2020 13700PE | 14.35 | 41.01 | 762.33 | -0.14 | -737.8 |
| | Positional Greeks | -17.79 | 1544.67 | -0.28 | -1476.44 |

OPTION BUYERS GREEKS

Strategy Positions RESET

+1x 31DEC2020 13700CE - ₹ 143.2 (0) ✓ ↻

Prob. of Profit 39.17%

Max. Profit ₹ Undefined

Max. Loss ₹ -10,740 (-100.00%)

📊 PAYOFF CHART ☰

📋 GREEKS 田

田 P&L ✖

| Position | IV | Delta | Theta | Gamma | Vega |
|-----------------------|-------------------|-------|---------|-------|--------|
| +1x 31DEC2020 13700CE | 16.36 | 58.8 | -967.59 | 0.14 | 664.22 |
| | Positional Greeks | 58.8 | -967.59 | 0.14 | 664.22 |

Greeks in Decimals Greeks in Rs

*** Lets build our Team *****

VWAP

Vwap is Volume weighted average price for the day



RSI

The relative strength index (RSI) is a momentum indicator used in technical analysis that measures the magnitude of recent price changes – above 60 upside momentum & below 40 downside momentum



VOLUME

Volume is quantity of instrument traded on exchanges. Higher the volume more reliable the move



OPEN INTEREST

Open interest is the total number of outstanding derivative contracts. They are the price movers.
Increase or decrease in open interest indicated Option sellers sentiment.



BEST TIME TO ATTACK

What is the best time to attack?

When Seller is vulnerable or trapped..

When normally sellers get trapped?

- Gap up in market and that gap is sustained
- Sudden breakout or breakdown in market with high volume..
- IV spike [generally happen with sudden fall in market]

How to identify he is trapped?

- When he starts exiting his position – which is show in open interest.
- Seen by declining Open Interest – preferably below 20SMA on open interest.

PLAY ON OUR PLAYERS STRENGTH

When are these indicators favorable for buyer?

- RSI > 60
- Price above Vwap
- Volumes > 1.5x of average volume
- Open-Interest – Declining & preferably below 20sma of OI

IT'S A JIGSAW PUZZLE

What to Buy /
Sell?

When to Buy?



How much to
Buy?

When to book
profit?

What will be
Stop loss?

HOW TO DESIGN A STRATEGY

Before designing any strategy, we need to answer few questions:

1. Instrument? Nifty / Banknifty / stocks / options / futures
2. Buy or Sell?
3. Strategy Selection
4. Expiry Selection [Weekly / Monthly]
5. Strike Selection
6. When to Enter?
7. What Quantity?
8. Stop Loss
9. Profit Target
10. How to Trail?
11. How to React in Black Swan Events.

You have to document all these Rules and they should suit your trading style...



2. Technical Setup

A. ZERODHA CHARTIQ SETUP

Step 1:

The screenshot shows the Zerodha Kite web interface. At the top, there is a navigation bar with tabs: Dashboard, Orders, Holdings, Positions, Funds, Apps, and a user icon labeled 'YA'. A red box highlights the 'YA' icon, labeled '1. Select ID'. Below the navigation bar, there is a sidebar titled 'Apps (9)' which lists 'Open Trade by Zerodha'. To the right of the sidebar, under the 'YA' profile, there is a dropdown menu with options: 'Yogesh', 'My profile / Settings', and 'Console'. A red box highlights the 'My profile / Settings' option, labeled '2. Select My profile'.

Step 2

The screenshot shows the 'Settings' page of the Zerodha Kite interface. On the left, there are sections for 'Chart' (radio button selected for 'ChartIQ'), 'Theme' (radio button selected for 'Default'), and 'Instant order updates' (a toggle switch). In the center, there is a 'Sessions' section with a list containing 'Kite web'. On the right, there is a 'Clear all' button. A red circle highlights the 'ChartIQ' radio button in the 'Chart' section.

B. OPENING CHART

The screenshot shows the Zerodha Kite Connect web interface. The top navigation bar includes links for Dashboard, Orders, Holdings, Positions, Funds, and App. The main content area displays a list of available apps:

- Open Trade by Zerodha
- Kite Connect Billing by Zerodha
- Coin By Zerodha by Zerodha
- Streak App by STREAK
- Support Portal by Zerodha
- Sentinel by Zerodha
- Sensibull by Sensibull

A red callout box highlights the "More" button in the top right corner of the main content area, with the text "1. Select three dots". Another red callout box highlights the "Chart" option in the dropdown menu, with the text "2. select popout chart".

C. INDICATOR SETUP

Setup indicators:

1. Vwap
2. RSI
3. Change overbought and oversold levels to 60 & 40
4. Open Interest
5. Adding 20SMA on Open Interest
6. Volume
7. Adding 20SMA on volumes



3. Strategy Setup

TRADING SETUP

Which chart to use?

Option charts

Timeframe:

5 min charts [you can test different time frames]

Rules for entry:

- a) Price > Vwap
- b) Price moving away from Vwap.
- c) Rise in volume 1.5x to 2x of average volumes (20 sma on volume)
- d) RSI > 60
- e) OI is reducing & below 20 SMA on OI

Note: All Rules must be satisfied before taking entry



STRIKE SELECTION

Which Strike to Choose?

- a) Choose Any Strike that meets these conditions
- b) Prefer to trade with ATM or 1st OTM
- c) Works Best in Nifty and Banknifty
 - Monthly expiry – ATM or OTM [in delta terms 0.5 – 0.30]
 - Weekly Expiry – prefer ITM options – due to less theta [in delta terms 0.5 – 0.7]
- d) Stock –
 - stocks works little differently – so need little different treatment.

Note:

These are based on our experience – please choose strikes as per your personality and experience

STOP LOSS & TARGET

Initial Stop loss:

(Lower of these 2)

- 20% of the premium [this % is changeable depending your aggression and experience to say 15% / 10%]
- Previous swing low on option chart

Target

- In short covering move there is no way to find the targets..
- Just keep RR based targets and keep trailing..
- Can also keep index charts in front and exit at major support or resistances

TRAILING

How to trail:

Trailing entirely depend on trader's individual risk appetite and trading style

Indicative rules:

- a) when 1:1 Risk Reward reached trail to cost
- b) when 1:2 Risk Reward reached book 1/3 and trail balance to 1:1
- c) When 1:3 Risk reward reached book another 1/3 and now trail balance candle to candle [aggressively]

another way to trail is once 1:0.5 or 1:1 RR reached from here on trail point to point... so for every 5Rs. Move trail your SL by 5 Rs.

TRAILING

Back-test Results for Random Entry

| | |
|--------------|------------------------------|
| Strategy | Buy Banknifty ATM CE |
| Daily at | 9.20 AM |
| exit time | 15: 29 PM |
| stop loss | 60 pts |
| | |
| period | 15th Feb 19 -- 26th Dec 2020 |
| Total Profit | 99,368 |
| SR | 26% |

At 26% Success Rate we are profitable

So, with little improvement in timing and being selective in entry – we can definitely be profitable



4. Money Management & Risk Management

A. POSITION SIZING

Two Method

a) **Fixed Size**

- Here we decide Number of lots depending on capital [say 1 lot for every 1 lac capital]
- Position size remains constant always – irrespective of entry price and stop loss

b) **Fixed Risk Method**

- We keep our Risk per trade standard based on capital [say 1% on capital] &
- derive position size based on stop loss

A. POSITION SIZING

- Pre-defined stop loss
- System determined Position Sizing linked to capital and stop loss
- Objective Maximizing Risk Reward Ratio

| Risk Parameters | | | | | | |
|----------------------------------|----------|--|----------------------|--------|---|------|
| Capital and Risk | | | How each trade works | | | |
| Capital | 5,00,000 | | Entry | 100 | Stop loss | 20 |
| | | | Stop | 80 | Profit | 40 |
| Per trade Risk (as % of capital) | 1% | | Target | 140 | Risk reward | 2.00 |
| | | | | | | |
| Per trade Risk (Rs.) SL amount | 5,000 | | Quantity | 225 | [Per trade risk / stop loss] [i.e 5,000 / Rs. 20] | |
| | | | Max loss | 5,000 | | |
| | | | Exp profit | 10,000 | | |



B. RISK MANAGEMENT

Few Risk management Rules:

1. Never Risk more than 2% of capital on single Trade
2. Preferably play in monthly expiry – if in weekly be disciplined like a rock
3. Don't force trade on you.. If don't get signal don't trade.
4. Don't trade weekly OTMs [specially in Wednesdays and Thursdays]
5. New traders start with monthly options. Do weekly only after profitable track Record.
6. Stop loss has to be in system – mental stop losses don't work

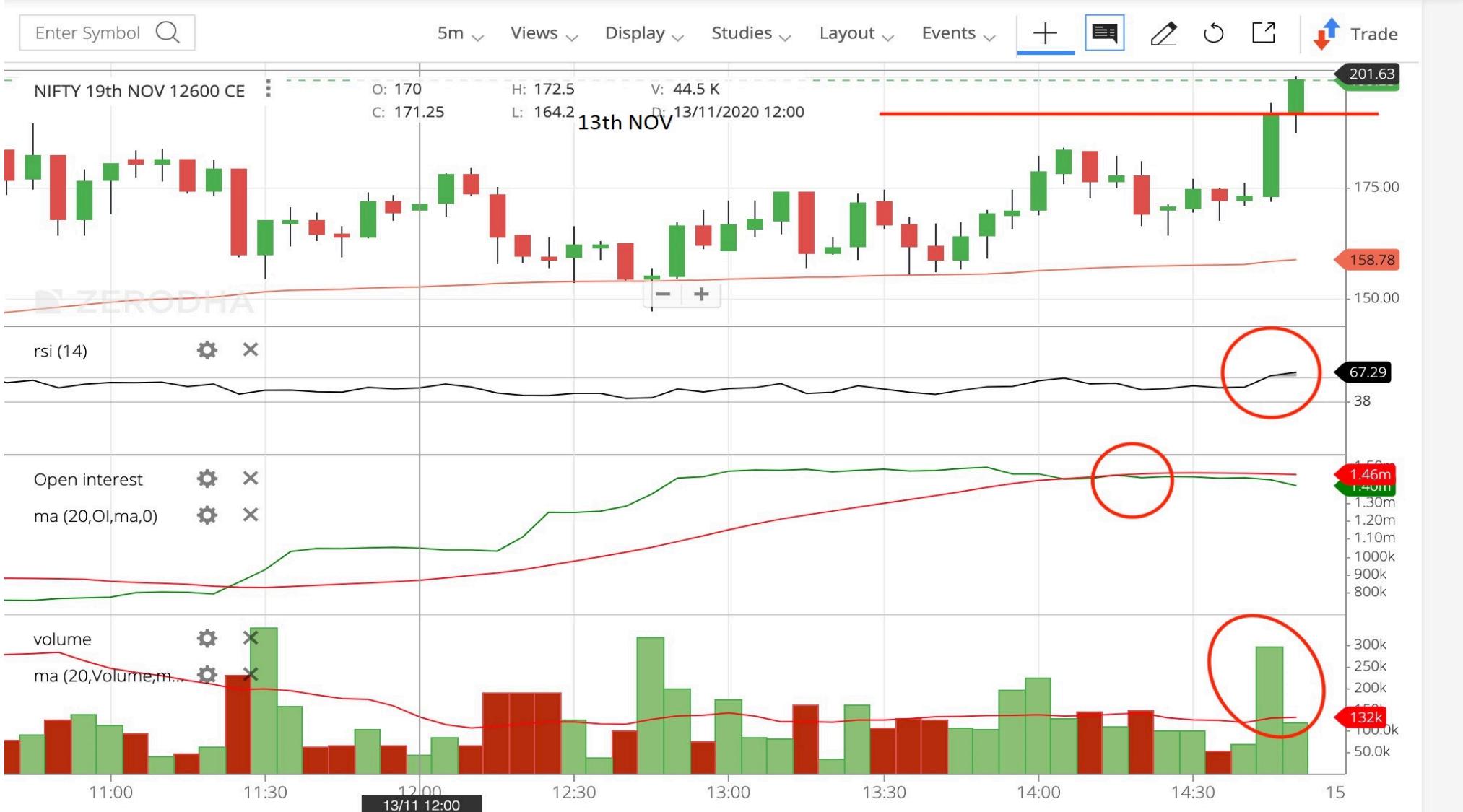


5. Examples









4

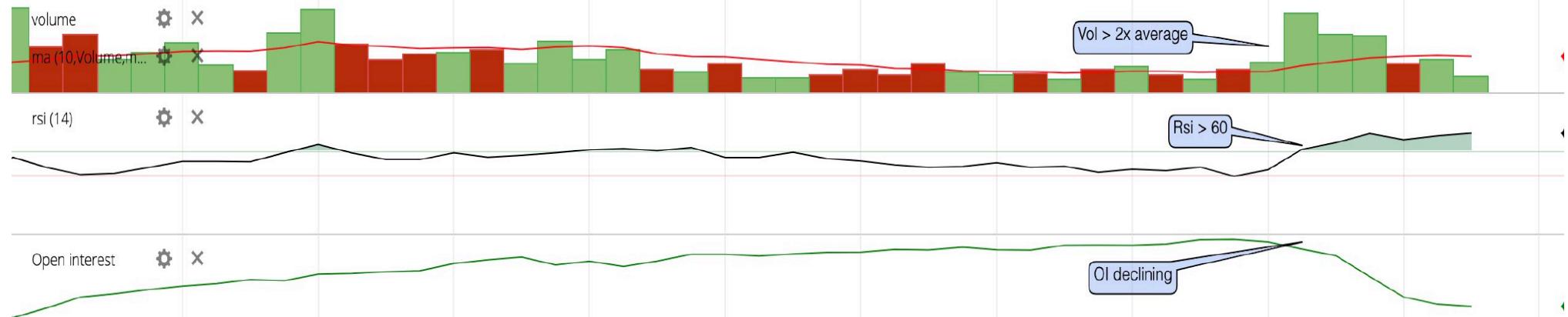
Enter Symbol

5m Views Display Studies Layout Events + 🗣️ ✎ ⚡ 🔍

BANKNIFTY OCT 24500 PE

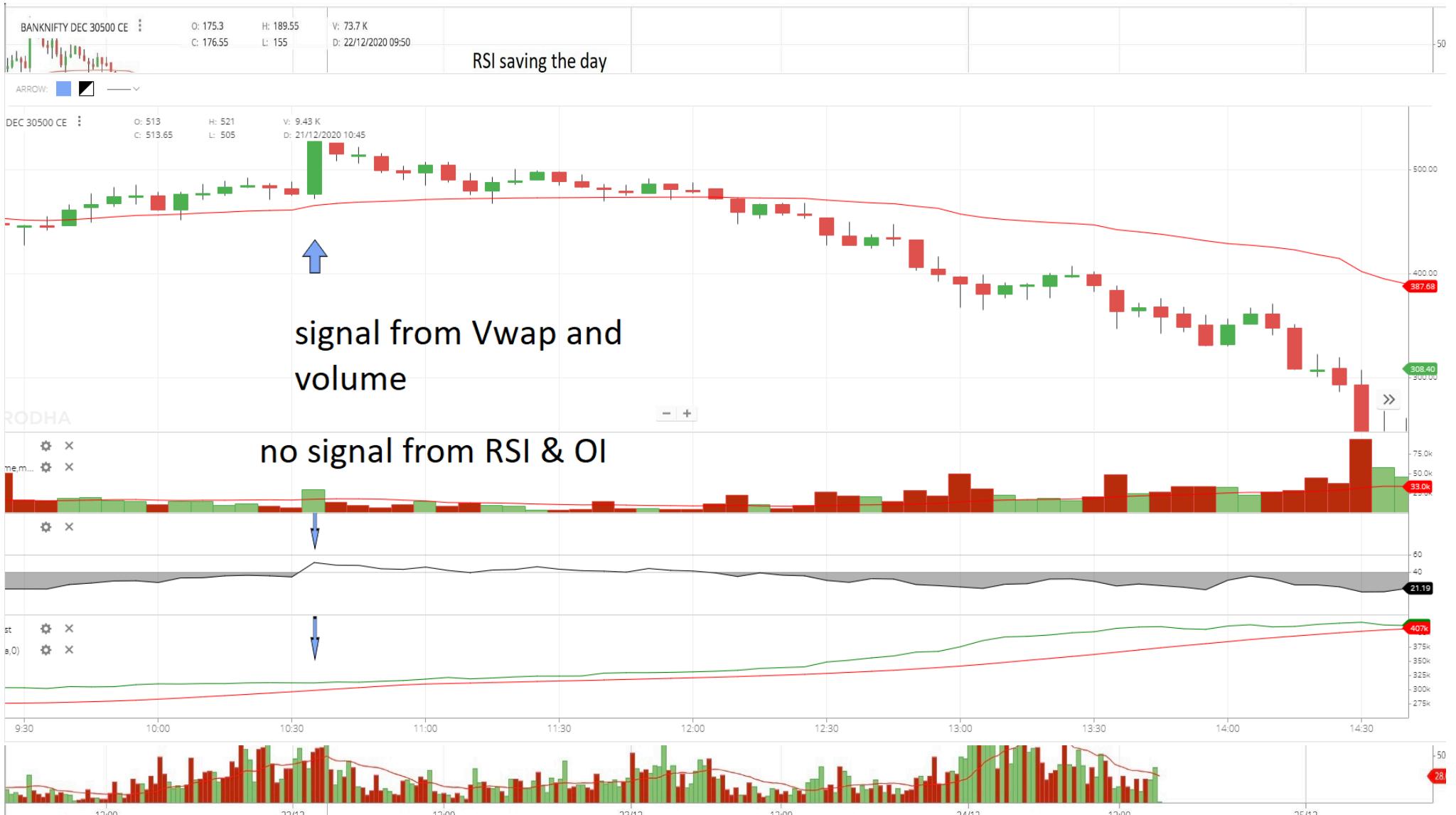
Draw

Price above vwap















Live examples 24.Dec in telegram group



Executed orders (1)

 Search

@ View Reports  Dow

| Time | Type | Instrument | Product | Qty. | Avg. price | Status |
|----------|--------------------------------|----------------------------|---------|-----------|------------|----------|
| 09:19:14 | BUY | BANKNIFTY DEC 30000 CE NFO | MIS | 100 / 100 | 426.89 | COMPLETE |
| | | | | | | |
| OI | Options.co.in | | | | | |
| | Put SLM order at cost to cost! | 5.6K 9:25:01 AM | | | | |
| OI | Options.co.in | | | | | |
| | Moved Stop Loss at 440! | 5.5K 9:26:39 AM | | | | |
| OI | Options.co.in | | | | | |
| | Moved SL to 460 | 5.5K 9:32:25 AM | | | | |
| ✓ | OI Options.co.in | | | | | |
| | SL to 472 | 5.5K 9:34:26 AM | | | | |
| OI | Options.co.in | | | | | |
| | SL to 500 | 5.5K 9:43:52 AM | | | | |
| ✓ | OI Options.co.in | | | | | |
| | SI to 522 | 5.6K 9:52:58 AM | | | | |
| OI | Options.co.in | | | | | |
| | SI 540 | 5.6K 9:56:01 AM | | | | |
| OI | Options.co.in | | | | | |
| | SI 558 | 5.6K 10:09:03 AM | | | | |
| OI | Options.co.in | | | | | |
| | SI 576 | 5.7K 10:10:58 AM | | | | |

10:20:11

SELL

BANKNIFTY DEC 30000 CE NEO



MIS

100 / 100

629.92 / 630.00 trg.

COMPLETE



13:22:13

BUY

BANKNIFTY DEC 30500 CE NFO

...

MIS

100 / 100

312.65

COMPLETE

OI

[Options.co.in](#)

SI is 290



5.6K

1:26:54 PM

OI

[Options.co.in](#)

312 SI



5.7K

1:32:33 PM

OI

[Options.co.in](#)

325 SI



5.7K

1:35:18 PM

OI

[Options.co.in](#)

SI 340



5.8K

1:41:54 PM

OI

[Options.co.in](#)

Done



5.7K

1:52:36 PM

13:52:13

SELL

BANKNIFTY DEC 30500 CE NFO

MIS

100 / 100

340.00 / 340.00 trg.

COMPLETE

Select Symbol **BANKNIFTY** Expiry Date **31DEC20** Select Option Type **Call** Select Strike Price **30500**

SHOW CHART

BANKNIFTY-31DEC20 30420.40 **▲ 511.90 (1.68%)** (24-Dec-2020 15:30)

5min Log

BANKNIFTY-30500C-31DEC20 24 Dec 2020 14:09 O: 358.00 H: 359.20 L: 345.45 C: 350.25

Volume Weighted Average Price (VWAP) — X Indicator: 307.05



Load Template: **Template 4**

Template 4

2

SAVE STUDIES & PREF.

3

Note:



6. Compounding

COMPOUNDING

For Fixed Risk method

- Keep adding Profits to your capital,
- this will increase your position size for future trades – gradually

For fixed size method

- Increase you position size for every X Rs. Profit [say 50,000 or 1,00,000]



7. Pit Falls

STEPPING IN SOMEONE ELSE'S SHOES



Do single strategy fit for all?

No

Is this strategy Holy Grail?

No

You need to work on few things:

- Going into depth of strategy [why and what's?]
- Temperament needed for that strategy [settle for lower success rate]
- Developing conviction by through back-test
- Tweaking few rules to suit your trading style [entry/ stop loss / trailing]



PITFALLS

- **Needs full Screen time**
- **Fastest figure first**
- **Have to train your mind to accept lower success Rate**



Thank you



8. Q & A

Q & A

Restrict questions to option buying only & indicators discussed in presentation.

