Sideways Strategies or Monthly Income Strategies

VERTICAL SPREADS

Very Important Note:
Read the whole document till you understand the strategies better. Your logic and Understanding of the strategies should be very clear before you trade with real money. If you are novice or intermediate, to gain experience, I recommend that you trade with virtual money only, for the next 6 months.
This strategy can generate very good returns if you are sure and correct with direction but you can lose money too. So you need a bit more experience to trade it. Therefore it is suggested that you stick to virtual trading for the next six months.

BULL PUT SPREADS

- Bull Put spread employed when view is mildly bullish in near term.
- Limited potential profit and limited potential loss.
- Predefined risk reward ratio.
- Strategy Structure: Sell OTM PE and buy further OTM PE.

Trading Rules

- Ensure that underlying is in uptrend and identify clear area of support.
- If underlying is in oversold zone, you should get a buy signal. Buy signal here is underlying should close above the previous days' high for three consecutive days.
- Use your own technical analysis tools to find out the support and buy signals.
- Time period to trade this strategy: One should have 40 days to 60 days for expiry. (Always next month contracts).
- It is better to initiate this trade when India Vix is near 15 to 18% during bull market and 20 to 24% during bear market (applicable only to Nifty).

- Trade in the Nifty strikes ending with 00's not 50's.
- Selecting strikes:
- Put Options: Selling strike should be 300 to 400 points below the spot price (Not the future price). Buying strike should be 200 points below the sold strike.
- You can also select selling strike which has a delta of less than -0.20 and buying strike 200 points below the sold strike.
- If stock falls below your stop loss, then buy the short Put or follow the adjustments as given below
- Stop loss should be previous days' low if you don't want follow the stop loss, follow the given adjustment.
- It is better to trade next month contracts.
- Maximum Risk: Difference between sold and bought strikes – premium received.
- Maximum Reward: Capped or limited or premium received.
- If you are trading with stocks, you should trade with high liquid stocks.

Example:

- Once the underlying's price closes above the high of previous day for three consecutive days. Select a selling PE strike 300 points below the spot price and buy equal quantity of PE of a strike which is 200 points below the sold strike.
- Example: On any day if underlying's price closes above the previous day's high for three consecutive days (Now assume that previous day's high is 8651 and today it has closed at 8670). Select selling strikes 300 points away from spot price that means Sell 8300PE and buy 8100PE (Equal lot of sell and buy with same expiry).
- Exit the trade once 50% to 80% of the received premium erodes.

Example:

- **Short 8300PE @ ₹ 63.00**
- **Long 8100PE @ ₹ 31.00 Net Credit = Premium Received by selling 8300PE -Premium paid to buy 8100PE= ₹ 32.00**

Adjustments in different scenario or (Monitoring the trade)

i. **Scenario 1: View is bullish stock has gone up no need to adjust: Primary exit book the profit if premium has eroded by 50% to 80% or wait strikes to expire worthless so that you can keep entire premium with you.**
   Example: as per your view stock is moving up as we have collected a premium of ₹ 32.00 and now if premium is trading at ₹ 8-10 book your profit (mostly advisable)or you can wait to keep entire premium i.e. ₹ 32.00

ii. **Scenario 2: Underlying is moving against your view and the sold strike is just 100 points away from the spot price.**
   - **Frist option: close the trade, trade may be in profit or may be in loss depends on the time underlying took to move towards the sold put.**

- If the trade is in profit book the profit and wait for the reversal of the underlying from the present trend, if underlying closes above the previous day's high for three consecutive days again enter a trade with 300 points below the spot price (This is called as rolling of a position to next suitable strikes)

  For example if Nifty comes near 8400,
  Our Original trade is Sell 8300PE one lot & buy 8100PE 1lot
  Book the profit (if you are in a profit) in this trade and roll the position next suitable strike i.e.
  Our new position will be sell 8000PE 1 lot and buy 7800PE 1 lot mostly next month series.

- **Or If underlying falls very fast i.e. more than 1% to 1.25% in a day adjust this strategy by buying 1 more lot of PE one strike above the sold strike and sell 1 more lot of 8300PE convert this to Long Put Butterfly.**

  For example our original position is

  Sell 8300PE (-1) lot
  Buy 8100PE (+1) lot
  After adjusting our new position will be
  Buy 8400PE (+1) lot
  Sell 8300PE (-1 original sell**) + (-1 lot new sell) = (-2 lots)**
  Buy 8100PE (+1) lot.

- **Or If underlying falls very fast i.e. more than 1% to 1.25% in a day adjust this strategy Sell 1 lot Future and buy ATM CE converting this strategy to Collar with covered call.**

  For example our original position is

  Sell 8300PE (-1) lot

  Buy 8100PE (+1) lot

  After adjusting our new position will be

  Sell Nifty future (-1) lot

Buy 8400CE (+1) lot

Sell 8300PE **(-**1 original sell**)**

Buy 8100PE (+1 original buy) lot

BEAR CALL SPREADS

- Bear call spread employed when view is mildly bearish in near term.
- Limited potential profit and limited potential loss.
- Predefined risk reward ratio.
- Strategy Structure: Sell OTM CE and buy further OTM CE.

Trading Rules

- Ensure that underlying is in downtrend and identify clear area of resistance.
- If underlying is in overbought zone, you should get a sell signal. Sell signal here is underlying should close below the previous day's low for three consecutive days.
- Use your own technical analysis tools to find out the resistance and sell signals.
- Time period to trade this strategy: One should have 40 days to 60 days for expiry. (Always next month contracts).
- It is better to initiate this trade when India Vix is near 17 to 18% during bear market and 12 to 14% during bull market.
- Trade in the Nifty strikes ending with 00's not 50's.
- Selecting strikes:
- Call Options: Selling strike should be 300 to 400 points above the spot price. Buying strike should be 200 points above the sold strike.
- You can also select selling strike which has a delta of less than 0.20 and buying strike 200 points above the sold strike.

- If stock rises above your stop loss, then buy the short call or follow the adjustments as given below
- Stop loss should be previous days' high if you don't want to follow the stop loss, follow the given adjustment.
- It is better to trade next month contracts.
- Maximum Risk: Difference between sold and bought strikes – premium received.
- Maximum Reward: Capped or limited. Or Premium received.
- If you are trading with stocks, you should trade with high liquid stocks.

Example:

- Once the underlying's price closes below the low of previous day's low for three consecutive days. Select a selling CE strike 300 points above the spot price and buy equal quantity of CE of a strike which is 200 points above the sold strike.
- Example: On any day if underlying's price closes below the previous day's low for three consecutive days (Now assume that previous day's low is 8651 and today it has closed at 8630). Select selling strikes 300 points away from spot price that means Sell 8900CE and buy 9100CE (Equal lot of sell and buy with same expiry).
- Exit the trade once 50% to 80% of the received premium erodes.

Example:

- **Short 8900CE @ ₹ 63.00**
- **Long 9100CE @ ₹ 31.00 Net Credit = Premium Received by selling 8900CE -Premium paid to buy 9100CE= ₹ 32.00**

Adjustments in different scenario or (Monitoring the trade)

iii. **Scenario 1: View is bearish stock has gone down no need to adjust: Primary exit book the profit if premium has eroded by 50% to 80% or wait strikes to expire worthless so that you can keep entire premium with you.**
Example: as per your view stock is moving down as we have collected a premium of ₹ 32.00 and now if premium is trading at ₹ 8-10 book your profit (mostly advisable)or you can wait to keep entire premium i.e. ₹ 32.00

iv. **Scenario 2: Underlying is moving against your view and the sold strike is just 100 points away from the spot price.**
- **Frist option: close the trade, trade may be in profit or may be in loss depends on the time underlying took to move towards the sold call.**
- If the trade is in profit book the profit and wait for the reversal of the underlying from the present trend, if underlying closes below the previous day's low for three consecutive days again enter a trade with 300 points above the spot price (This is called as rolling of a position to next suitable strikes)

  For example if Nifty comes near 8800,
  Our Original trade is Sell 8900CE one lot & buy 9100CE 1lot
  Book the profit (if you are in a profit) in this trade and roll the position next suitable strike i.e.
  Our new position will be sell 9100CE 1 lot and buy 9300CE 1 lot mostly next month series.
- **Or If underlying rises very fast i.e. more than 1% to 1.25% in a day adjust this strategy by buying 2 more lots of CE and convert this to call ratio back spread**

For example our original position is

Sell 8900CE 1 lot

Buy 9100CE 1 lot

After adjusting our new position will be

Sell 8900CE 1 lot and

Add 9100CE (1 original**) + (2 new) =3 lots**

- **Or if underlying rises very fast i.e. more than 1% to 1.25% in a day adjust this strategy by buying 1 more lot of CE one strike below the sold strike and sell 1 more lot of 8900CE convert this to Long Call Butterfly.**

For example our original position is

Sell 8900CE (-1) lot

Buy 9100CE (+1) lot

After adjusting our new position will be

Buy 8800CE (+1) lot

Sell 8900CE (-1 original sell**) + (-1 lot new sell) = (-2 lots)**

Buy 9100CE (+1) lot

- **Or if underlying rises very fast i.e. more than 1% to 1.25% in a day adjust this strategy buy 1 lot Future and buy ATM PE converting this strategy to Collar with covered Call or married Put.**

For example our original position is

Sell 8900CE (-1) lot

Buy 9100CE (+1) lot

After adjusting our new position will be

Buy Nifty future (+1) lot

Buy 8800PE (+1) lot

Sell 8900CE **(-**1 original sell**)**

Buy 9100CE (+1 original buy) lot

Conservative Strategy: IRON CONDOR.

An Iron Condor is a combination of selling a Bull Put Spread and selling a Bear Call Spread on the same underlying for the same expiration.

One can trade this strategy every month irrespective of market condition. If you initiate this strategy when volatility is high, you can get higher profits.

STEPS TO TRADE IRON CONDOR STRATEGY:

Strategy Structure: Sell OTM CE, Buy Higher OTM CE and Sell OTM PE, buy Lower OTM PE (with same lot size and expiration for all legs).

Conservative:

I. Time period to trade this strategy: One should have 50 days to 60 days for expiry. (Always next month contracts).

II. It is better to initiate this trade when India Vix is near 15 to 18% during bull market and 20 to 24% during bear market.

III. Trade in the Nifty strikes ending with 00's not 50's.

IV. Selecting strikes:
   - Call Options: Selling strike should be 300-400 points above the spot price (Not the future price). Buying strike should be 200 points above the sold strike.
   - Put Options: Selling strike should be 300- 400 points below the spot price (Not the future price). Buying strike should be 200 points below the sold strike.

V. You should initiate all the 4 legs at a time.

Example: if Nifty spot is trading at 8600 on 28th November, select December month's contracts.

- Selling CE strike should be 400 points above the spot price, so in our case it will be 9000CE and buying CE strike 200 points above 9000CE is 9200CE.

- Selling PE strike should be 400 points below the spot price, so in our case it will be 8200PE and buying PE strike 200 points below 8200PE is 8000PE.

Now we have completed all legs of trade: details are as under.

a) **Short 9000CE @ ₹ 71.00**
b) **Long 9200CE @ ₹ 28.00. Net Credit = Premium Received by selling 9000CE –Premium paid to buy 9200CE i.e. 71-28 = ₹ 43.00**
c) **Short 8200PE @ ₹ 53.00**
d) **Long 8000PE @ ₹ 31.00 Net Credit = Premium Received by selling 8200PE -Premium paid to buy 8000PE= ₹ 22.00**

Exiting the trade:

- ✓ **Exit once 50% to 80% of the premium erodes.**
- ✓ Exit once the Vix comes down between 14-12% during bull market and 16 to 17% during bear market.

Total Profit ₹ 3900.00 (You should square of the position once 50% to 80% of the premium erodes).

Total ROI: 2 to 4%

Adjustment to the trades:

i. Adjustments with the Stop loss:

Book a loss (with a stop loss)/or some time you may book the profit. If nifty comes 100 points near to CE side or PE side i.e. if Nifty comes to 8900 or 8300 exit your entire position (with reference to above example i.e. 9000CE and 8200PE strikes).

Scenario 1:- If it is near 8300 that means Nifty has reached in oversold zone. You are suggested to double the quantity of lots and trade Bull Put Strategy (Strategy 2).

Trading Rules for Bull Put Spread (Strategy 2).

- Once the underlying's price closes above the high of previous day. Select a selling PE strike 300 points below the spot price and buy equal quantity of PE of a strike which is 200 points below the sold strike.
- Example: On any day if underlying's price closes above the previous day's high (Now assume that previous day's high is 8351 and today it has closed at 8370). Select a selling strike 300 points away from spot price that means Sell 8100PE and buy 7900PE (double the lots of Iron Condor Strategy).
- Exit the trade once 50% to 80% of the received premium erodes.

Scenario 2:- If it is near 8900 that means Nifty has reached in overbought zone. You are suggested to double the quantity of lots and trade Bear Call Spread Strategy (Strategy 3).

Trading Rules for Bear Call Spread (Strategy 3).

- Once the underlying's price closes below the low of previous day. Select a selling CE strike 300 points above the spot price and buy equal quantity of CE of a strike which is 200 points above the sold strike.

- Example: On any day if underlying's price closes below the previous day's low (Now assume that previous day's low is 8831 and today it has closed at 8780). Select a selling strike 300 points above the spot price that means Sell 9100CE and buy 9300CE (double the lots of Iron Condor Strategy).
- Exit the trade once 50 % to 80% of the received premium erodes.

OR

On any one day if Nifty falls or goes up by more than 1.25% to 1.5% and if your entire position is in a loss of ₹ 5 to 6 then exit entire position and enter Iron Condor strategy with new position with new strikes with same trading rules. (Again select a selling price range of 400 points away from the spot price and a buying strike 200 point away from sold strikes as briefed in above example).

Or

On any one day if Nifty falls by more than 1.25% to 1.5% and if the entire position is in a loss of ₹ 8 to 10 then
Roll down the Call spread by 100 points.

For Example: Original Position

a) Short 9000CE @ ₹ 71.00
b) Long 9200CE @ ₹ 28.00.
c) Short 8200PE @ ₹ 53.00
d) Long 8000PE @ ₹ 31.00

After Rolling down our new trade will be

e) Short 9000CE **Square off the position**
f) Long 9200CE **Square off the position**
g) Short 8200PE
h) Long 8000PE
i) Short 8900CE New Position.
j) Long 9100CE New Position.

Continue to roll down the Call positions till underlying goes down and once the underlying reverses from bottom than double the quantity of Iron condor and trade bull put spread strategy.

On any one day if Nifty rises by more than 1.25% to 1.5% and if the entire position is in a loss of ₹ 8 to 10 then

Roll up the Put spread by 100 points.

For Example: Original Position

a) Short 9000CE @ ₹ 71.00
b) Long 9200CE @ ₹ 28.00.
c) Short 8200PE @ ₹ 53.00
d) Long 8000PE @ ₹ 31.00

After rolling up our new trade will be

e) Short 9000CE 1lot
f) Long 9200CE 1 lot
g) Short 8200PE **Square off the position**
h) Long 8000PE **Square off the position**
i) Short 8400PE New Position. 1lot
j) Long 8200PE New Position. 1lot

Continue to roll up the Put positions till underlying goes up and once the underlying reverses from top than double the quantity of Iron condor and trade bear call spread strategy.

Sell 9300CE -2lots

Buy 9500CE 2lots

Calendar Call

Steps to Trading a Call:

- Buy a long-term expiration (say Second/third month contract) call with a near the money strike price.
- Sell a short-term call (say this month or near month contract) with the same strike price and same lot size.

Outlook

- **With a Calendar Call, your outlook is <u>neutral to bullish</u>. You expect a steady rise.**
- **Limited potential profit and limited potential loss**.
- Predefined risk reward ratio.
- Strategy Structure: Sell ATM **or** Near OTM Call of this month and Buy ATM **or** Near OTM Call of third month.

Trading Rules

- Ensure that underlying is in uptrend or range bound and identify clear area of support.
- If underlying is in oversold zone, you should get a buy signal. Buy signal here is that the underlying should close above the previous day's high.
- Use your own technical analysis tool to find out the support and buy signals.
- Selling CE strike should be 0.50 delta (if Neutral) or Nearest OTM (if you are bullish) of this month contract.
- Buying CE should be of same strike and same quantity; only difference is Buying CE should be of long term say second or third month contract.

- If stock falls below your stop loss, this strategy requires adjustment.
- Stop loss should be close below the previous day's low.

- Disadvantage: Time decay works against your bought CE, so give yourself a plenty of time to be right.
- If you are trading with stocks you should trade with highly liquid stocks.

Net Position

- This is a **net debit** transaction because your bought calls will be more expensive than your sold calls, which have less time value.
- Your maximum risk on the trade itself is limited to the net debit of the bought calls less the sold calls. Your maximum reward is limited to the residual call value when the stock is at the strike price at the first expiration, less the net debit.

Below is an example of a calendar Call on Nifty:

- Nifty is trading at 8296.00(assume that Nifty is in uptrend or Nifty is in oversold zone and while initiating the trade it has closed above previous day's high).
- **Sell 1 lot Nifty 8300CE (November 16's Contract) @ ₹ 137.95**
- **Buy 1 lot Nifty 8300CE (January 17's)@ ₹ 275.00**
- **Net debit = Premium of bought strike – Premium of sold strike**
- **275-137.95=137.70**

Exiting the Position: Primary Exit

- With this strategy, you can simply square off the spread by buying back the calls you sold and selling the calls you bought in the first place if you are in good profit of 3% to5%.

Adjustment:

- If stock falls by 1.25% to 1.5% on next day of your trade enter day or if it falls on any day and if trade is in loss, then square of the bought CE and convert this to diagonal Call spread with a new position with new strikes.
    - **Our original position is**
    - Sell 1 lot Nifty 8300CE (November 16's Contract)
    - Buy 1 lot Nifty 8300CE (January 17's) **square off 8300CE**
    - **Buy 1 lot Nifty 8400CE (January 17's) New Position.**
    - **You can roll down sold call if underlying continues to fall their by enhancing the profit%**
- If stock rises by 1.25 to 1.5 % or more on next day of your entry day, then square of the sold position (High probability that you may be in a bit profit or at breakeven) Roll up the sold CE by one strike.

- **For example: If underlying rises to 8419 and above and if you are still bullish**

    - **Our original position is**
    - Sell 1 lot Nifty 8300CE (November 16's Contract) Square off the trade
    - Buy 1 lot Nifty 8300CE (January 17's contract)
    - **Sell 1 lot Nifty 8400CE (November 16's) New Position.**
    - **You can roll up the sold call if underlying continues to rise their by enhancing the profit%**

Exiting the Position:

- With this strategy, you can simply square off the spread by buying back the calls you sold and selling the calls you bought in the first place if you are in good profit of 3% to5%.

- After closing of sold CE in profit and if underlying is still in mild uptrend or in neutral traders are suggested to sell next month contract of near OTM or ATM CE

- **Mitigating a Loss:**
- Square off the trade as described previously.
- Advanced traders may choose to only partially unravel the spread leg-by-leg in this way.

Calendar Put:-

Steps to Trading a Calendar Put:

- Buy a long-term expiration (say third month contract) Put with a near the money strike price.
- Sell a short-term Put (say this month or near month contract) with the same strike price and same lot size.

Outlook

- With a Calendar Put, your outlook is **<u>neutral to bearish</u>.** You expect a steady fall.
- Limited potential profit and limited potential loss.
- Predefined risk reward ratio.
- Strategy Structure: Sell ATM **or** Near OTM Put of this month and Buy ATM **or** Near OTM Put of third month.

Trading Rules

- Ensure that underlying is in downtrend or range bound and identify clear area of resistance.
- If underlying is in overbought zone, you should get a sell signal. Sell signal here is that the underlying should close below the previous days' low for three consecutive days.

- Use your own technical analysis tool to find out the resistance and sell signals.
- Selling PE strike should be 0.50 delta (if Neutral) or Nearest OTM (if you are bearish) of this month contract.
- Buying PE should be of same strike and same quantity; only difference is Buying PE should be of long term say third month contract.
- If stock rises above your stop loss, this strategy requires adjustment.
- Stop loss should be close above previous days' high.
- Disadvantage: Time decay works against your bought PE, so give yourself a plenty of time to be right.
- If you are trading with stocks you should trade with highly liquid stocks.

Net Position

- This is a **net debit** transaction because your bought PE will be more expensive than your sold PE, which has less time value.
- Your maximum risk on the trade itself is limited to the net debit of the bought put less the sold put. Your maximum reward is limited to the residual PE value when the stock is at the strike price at the first expiration, less the net debit.

Below is an example of a calendar put on Nifty:

- Nifty is trading at 8296.00(assume that Nifty is in downtrend or Nifty is in overbought zone and while initiating the trade it has closed below previous day's low).
- **Sell 1 lot Nifty 8300PE(November 16's Contract) @ ₹ 137.95**
- **Buy 1 lot Nifty 8300PE(January 17's contract) @ ₹ 275.00**
- **Net debit = Premium of bought strike – Premium of sold strike**
- **275-137.96=137.70**

Exiting the Position: Primary Exit

- With this strategy, you can simply square off the spread by buying back the calls you sold and selling the calls you bought in the first place if you are in good profit of 3% to5%.

Adjustment:

- If underlying rises by 1.25% to 1.5% on next day of your entry day or if it rises on any day and if trade is in loss, then square of the bought PE and convert this to diagonal Put spread with a new position with new strikes.
    - **Our original position is**
    - Sell 1 lot Nifty 8300PE (November 16's Contract)
    - Buy 1 lot Nifty 8300PE (January 17's) **square off 8300PE**
    - **Buy 1 lot Nifty 8200PE (January 17's) New Position.**
    - **You can roll up sold PE by one strike if underlying continues to rise their by enhancing the profit%**

- If underlying falls by 1.25 to 1.5 % or more on next day of your entry day or on any day and if you are in loss, then square of the sold position (High probability that you may be in a bit profit or at breakeven) Roll down the sold PE by one strike.

- **For example: If underlying fall to 8119**
  Our original position is

  - Sell 1 lot Nifty 8300PE (November 16's Contract) Square off the trade
  - Buy 1 lot Nifty 8300PE (January 17's contract) continue to hold the position.
  - **Sell 1 lot Nifty 8200PE (November 16's) New Position.**
  - **Traders can roll down the sold put if underlying continues to goes down there by enhancing the profit%**

Exiting the Position:

- With this strategy, you can simply unravel the spread by buying back the Puts you sold and selling the Puts you bought in the first place if you are in good profit of 3% to5%.

- Advanced traders may leg up and down as the underlying asset fluctuates up and down as explained in above adjustment. In this way, you can take incremental profits before the expiration of the trade.
- After closing of sold PE in profit and if underlying is still in mild downtrend or in neutral traders are suggested to sell next month contract of near OTM or ATM PE

Mitigating a Loss:

- Square off the trade as described previously.
- Advanced traders may choose to only partially unravel the spread leg-by-leg in this way.

If your outlook is neutral you can trade calendar Call and calendar Put together and adjust as per above adjustments.

RATIO SPREADS

Very Important Note:
Read the whole document till you understand the strategies better. Your logic and Understanding of the strategies should be very clear before you trade with real money. If you are novice or intermediate, to gain experience, I recommend that you trade with virtual money only for the next 6 months.
This strategy can generate very good returns if you are sure and correct with direction but you can lose money too. So you need a bit more experience to trade it. Therefore it is suggested that you stick to virtual trading for the next six months.

1. Ratio Call Spread:-

- Outlook: Bullish to Neutral.
- Net Position: **Net credit** to maximize your profit potential.
- Appropriate time period to trade: 35 to 45 trading days.
- Selection of Strikes:
  - Lower strike: Buy 1 lot ITM or Nearest OTM CE.
  - Higher strike: Either Sell 2 lots CE 1 strike above the bought strike.
  - Or Sell 3 lots, 2 to 3 strikes above the bought strike (Ensure your position is in net credit).
- Expiration: Use same expiration date for both the legs normally next month or third month contracts.
- Trend: Try to ensure trend is downward or sideways and identify the clear area of resistance (You can use Option chain to find support and resistance highest total open interest holding strike for resistance or use your own technical analysis to find the resistance).
- Strategy requires adjustment if stock starts attacking against your view.

- Example: In the month of November 16 assume that Nifty is trading @ 8500

✓ Buy 1 lot 8600CE December 16 or January 17 Contracts.
✓ Sell 2 lots of 8700CE December 16 or January 17 Contracts.
✓ (Ensure you have 35 to 50 trading days to trade your strategy).
✓ **Buy (+) 1 lot 8600CE @ ₹ 140.00**
✓ **Sell (-) 2 lots 8700CE @ ₹ 100.00**
✓ Net Credit: 200 -140 = 60.00 per lot.

<u>Goal</u>: establish for a credit prior to 35-45 trading days & close for another credit at two weeks to 10 days prior to expiration.

Closing a ratio spread may result in a profit or a loss, depending on the underlying price, the time to expiration and the level of implied volatility.
A position should be closed when:

- The profit target is achieved. 2% to 5%
- The pre-determined maximum loss is reached.
- The market outlook is extremely uncertain and increasing losses are feared.

Adjustments:

- Option 1:- <u>Buy back (cover/square off) one of the short options; create one vertical spread. (if Underlying move 1.5 to 2 time Std. deviation)</u>
- Original Position: Nifty is @ 8500
  Buy (+) 1 lot 8600CE @ ₹ 140.00
  Sell (-) 2 lots 8700CE @ ₹ 100.00

If Nifty reached to 8600 create a new position as under
Square off 1 lot out of sold 2 lots, so our new position will be

Bought (+) 1 lot 8600CE continue to hold and
Sold (-) 1 lot 8700CE continue to hold.

- Option 2:- <u>Buy one more of the long options; create two vertical spreads.</u>
- Original Position: Nifty is @ 8500

  Buy (+) 1 lot 8600CE @ ₹ 140.00

  Sell (-) 2 lots 8700CE @ ₹ 100.00

  If Nifty reached to 8600 create a new position as under

  Buy 1 additional lot of 8600CE so our new position will be as under,

  Buy (+) 2 lots 8600CE @

  Sell (-) 2 lots 8700CE @

- Option 3:- Roll the two short options to a further-away strike; extend the range of profitability and the break-even point.
- Original Position: Nifty is @ 8500

  Buy (+) 1 lot 8600CE @ ₹ 140.00

  Sell (-) 2 lots 8700CE @ ₹ 100.00

- **Nifty has reached to 8600 Square off sold 8700CE and continue to hold bought 8600CE, so our new position will be**

  Buy (+) 1 lot 8600CE.

  Sell (-) 2 lots 8800CE.

- **Or Convert it to long call butterfly**
- Original Position: Nifty is @ 8500

  Buy (+) 1 lot 8600CE @ ₹ 140.00

  Sell (-) 2 lots 8700CE @ ₹ 100.00

- **Nifty has reached to 8600, buy 8800CE and continue to hold bought 8600CE and 8700 positions, so our new position will be**

  Buy (+) 1 lot 8600CE.

  Sell (-) 2 lots 8700CE.

  Buy (+) 1 lot 8800CE.

2. Put Ratio Spread:-

- <u>Outlook</u>: Bearish to Neutral.
- Net Position: **net credit** to maximum your profit potential.
- Appropriate time period to trade: 35 to 45 trading days.
- Selection of Strikes:
  - Lower strike: Buy 1 lot ITM or Nearest OTM PE.
  - Higher strike: Sell 2 lots PE 2 strike below the bought strike. (Ensure your position is in net credit).
- Expiration: Use same expiration date for both the legs normally next month or third month contracts.
- Trend: Try to ensure trend is upward or sideways and identify the clear area of support (You can use option chain to get support and resistance highest total open interest holding strike for support or use own technical to find the resistance).
- Strategy requires adjustment if stock starts attacking against your view.

Example: In the month of November '16, assume Nifty is trading @ 8700

- ✓ Buy 1 lot 8600PE December 16 or January '17 Contracts.
- ✓ Sell 2 lots of 8500PE December 16 or January '17 Contracts.
- ✓ (Ensure you have 35 to 50 trading days to trade your strategy).
- ✓ Buy (+) 1 lot 8600PE @ ₹ 140.00
- ✓ Sell (-) 2 lots 8500PE @ ₹ 100.00
- ✓ Net Credit: 200-140= 60.00 per lot.

<u>Goal</u>: establish for a credit prior to 35-45 trading days & close for another credit at two weeks to 10 days prior to expiration.

Closing a ratio spread may result in a profit or a loss, depends on the underlying price, the time to expiration and the level of implied volatility.

A position should be closed when:

Primary Exit

- The profit target is achieved 2% to3% of total investment.
- The pre-determined maximum loss is reached.
- The market outlook is extremely uncertain and increasing losses are feared.

Adjustments:

- Option 1. Buy back (cover/square off) one of the short options; create one vertical spread.
- Original Position: Nifty is @ 8700

  Buy (+) 1 lot 8600PE @ ₹ 140.00

  Sell (-) 2 lots 8500PE @ ₹ 100.00

  If Nifty reached to 8600 create a new position as under

  Square off 1 lot out of sold 2 lots of 8500PE, so our new position will be

  Bought (+) 1 lot 8600PE continue to hold and

  Sold (-) 1 lot 8500PE continue to hold.

- Option 2:- Buy one more of the long options; create two vertical spreads.
- Original Position: Nifty is @ 8700

  Buy (+) 1 lot 8600PE @ ₹ 140.00

  Sell (-) 2 lots 8500PE @ ₹ 100.00

  If Nifty reached to 8600 create a new position as under

  Buy 1 additional lot of 8600PE so our new position will be as under,

  Buy (+) 2 lot 8600PE

  Sell (-) 2 lots 8500PE

- Option 3:- Roll the two short options to a further-away strike; extend the range of profitability and the break-even point.
- Original Position: Nifty is @ 8700

  Buy (+) 1 lot 8600PE @ ₹ 140.00

Sell (-) 2 lots 8500PE @ ₹ 100.00

- Nifty has reached to 8600 Square off sold 8500PE and continue to hold bought 8600PE, so our new position will be

  Buy (+) 1 lot 8600PE
  Sell (-) 2 lots 8400PE

- **Or Convert it to long put butterfly**
- Original Position: Nifty is @ 8700

  Buy (+) 1 lot 8600PE @ ₹ 140.00
  Sell (-) 2 lots 8500PE @ ₹ 100.00
- **Nifty has reached to 8600 and continue to hold bought 8600PE and 8500PE and buy 1 lot 8400PE, so our new position will be**

  Buy (+) 1 lot 8600PE
  Sell (-) 2 lots 8500PE
  Buy (+) 1 lot 8400PE

Profit Booking: Book the profit if you are getting anything between 2% to 5% before expiry.

If your view on market is neutral then trade Call and Put ratio together with nearest OTM strike if traders view is slightly bullish or bearish then it is suggested to select slightly OTM strikes.

Short Strangle:-

- **Short Strangle**: Employed when view is ‘No sharp directional moves and market expected to be in broad range’.
- **Profit**: Limited potential profit i.e. Premium received.

- **Maximum Profit**: Highest when underlying closes exactly in middle of range.
- **Maximum Loss**: Unlimited potential loss if underlying moves beyond range in either direction.
- **Strategy Structure: Sell OTM CE and Sell OTM PE.**

VI. **Time period to trade this strategy**: One should have 35 days to 50 days for expiry. (Always next month contracts).

VII. **Vix**: It is better to initiate this trade when India Vix is near 17/18 during bull market and 20 to 24 during bear market.

VIII. **Preferred strikes**: Trade in the Nifty strikes ending with 00's not 50's.

IX. **Selecting strikes**: Call Options: Selling strike should be 400 to 500 points above the spot price (Not the future price) or CE strike which has got less than 0.20 Delta.

X. Put Options: Selling strike should be 400 to 500 points below the spot price (Not the future price) or PE strikes which has less than -0.20 Delta.

XI. You should collect the premium of ₹ 90 to ₹ 110

XII. You should initiate both the legs at a time.

XIII. You can trade this strategy either from 15th of this month to 15th of next month for next month contract or on 1st day of new series for next month contract.

XIV. Try to ensure that no news is coming out soon or you should not trade this strategy if you are expecting any event like budget meet /monetary policy /fed policy/national election results etc.

XV. Buy back the both the options if the position is profitable but you think news may emerge about the underlying stock.

Example: if Nifty spot is trading at 8600 on 28th November, select December month's contracts.

- Selling CE strike should be 400 points above the spot price, so in our case it will be 9000CE

- Selling PE strike should be 400 points below the spot price, so in our case it will be 8200PE.

Now we have completed both the legs of trade: details are as under.

e) **Short 9000CE @ ₹ 71.00**
f) **Net Credit = Premium Received by selling 9000CE ₹ 71**
g) **Short 8200PE @ ₹ 53.00 Net Credit ₹ 53.00**
h) **Total Net credit of a strangle: 71.00+53.00 = 123**

This strategy is high risky strategy because one side is always naked. This strategy is only for advance traders who know how to adjust it. This strategy is not for novices or intermediates.

Primary Exit: **Exit this strategy once 50% of the premium erodes.**

You can choose any one of the following adjustment options if underlying goes against the view.

Adjustments:

On any day if Nifty falls by 120-150 or more points square off the entire position and create a new position with a strikes of same distance from spot price.

With reference to above example assume that Nifty is trading at 8600 and immediate next day of your trade nifty falls to 8450/8400 levels then square of 9000CE in profit and 8200PE in loss. Now create a new position with selling of 8800CE and 8000PE you may get almost same premium or higher premium depends on Vix or implied volatility. You are suggested to do this adjustment if Nifty falls by 120/150 or more points in one day.

Or

Assume that Nifty is trading at 8600 and immediate next day of your trade nifty goes up to 8750/8800 levels then square of 9000CE in loss and 8200PE in profit. Now create a new position with selling of 9100CE and 8300PE you may get almost same premium or higher premium depends on Vix or implied volatility. You are suggested to do this adjustment of if Nifty goes up by 120/150 or more points in one day.

Or

On any day if your total position in loss of ₹ 5 to 6 you are suggested square off entire position and enter new position with new strikes with same distance from the spot.
For Example assume that you have shorted 9100CE@ ₹ 71.00 and 8200PE @ ₹ 53.00. You have sold this strangle @ ₹ 124.00 as and when the cost of this strangle becomes ₹ 130-132.00 square 9100CE and 8200PE and enter new short strangle either by selling 9200CE and 8300PE if the loss is from CE side or 9000CE and 8100PE if the loss is from PE side.

Or

If you are technically sound, and if there is a gap down opening buy PE with one strike below the sold PE and roll down sold CE to 1 strike below the sold CE and hold till the underlying gives reversal signal.
For example you have sold Nifty 9100CE and 8200PE on any day if there is a gap down opening then buy equal lots of 8100PE and roll down the sold CE to 1 strike below i.e. square off 9000CE and sell 8900CE and hold bought PE and newly sold CE till you get reversal signal (Price closing above previous day's high).
If there is a gap up opening buy CE with one strike above the sold CE and roll up the short position to 1 strike above the sold PE and hold

these new positions till the underlying gives reversal signal or during consolidation period hold it till you get expected profit.

For example you have sold Nifty 9100CE and 8200PE on any day if there is a gap up opening then buy equal lots of 9200CE and square of 8200PE and sell 8300PE hold bought CE and sold PE till you get reversal signal (Price closing below previous day's low).

This adjustment is called as long Iron Condor.

If you want to use Greek's for adjustment: if sold CE's or PE's strike's delta becomes 0.25 to 0.30 or more adjust the trades as mentioned above CE or PE side.

1. Short Straddle:-

- **Short Straddle**: Employed when view is 'No sharp directional moves and market expected to be in broad range'.
- **Profit**: Limited potential profit i.e. Premium received.
- **Maximum Profit**: Highest when underlying closes exactly at sold strike.
- **Maximum Loss**: Unlimited potential loss if underlying moves beyond range in either direction.
- **Strategy Structure: Sell ATM CE and Sell ATM PE.**
- **Time period to trade this strategy**: One should have 35 days to 50 days for expiry. (Always next month contracts).
- **Vix**: It is better to initiate this trade when India Vix is near 17/18 during bull market and 20 to 24 during bear market.
- **Preferred strikes**: Trade in the Nifty strikes ending with 00's not 50's.
- You should collect the premium of ₹ 300 to ₹ 350
- You should initiate both the legs at a time.

- You can trade this strategy either from 15th of this month to 15th of next month for next month contract or on 1st day of new series for next month contract.
- You can trade this strategy once the sharp rally is over and you are expecting a consolidation.
- Try to ensure that no news is coming out soon or you should not trade this strategy if you are expecting any event like budget meet /monetary policy /fed policy/national election results etc.
- Buy back the both the options if the position is profitable but you think news may emerge about the underlying stock.

- **Example: if Nifty spot is trading at 8600 on 28th November, select December month's contracts.**
- **Sell 8600CE and 8600PE**
- Preferably you should get a premium of ₹ 300-350 if it is this month contracts (if you have 4 to 5 weeks to expiry) contracts and ₹ 375-400 if it is next month contracts.

This strategy is high risky strategy because one side is always naked. This strategy is only for advance traders who know how to adjust it. This strategy is not for novices or intermediates.

Primary Exit: Exit this strategy once 40% to 50% of the premium erodes.

You can choose any one of the adjustment options as per the direction of the market.

Adjustments:

- If you are technically sound, and if there is a gap down opening buy PE with one strike below the sold PE and roll down the sold CE to 1 strike below the originally sold CE and hold till the underlying gives reversal signal.
- For example you have sold Nifty 8600CE and 8600PE on any day if there is a gap down opening then buy equal lots of 8500PE and square off 8600CE and sell 8500CE and hold bought PE and newly sold CE till you get reversal signal(Price closing above previous day's high).
- If there is a gap up opening or closed by +1.25 to 1.5% on any day buy CE with one strike above the sold CE and square off sold PE and roll up by 1 strike above the sold PE and hold till the underlying gives reversal signal.
- For example you have sold Nifty 8600CE and 8600PE on any day if there is a gap up opening then buy equal lots of 8700CE and square off 8600PE and sell 8700PE and hold bought CE/newly sold PE till you get reversal signal (Price closing below previous day's low).
- **This adjustment is called as long Iron Butterfly.**
  If you want to use Greek's for adjustment: if sold CE's or PE's strikes delta becomes 0.65 or more adjust the trades as mentioned above CE or PE side.

Iron Butterfly:-

- **Iron Butterfly**: Employed when view is 'No sharp directional moves and market expected to be in broad range'.
- **Profit**: Limited potential profit i.e. Premium received.
- **Maximum Profit**: Highest when underlying closes exactly at sold strike.
- **Maximum Loss**: limited potential loss if underlying moves beyond range in either direction.
- **Strategy Structure: Sell ATM CE and Sell ATM PE and Buy OTM CE and buy OTM PE.**
- **Time period to trade this strategy**: One should have 35 days to 50 days for expiry. (Always next month contracts).
- **Or 10-12 trading days before expiry** for that month expiry if underlying is in consolidate mode.
- **Vix**: It is better to initiate this trade when India Vix is near 17/18 during bull market and 20 to 24 during bear market.
- **Preferred strikes**: Trade in the Nifty strikes ending with 00's not 50's
- You should initiate all 4 legs at a time.
- You can trade this strategy once the sharp rally is over and you are expecting a consolidation.
- Try to ensure that no news is coming out soon or you should not trade this strategy if you are expecting any event like budget meet /monetary policy /fed policy/national election results etc.
- Square off the all the legs if the position is profitable but you think news may emerge about the underlying stock.

Example: if Nifty spot is trading at 8600 on 28th November,

- Selling CE strike should be ATM CE, so in our case it will be 8600CE and buying CE strike 200 points above 8600CE is 8800CE.

- Selling PE strike should be ATM PE, so in our case it will be 8600PE and buying PE strike 200 points below 8600PE is 8400PE.

Now we have completed all legs of trade: details are as under.

i) **Short 86000CE @ ₹ 180.00**

j) **Long 8800CE @ ₹ 80.00. Net Credit = Premium Received by selling 8600CE –Premium paid to buy 8800CE i.e. 180-80 = ₹ 100.00**

k) **Short 8600PE @ ₹ 130.00**

l) **Long 8400PE @ ₹ 50.00 Net Credit = Premium Received by selling 8600PE -Premium paid to buy 8400PE= ₹ 80.00**
Total Net Credit 180

Exiting the trade:

- ✓ Exit once the Vix comes down between 14-12% during bull market and 16 to 17% during bear market.
- ✓ **Primary Exit: Exit this strategy once 40% to 50% of the premium erodes.**
- ✓ **You can choose any one of the adjustment options as per the direction of the market.**

Adjustments:

- If you are technically sound, and if there is a gap down opening or if underlying closes by 125 to 150 points in one day roll down your sold PE below bought PE convert this strategy i.e. a combination of bear call spread and bear put spread roll down your sold CE one strike below.
- For example you have sold Nifty 8600CE and 8600PE and bought 8800CE and 8400PE on any day if there is a gap down opening or close with 125 to 150 points then square off 8600PE and sell equal lots of 8300PE and square off 8600CE and sell 8500CE and hold bought PE and newly sold CE till you get reversal signal (Price closing above previous day’s high).

- If there is a gap up opening or closed by +1.25 to 1.5% on any day roll up the sold CE with one strike above the bought CE and square off sold PE and roll up by 1 strike above the sold PE converting it to a combination of Bull put spread and Bull Call spread combination and hold till the underlying gives reversal signal or till Profit booking.
- For example you have sold Nifty 8600CE and 8600PE on any day if there is a gap up opening or closes with 125 to 150 points then square off 8600CE and sell 8900CE and square off 8600PE roll it to 8700PE hold this position till you get reversal signal (Price closing below previous day's low).
- Or if Underlying consolidates book the profit or may be protecting the capital

If you are using Greek's for adjustment: if sold CE's or PE's strikes delta becomes 0.65 or more adjust the trades as mentioned above CE or PE.