MBA 772A: Derivative Contracts
Course Project

Payoff Tables and diagrams:
https://docs.google.com/spreadsheets/d/1peFhfzUGwvB10VVDXhskpGeqIDL-Qk1Q3yGHVE6-UAQ/edit?usp=sharing

1. Deliverable 1 :

Title: Nifty
Author: Chandan Taparia
Date: Oct 04, 2020
Source of the article: The Economic Times.
https://economictimes.indiatimes.com/markets/stocks/news/day-trading-guide-for-mondays-market/articleshow/78473712.cms?from=mdr

Verbatim text of the article:

NIFTY : OPTION STRATEGY : BULL CALL SPREAD : +11400 CE - 11550 CE : (08th October, Weekly expiry)

BUY 1 LOT OF 11400 CALL @ 104
SELL 1 LOT OF 11550 CALL @ 38

NET PREMIUM RECEIVED : 66 POINTS

KEEP SL OF NET PREMIUM OF 31 POINTS : RISK OF 35 POINTS)
KEEP TARGET OF NET PREMIUM OF 136 POINTS : REWARD OF 70 POINTS

RATIONALE:

Nifty has been making higher lows from last few sessions
Put Call Ratio has seen recovery from lower zones with Put writing at immediate strikes could hold the support. Volatility is gradually cooling down which is

suggesting some stability. Thus, suggesting Bull Call Spread to get the benefit of bounce back move in the market.

Explaining the trading strategy:
This is a Bull call spread option trading strategy on Nifty.
There are two calls:
a). Long call at K1 = 11400 and its premium 104
B). Short call at K2= 11550 and its premium 38.
Initial Investment is 104- 38 = 66.
Preferred by investors who are moderately bullish.

Our Understanding of the rationale recommended by the analyst:
From the last few sessions,Nifty has been making higher lows, the put call ratio has seen recovery from lower zones and volatility is gradually cooling.
This suggest that the lows that Nifty has been making is improving now and volatility is cooling suggesting stability; It does not implies a very much bullish condition for the Nifty but indicating that It is recovering from the bad phase and the volatility is cooling down - expected to perform better ; moderately bullish and not risky but rather stable.
Hence,Bull call spread would be preferable to use.

Key learning from analysing the trading strategy:
By analysing the market(index or stock) properly, we can understand the nature of how the market would be , like moderately bullish in this. Insteading of investing all money in a contract; we can make use of our understanding of the nature of the market and can build a trading strategy by combining different contracts like Long Call and Short Call in this case. The benefit would be that the trading strategy designed from the combination which is Bull Call spread in this case would give us better net profit(minimizing our risk) for the moderately bullish price range than simply investing in only one contract.
Hence,Investors can make better profits,reduce their risks by forming the appropriate trading strategy corresponding to the analysed market nature.

Deliverable 2. NIFTY: OPTION STRATEGY: BEAR PUT SPREAD

Buy Nifty 11700 Put at Rs 75.95 & simultaneously sell 22 Oct Expiry 11500 Put at Rs 28.30 (22th October, Weekly expiry)

Lot Size 75.
Cost of the strategy Rs 75.45 - 28.30 = Rs 47.65 (Rs 3573.75 per lot)

Maximum profit Rs 11426.25 for complete lot (Rs 152.35*75) If Nifty closes at or below Rs 11500 till 22 October expiry.

Break-even Point: Rs 11,652.35
Current Spot Price: Rs 11762.45

Rationale:

- Short build up is seen in the Nifty Futures' where we have seen 7%(Prov) rise in the Open Interest with Nifty falling by 2.4%

- Nifty has broken down on the daily chart where it closed below its 11-day EMA first time in the month of October

- RSI Oscillator is showing negative divergence on the hourly chart

- Index heavyweight sectors like IT and OIL/Gas sector turned weak on the short-term chart

- With the upcoming U.S elections one should also keep an eye on the India VIX which will rise with upcoming elections indicating a rise in volatility.

In this strategy, net risk of the trade is reduced because the net loss is limited to the cost of the bear put spreads. But if the price falls off by a greater amount then the trader gives up the ability to claim that additional profit. So this is a trade-off between risk and potential reward.
So we will recommend this strategy to a trader who is **Risk Averse**