

In this thread, I'll walk you through my set up, absorb it as much as you can. The instrument that I trade in are Nifty (NF) options

DJ's (@ITRADE191) Trade Set up

- This set up is for new traders, who do not have a proper system or/and for Abhimanyu traders (who cant exit and end up holding the position in losses)
- This set up will help in:
 - Capital Protection
 - Lower drawdowns
 - Trending days can be captured
- Have a realistic expectation, don't expect this set up will start making you money the very next day, as practice is the only key to success. The more you practice, the more this set up would be easier for you to understand



How to set your charts:

DJ's (@ITRADE191) Trade Set up

On Nifty Futures chart in 5 min TF add the following:

1. 50 EMA
2. VWAP
3. RSI (settings 40 on the lower & 60 on the upper)
4. Volume (with 20 MA line)
5. Pivots (Traditional Auto)
6. Previous Day High (PDH) & Previous Day Low (PDL)
7. Change in OI



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Lets try to understand what to sell when 50EMA, VWAP & RSI works in different scenarios

Decoding the set-up

- Scenario 1:
 - If the price is trading above VWAP, 50EMA, RSI > 60 & the volumes are rising then sell PE's
- Scenario 2:
 - If the price is trading below VWAP, 50EMA, RSI < 40 & the volumes are rising then sell CE's
- Scenario 3:
 - If the price is trading between 50EMA & VWAP and the RSI is between 40 & 60, in such case one can sell a strangle (i.e. OTM CE & OTM PE)

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27-06-2021

What options to sell and how to place the SL

The interpretation of the set up

- You can sell ATM or 2-3 strikes lower or higher than ATM (as they have as we have defined SL in place. Don't trade ITM as it will work more like a future. If you are a beginner)
- Once you zero in the strike you wish to sell, open the option chart in 5min TF and add VWAP & 50EMA to it.
- Be it a CE or a PE or both in case of strangle ensure the option prices are trading below VWAP & 50 EMA
- The SL for the sold option should be either the VWAP or 50EMA whichever is higher. For eg. Lets assume you sell a CE at ₹60 VWAP is at ₹75 and 50 EMA is at ₹85 then the higher of the two is ₹85 and hence you can place a SL of ₹85 in the system. We are keeping a far away SL because in case of a sudden spike and then a cool off, our SL won't get hit, and you can still be able to hold the trade (without the SL hunt)
- However, if option price (within this option chart) is slowly inching up, don't wait for the SL to get hit in the system, exit the option as soon as the option price closes above the VWAP in 5 min TF
- Lets say you have sold a strangle and your PE leg SL gets hit then watch the move of Nifty and if it clearly coming down, and even CE option prices are also falling below 50EMA & VWAP then immediately sell CE's

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Important to have a birds eye view
when trading in NF options as many
stocks influences its movement

Other things to monitor

- As highest theta decay happens when the options are closer to the expiry, this system will work well on the following days:
 - Tuesday
 - Wednesday &
 - Thursday
- Other things to be monitored includes movement of few Nifty heavyweights, viz. Reliance, HDFC twins, ICICI Bank, SBI, INFY, TCS. Eg: Lets assume Reliance, Infy & TCS are down, however NF is moving higher, in such cases sell a far away PE or go for Bull PE spread i.e. Sell 15600 PE and buy 15500 PE



Why Previous Day Low (PDL), Previous Day High (PDH) & Pivots (standard) matters

Importance of Pivots & PDH & PDL

- Pivots point are important, as they act as Support & resistance. Lets say NF took support and pivot and is trending higher the next resistance (unless otherwise mentioned) is at R1, so if you can sold a PE, you can either book that PE when NF reaches at R1 or wait to see if it is able to break that R1 and is trending even higher, in that case, you can trail your SL to the existing PE and can short additional PE according to your position sizing
- Similarly PDL & PDH plays a vital role, If NF breaks PDL then the fall would accelerate more and vice versa if it breaks the PDH.
- You can see in all my charts where I post the trade logic, I mention NF took support of the PDL or breaks PDL and hence I did so & so.

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Another element that I look at is Change in Open Interest (OI)

Importance of change in OI

NF Price

- Rising
- Declining
- Rising
- Declining

Change in OI

- Rising
- Declining
- Declining
- Rising

What to sell?

- PEs
- CEs
- Either profit booking or short covering, if volume is low sell a strangle if volume is high then sell a PE
- Either profit booking or Long unwinding, if volume is low sell a strangle if volume is high then sell a CE

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Example of change in OI

CALLS														PUTS											
OI	CHNG IN OI	VOLUME	IV	LTP	CHNG	BD QTY	BD PRICE	ASK PRICE	ASK QTY	STRIKE PRICE	BD QTY	BD PRICE	ASK PRICE	ASK QTY	CHNG	LTP	IV	VOLUME	CHNG IN OI	OI					
180	0	47	25.81	921.00	91.53	75	495.90	912.20	75	15,330.00	75	4.35	4.80	825	-4.35	4.80	20.88	29,847	-438	5,324					
1,776	173	1,988	18.14	466.30	71.03	75	461.00	462.85	75	15,330.00	75	5.70	5.90	75	-5.85	5.90	19.72	1,34,994	5,517	26,244					
975	92	1,517	16.92	412.20	68.91	8,475	404.30	414.40	150	15,330.00	150	6.30	6.55	75	-6.15	6.55	18.42	75,940	-2,918	6,623					
3,331	462	433	14.95	364.90	63.40	150	362.40	365.55	75	15,800.00	75	8.80	8.90	75	-11.80	8.90	17.86	2,17,370	453	26,348					
765	48	1,333	16.49	319.30	81.40	7,725	272.40	318.75	750	15,800.00	450	10.80	11.45	75	-15.60	11.45	16.97	1,14,830	4,921	11,797					
5,294	715	23,540	15.90	276.40	55.10	600	270.15	272.95	750	15,800.00	75	15.75	15.80	75	-21.55	15.80	16.49	3,03,418	5,729	40,746					
4,201	7,715	14,719	15.79	229.70	51.65	75	227.05	230.00	150	15,800.00	150	21.40	22.00	75	-27.75	22.00	16.07	1,78,946	12,051	18,968					
12,844	-1,822	1,06,719	15.20	197.90	43.15	75	196.70	199.00	2,626	15,800.00	3,075	31.05	31.25	8,800	-36.80	31.10	19.72	4,48,703	12,455	39,073					
4,679	-5,781	88,451	14.95	148.10	32.80	75	148.10	150.00	75	15,800.00	225	49.00	49.80	1,630	-44.25	49.80	19.27	2,23,281	7,683	17,624					
34,618	-11,402	6,61,837	14.66	114.80	23.50	75	114.90	116.00	14,175	15,700.00	75	55.35	56.70	75	-51.40	56.35	15.10	6,56,197	20,415	44,826					
21,675	7,715	4,04,993	14.57	96.00	18.55	12,975	95.00	96.50	750	15,750.00	600	79.00	80.00	180	-60.40	79.00	14.83	2,43,121	10,048	12,336					
38,464	-22	4,54,493	14.33	62.00	12.80	3,790	62.00	62.40	75	15,800.00	75	105.55	106.35	1,125	-44.05	106.35	14.65	1,96,750	9,271	12,504					
18,372	-728	2,91,149	14.10	42.70	7.80	75	42.50	43.00	7,725	16,810.00	150	135.10	136.90	75	-70.00	136.90	14.40	19,319	1,214	1,212					
32,827	7,928	4,10,807	13.86	38.10	3.40	2,023	27.90	28.05	75	15,900.00	150	170.40	172.00	1,125	-75.75	170.60	14.29	26,499	1,324	2,681					
15,929	4,315	1,77,304	13.77	17.55	3.85	676	17.50	17.70	75	15,950.00	450	210.30	214.05	2,550	-79.75	216.70	14.21	2,205	118	1,962					
44,672	3,855	4,30,221	13.83	19.90	-0.75	75	11.15	11.25	8,475	16,890.00	225	284.00	285.00	4,425	-77.50	285.00	14.53	11,154	555	9,321					

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Example of change in OI with respect to NF

S&P CNX NIFTY INDEX FUTURES (CONTINUOUS: CURRENT CONTRACT IN FRONT), 5, NSE
 VWAP (Session, hic3)
 Vol (20)
 Pivots (Traditional, Auto, 15)



Check the previous chart on change in OI

27-06-2021

No matter how perfectly you time your entries and exits, without Risk Management one cannot minimize the negative consequences of the trade

Risk Management

- To start with you can risk 1% on your capital, and try to diversify that risk by spreading into 5 trades. Eg: Lets say your capital is ₹10Lakhs, so 1% risk works out to ₹10k. So for 4 trades put together your total risk should be ₹ 10k.
- Now you have 4 positions open, the moment even 1 position's SL is trailed to cost (whenever it comes to a profit) you can again open one more position. Similarly if 2 positions or 3 or all positions are trailed into cost, you can open new position, such that at any point of time the total open risk remains constant at 1% of your capital.
- If you are a complete beginner, and you have a capital constrain then spreads are advisable as the overall margin required reduces and also the max loss is always fixed, and risk is always under check.

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27-04-2021

Now apply this in your trading with proper risk management and don't undermine the role of practice, and try to get a hang of this set up

Promote what you love

- This set up is not for pro traders, as pro traders have a tried and tested set up which works for them, this is for those who are struggling with their set up or who do not have a set up.
- We believe in this, 'Promote what you love instead of attacking what you hate', so if you didn't like this set up, simply ignore it!



5:20



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- We believe in this, 'Promote what you love instead of attacking what you hate', so if you didn't like this set up, simply ignore it!
- Now that the set up is revealed, go & mint some money!

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27-04-2021



1. At the start of the week

i.e. on Friday and Monday, DJ Sir prefers to sell OTM options of 50 rs premium in Nifty.

- ATM options won't decay a lot at the beginning
- With this premium reward is good
- Since these strikes are 4-5 strikes away they are relatively safer

HOW TO CHOOSE OPTION STRIKES, AT THE START OF THE NEW WEEKLY EXPIRY?



- Friday is the start of the new week:
- Hence on Fridays & on Mondays prefer to sell OTM options i.e. Options having Premium of Rs. 50

2. On Tue/Wed/Fri

He prefers to trade in ATM or near OTM options.

- ATM options have the highest theta decay
- Since there are only 2-3 days to expiry options sellers by default have a higher probability of winning
- Huge reward if market stays flat

HOW TO CHOOSE OPTION STRIKES DURING THE MID WEEK OF WEEKLY EXPIRY



- Tuesday Wednesday & Friday as we get closer to the expiry:
- OTM has less premium
- ATM as usual will have good premiums and hence prefer to play in ATM options as there is faster decay and time decay being friend of option writers, gives higher probability of winning on these days.

3. Directional/Trending days

- Capture huge profit via ATM option selling
- Futures only where he has good conviction
- Even if doesn't trend much decay will be huge
- Only on days Tuesday to Thursday

HOW TO CHOOSE OPTION STRIKES DURING TRENDING MARKETS?



- On days where there is a range BO, and the direction is clear and the market is expected to trend fast
- Sell opposite side ATM options as the decay will be faster
- Fast movement day whenever he feels the market will be trending that time also he trades in ATM. Prefers not to trade in futures but ATM options on these specific days.

4. Which series to trade options in?

- INTRADAY trades option selling is ONLY in weekly expiry
- Option buying for hedging is done MAJORLY in next week/monthly expiry
- This way we have time to adjust
- Theta decay slower than weekly

WHEN TO BUY & WHEN TO SELL OPTIONS

- Option selling: always do in current week as time decay will be your friend
- Option buying can be done for two reasons:
 - To hedge the current position
 - To capture the fast move whenever there is a range BO or BD

Pro Tip: in case of option buying always buy next week/ monthly options as the decay will be less



5. Positional trades of

Collects huge premiums in monthly options

- Lesser adjustments compared to weekly
- Better focus on Intraday trades in weekly
- Lot of time to be proved right/wrong in our trade

PREFER MONTHLY POSITIONAL TRADES OVER WEEKLY

- *Weekly trades have less premium whereas in monthly trades one can collect hefty premiums. Eg: Weekly straddles premium is usually of Rs. 200 whereas monthly straddles have a premium of Rs. 500-60.
- *In case the trade goes against us in weekly one has to either take an SL or adjust very aggressively.
- *Moreover, intraday option selling is done in weekly one has to then also concentrate on the positional weekly ones which may become chaotic.
- *However in case the trade goes against us in monthly positional there is ample of time and at times Nifty moves 300 points down and rallies 400 points up the later week leaving it exactly at similar levels when the trade was initially originated, this helps in eating premium as premium erodes over passage of time.
- *Since monthly options have longer duration to expire one has ample of time for adjustments and moreover since one has collected hefty premium in the monthly the break even range is also quite wide.

6. Target achieved/Loss Limit achieved

- If the target is fulfilled and he doesn't want to cut the position
- He books 70-80% of his profits and
- Keeps the remaining 20% or
- Just books all and sells safer options
- For higher probability on his side

HOW TO AVOID OVERTRADING /EXCESSIVE GREED

- First & Foremost set a target for yourself :
 - Target should be **realistic** & should be a % of your total trading capital that you have deployed for Options trading
- Once the pre-defined target gets fulfilled:
 - ✓ Book 70-80% of the profits i.e. convert the screen profit to actual and balance 20% position can be risked albeit with a strict SL
 - OR
 - ✓ Book 100% all and sell safer OTM options



7. First Trade

- Always should be a very high accuracy trade
- Resulting in a cushion in terms of profit
- Better psychology to take risk in other trades

THE POWER OF FIRST TRADE- SETTING THE TONE FOR THE DAY

- Prefers to take the first trade which has very high chances of going in favour, as that trade will not only give a cushion in terms of profit but also sets the right tone mentally that one can win this day
- The first profitable trade gives a winning attitude



8. What does he do with his Intraday trades EOD?

- Books whatever profit/loss
- Wants to take a fresh position the next day
- No wasting time firefighting

GRAB THE PROFITS & BOOK THE LOSSES OF INTRADAY BY EOD

- In Intraday close all your winning positions by EoD, because there is always a risk in carrying them overnight especially during high volatility period (the current one)
- In case the market open against one's existing position (which was carried overnight) the entire profit that was made yesterday just fades away in a flash and then right from 9.15 am one has to firefight which is a sheer waste of energy and it also drains mentally right at the start of the day, thereby setting an exhaustive tone for the day
- Similarly if the intraday positions are into losses, book that too by EoD, because market only rewards them who have the right discipline and always punishes them who TRADE ON HOPE



9. Biggest Secret/Strength

- Divides risk per day into 4 parts/trades
- When first trade in profit put sl at cost
- Again 4 lifelines restored
- Keep repeating with further trades

His primary focus is on his capital protection & secondary focus is on profit protection

BIGGEST SECRET UNVEILED

- Doesn't prefer to take all the risk in a single trade.
- Divides the risk in 4 equal buckets, thereby getting 4 chances to take a trade and to be right.
- If all the 4 trades ended up in a loss, stop trading for the day as it clearly means that one is not able to understand the market for that day
- Don't even try to recoup the lost money as bad understanding of the market with bad psychology is a perfect recipe for disaster
- These 4 lifelines will again be back as and when the first trade goes in profit and immediately trail SL to cost.
- Get out at cost or lose less while having high winning chances as the primary focus is on capital protection, making profits is secondary
- Pro Tip: Yes the biggest secret is not any strategy its purely about risk management



10. Uses portfolio stop loss

- Beginning risk appetite is of 20k loss
- When in 20k profit then sl is at cost
- For every 10k profit increase raise your sl by 10k

For eg, when in 30k profit stop loss is shifted to 20k (our target). When 40k then sl is 30k and so on. . .

IMPORTANCE OF OVERALL SL & TRADING IN SPECIFIC INSTRUMENT

- For @itrade191/ itrade(DJ), first risk in absolute terms is of Rs. 20k.
- Thereafter once he is in profit of Rs. 20k for the day then the SL is at cost i.e. at breakeven for the day.
- Thereafter for every additional 10k slab the SL too increases by 10K. For eg if MTM is 30k sl is 10k, if profit is 40k then SL is 20k and so on.
- 18 months ago when he first started option selling, he was also trading in multiple instruments viz. stock futures. Thereafter he realized that focusing only on one thing will yield better results and one can master the understanding of the particular instrument

11. Focus on one instrument only

1 and a half year ago when he started option selling that time he was trying to trade multiple instruments but later he realized that focusing on one instrument yields better results and understanding of the instrument also increases a lot.

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12. Hope this helps you in

- Choosing strikes
- Improving Risk Management
- Managing stop losses
- Focusing

Share if you learned something from this thread so that everyone can benefit.

THE END