

Strangle

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6:36 AM

- **Strangle**
 - **Both CE/PE Strike price will be different**
 - **Intra-day**
 - Stocks
 - Do strangle on the expiry day or 1-2 days before expiry.
 - Why? Because of time value.
 - ◆ Stocks the expiry will be last Thursday of a month
 - ◆ If you apply strangle till second week, you will not get much of the time value.
 - Index
 - You have weekly expiry
 - So Do strangle on Tuesday, Wednesday & Thursday only.
- **Positional**
 - Do strangle on the start of the two weeks on expiry (notes)
 - Why? You will get maximum time value at the beginning of the expiry.
- RR ratio: Not specific RR ratio. 1:2 or above is better.
- **Types:**
 - **Long Strangle**
 - **Use this when you are expecting a sharp move either side in the market/stock**
 - **When there is a upcoming event/big news/publish results on market hours**
 - You can apply this strategy when you don't know at which side market will move
 - Also this strategy is only for one Day. Not positional because event not go long. Or we can say it is an intraday
 - For example US election. At that time check the VIX (for us is S&P VIX)
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 - **HV should be low because you are buying. When HV is low, volatility & premium is also lower**
 - **Entry Steps:**
 - Find out the TLBO/TLBD
 - Mark the next Target on upside and Target on downside (immediate resistance & support)
 - While comparing with the ATM, those values are OTM. So we use the ATM of that OTM
 - ◆ For eg: OTM = 47 61.63
 - ◆ We will buy at ATM = 47 50
 - ◆ Based on that, select the ATM
 - Suppose the market move upside and achieved our target.
 - ◆ When stock price moves up,
 - ▶ call premium also go up & make profit
 - ▶ Put premium goes down & make loss
 - **When to exit:**

- **Option-1:** Wait until either target achieved. Once target achieved, get out of the trade
- **Option-2/Practical way: Wait market gives the Once direction is confirmed, exit out of the opposite**
 - ◆ Also if you have multiple targets use 5ema to trail stop loss after the first target

- **Stop Loss: No concept of SL since we bought both Call & Put options. So which ever direction market go we are ready**

Long Strangle		Spot on Expiry		
	Premium		Exit based on Option-1	Exit based on Option-2
BUY 4750 CE	52	163	111 Profit = (163-52)	111 Profit = (163-52)
BUY 4150 PE	37	3	34 (37-3)	At that time, premium was 26. So (37-26) = 11
Net profit			77	100

○ Short Strangle

Name	Understanding	Remarks
Short Strangle	You short CE & PE of different strikes at the same time	Ideal for sideways trend

- **BEP part is applicable only we doing this until expiry**
- Steps:
 - Find out the sideways action and confirm with BB for more
 - Draw the support/lower level & resistance/higher level
 - Suppose resistance is at 400 and support at 380
 - You can sell the Resistance-call : Sell CE-400
 - Also you can sell the support-PE: Sell PE-380
 - Entry:
 - ◆ **Category-1: Enter at the same time in CE & PE**
 - ◆ **Category-2: Timing your entry, when price reaches support, sell PE & when price reaches resistance, sell**

◆ BEP calculation based on Category-1:

Short Strangle			
	Premium	BEP for strangle	Remarks
Sell 400 CE	11	426 (400 + 26)	On the date of expiry if the spot above the BEP, you are starting making loss
Sell 380 PE	15	354 (380 - 26)	On the date of expiry if the spot below the BEP, you are starting making loss
Total Premium	26		

◇ **Spot on Expiry Date Calculation**

- ▶ Total Premium = Sell CE premium + Sell PE premium
- ▶ CE BEP = CE Strike Price + Total Premium
- ▶ PE BEP = PE Strike Price - Total Premium

Short Strangle			Spot on Expiry				
	Premium	BEP for strangle	450	426	390	354	300
Sell 400 CE	11	426 (400 + 26)	-39	-15	11	11	11
Sell 380 PE	15	354 (380 - 26)	15	15	15	-11	-65
Total Premium	26		-24	0	26	0	-54

◇ **Entry:**

- ▶ **Option-1: Enter at the same time in CE & PE**
- ▶ **Option-2: Timing your entry**
 - When price reaches support, sell PE
 - When price reaches resistance, sell CE

◇ **When to Exit from the trade**

- ▶ Check TLBO.BD. In case BO/BD, then you can exit out the trade. Here also you have two options
 - Wait till expiry date & if the price closes in the range of CE BEP & PE BEP, exit out of the
 - If the trade going against you, means with BB challenge (Always check it is not Fake BO/BD)
 - ◆ Exit out of the strangle completely (both & PUT)
 - ◆ Or
 - ◆ In the case of TLBO, exit out of CE
 - ◆ In that case there will be new BEP
 - ◆ PUT BEP = PE Strike Price - PE Premium
 - ◆ In the case of TLBD, exit out of PE
 - ◆ In that case there will be new CALL BEP
 - ◆ CALL BEP = CE Strike Price + Premium

◇ **Stop Loss: CE BEP on call side & PE BEP on put side**

◇ **Note:**

- ▶ **Instead of ATM 400 CE, you can use OTM of 410 CE to be more safer**
- ▶ **Also Instead of ATM 380 PE, you can use value of 370 PE to be more safer**
- ▶ **here your risk & reward will be decreased**

◆ **Spot before Expiry date Calculation (Need to check)**

- Mark both the BEP values in spot chart

- On the date of expiry
 - ◆ if the spot above the **CALL** - BEP, you are starting making loss
 - ◆ if the spot below the **PUT** - BEP, you are starting making loss

- **BEP calculation based on Category -2:**
 - ◆ At that time you will not get maximum BEP (like 26 in previous example)