r/options • 1 yr. ago
sultantrump

Update on my PortFolio Hedge Strategy

A few months back I posted this

It gave very good profit around 25% in last 10 months compared to 4% of Indian Market last year. Big fund managers lost money last year!

I will repeat the idea and some improvements. The idea is to buy ETF. Then pledge it(collateral margin) and take insurance/hedge via put butterflies or put butterfly+Put spread.

Then take a monthly (**30 to 40 DTE**) put butterfly below the index. eg. If index is at 42200.

Buy 42000 Put , sell 2x41000 Put, Buy 40000 Put or

Buy 42000 Put , Sell 41000 Put , Sell 40000 Put and Buy 39000 Put (more range) .

If market come down and reach our put butterfly mid point (41000 in the above example) early in the expiry cycle , take one more put butterfly below (to extend our downside protection range even more) and take a call butterfly above (to catch the index if it retraces back) .

If market come down and reach our put butterfly mid point by last week of expiry, take a put spread below the butterfly and call spread above the butterfly and lock the profit.

If market rally up we get profit in portfolio which we are locking by taking a new butterfly for next series. Since it is a butterfly that we took for insurance the risk reward of insurance is 1:3 or 1:4

For aggressive traders a far OTM (30 DTE) call can be sold far above (similar to covered call) to make insurance 0 cost too. However to defend this fire-fighting skills are needed and better to avoid this step if you are newbie. This is similar to covered call. Note that covered call won't protect your portfolio. Here we are taking covered call to make our hedging/insurance cost 0.

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Some points

1. Taking a cheap insurance via butterfly to protect your ETF losses if any.
2. Increasing our insurance range by adding more butterfly or a put spread below.
3. The key here is that if we win we get 3 to 4 times what we lose if market is not falling.
4. Long term ETF generally give money wiping out the unrealized losses if any.
5. We usually won't take health insurance or motor insurance for complete asset value. Here as well we are taking insurance only for 5 to 10% of a down move typically.
6. I am taking the butterflies (or butterfly + put /call spreads) on an Index which is cash settled (not physically settled)
7. I am getting an ROI of 4 to 5% every month on an average compared to 8% bank deposit every year in my country.
8. The ROI is even more for me to teach people. However I find marketing this tough as people generally follow gurus who show big profits. This strategy is little boring as 3 months continuous fall may results in net 0% return. People who hold portfolio fear options considering it as a speculative instrument even-though we are using it for hedge/insurance. People who play consider investment not as a good idea even-though we are pledging the same to get margin for our insurance. There is also no daily kick like intraday automated options strategies.
9. Since the chance of a drawdown is very less you feel like putting more capital once you do this for 2 to 3 months expiry cycle.

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profit. Or even if you do close it, you'll still have large losses on the etf to deal with.

How does this strategy work better than just buying an OTM put on the index? How far OTM are you buying the butterfly?

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sultantrump OP • 1y ago

Put butterfly is 30 to 40 dte. For underlying to move jumping over a butterfly is tough. Even if that happens we can take spreads or extra butterflies depending on how far the expiry is.

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sultantrump OP • 1y ago

OTM put or put spread just below index is expensive

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Simpler&better to hedge like with like, e.g. within same symbol, options with options, $risk with $cash, delta with delta, etccc. As opposed to stock with index or static delta with dynamic delta as you're doing here.

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sultantrump OP • 1y ago

Here it is like with like. That is ETF (same as index) hedged with the index option. However the quantity is not 1 lot.

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Please argue with me or suggest things or add some comments. Maybe when US folks wake up they will do it. There could be other strategies better than this but for them risk is there reward will be more and drawdown will also be there.

Some of the emphasis I want to add is.

- Better to take at least 30 days away 30 DTE expiry series to get good range below the index.
- Our aim is mainly to beat index returns with full peace of mind on downside.
- Long term index will give positive returns.
- Majority of Mutual Funds managers are behind index in long term. Here we are beating fund managers and index.
- Pledging the ETF will make the strategy capital efficient and ROI will be better.

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optiontraderkyle • 1y ago

in your example, can you please set out the call butterfly and where the index might be trading at?

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sultantrump OP • 1y ago

There is no call butterfly. Only put butterfly as stated in the example.

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