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AN ESSENTIAL THREAD ON OPTION ADJUSTMENTS

Adjustments can be done in variety of ways & depends totally at the discretion of the trader. To get a clear mind we need to know the following:

- 1) What to follow,**
- 2) How to make the adjustment,**
- 3) When to make the adjustment. (1/5)**

1) We need a way to measure the imbalance created by a delta move in an option strategy. We can measure through premiums, distance from index or delta of greeks (i personally use delta). So basically whatever way of measure we use, both sides should be equal in it. (2/5)

2) Adjustment can either be done by selling extra quantity of profitable side, buying the quantity of losing side or shifting both the sides. I personally shift the sides because with extra quantities our Gamma gets imbalanced & the risk increases if market reverses. (3/5)

3) While the first 2pts are objective, when to make an adjustment is totally subjective. It can be fine tuned through experience. It also depends upon what strategy u are using. For a short strangle the adjustment required is faster than a ratio spread or an IC. (4/5)

Straddle/strangle require faster adjustments because they are more vulnerable to delta or IV spike. Any other strategies like ratio spreads, ironfly, butterfly have some bought option, which can negate the spikes for a while. So we need a defined system as to WHEN to adjust.(5/n)

It becomes important that we find the imbalance of the position objectively (as explained in point 1), and then as the defined threshold of the imbalance approaches, adjust either by selling/buying extra options or shift the strikes (either losing, winning or both). (6/n)