Twitter Thread by Nikita Poojary



Nikita Poojary
@niki_poojary

Short Straddle is the highest payoff strategy.

However it comes with undefined risk.

Most traders don't know when & how to adjust the short straddle when it goes wrong.

Here are 16 adjustments to lower risk & increase profitability:■

Collaborated with @AdityaTodmal

1/ Longer-term short straddle:

• Helps in getting a big range: trade in biweekly, monthly, or far months.

• The only drawback with longer term straddles is the slippage.

• Also go for round levels both in NF and BNF as they have better liquidity.

2/ Weekly expiries will have short range:

• Leading to higher risk.

• Would require frequent adjustments.

3/ When to sit tight?

• As long as the underlying is between the breakeven point of the Short straddle, we do nothing.

• Don't adjust till breakeven comes, simply sit tight.

• Adjusting a short straddle typically brings in more credit, which increases the profit potential.

4/ When does a short straddle come into loss:

• The moment the underlying price moves towards one end of the breakeven point, your short straddle will be in loss.

• Adjustments would require additional funds, so don't go all in with your capital for shorting straddles.

5/What to do when at a loss in a short straddle?

• There are various ways with which one can manage the short straddles once it goes bad:

- Opening a new straddle
- Rolling up the winning side
- Going inverted
- Opening ratio spread etc.

• Methods explained in detail below:

6/Go inverted:

• If one side of the straddle is challenged, the opposing short option could be rolled toward the underlying to receive additional credit.

• Additional credit widens the break-even point on the challenged side of the position.

7/ Inverted short straddle continued:

• Inverted position, means the short call is below the short put

•Recommended when the options are near to expiry.

8/ Sell extra legs of winning side:

• If the underlying is going up then one can sell 2/3 times of the winning side, to increase the upper break even.

9/ Sell one more straddle:

• If one side of the straddle is challenged, open a new straddle where the underlying is trading, without closing the older straddle.

•The break even range would be wider.

• Now the payoff would be like a short strangle.

10/ Do a ratio on the losing side:

• If the underlying is moving up continuously then open a CE ratio spread & vice-versa on the downside.

11/ Shift your straddle to where the market is trading at:

• Close the old straddle and open a new straddle where the market is trading at.

12/ Do multiple short straddles, max is triple straddles:

-Eg: Short straddle initiated at 37k, thereafter market moved to 38k hence open a new straddle at 38k.

- Thereafter market moved to 36k so open a fresh straddle at 36k.

13/Using technicals for Short straddles:

• If you've sold a straddle that has the breakeven beyond the support and resistance on the chart.

• Then you can adjust proactively one the respective S/R is taken out.

• If there is a range BO, you can go directional as well.

14/ When to call it quits?

• When it hits the 2x of the total premium collected from the short straddle.

•This should be done only when one has done few adjustments to save the position.

15/When to book profit?

• ATM options have the maximum extrinsic value however it is certain that one leg would into ITM.

•Take profit when you've received 25% of the max profit.

• Don't let greed overtake you and exit basis defined % to be profitable in the long run.

16/ Alternatives to reduce the risk:

• Convert short straddle in Ironfly, by buying legs/hedges, with a pre-defined risk.

• Rather than buying both leg, one can buy only one leg (directional side) aka broken iron-fly.

Everything requires back-test & forward test:

• Back-test these adjustments for the past 3-4 months.

• After gaining confidence, forward test it for another 3 months with a single lot.

• Understand the nuances, and only if the is profitable, you should scale up.

If you don't know the basics about short straddle then check out this thread:

https://t.co/Qt8Uih7E1I

> The highest THETA strategy you aren't using:
>
> The SHORT STRADDLE STRATEGY.
>
> Knowing how to use it can potentially give you the highest profits if the market stays in a range.
>
> Here's the step-by-step guide: \U0001f9f5
>
> Collaborated with @niki_poojary pic.twitter.com/kiha1d7asm
>
> — Aditya Todmal (@AdityaTodmal) July 10, 2022

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