Twitter Thread by Aditya Todmal



Aditya Todmal
@AdityaTodmal

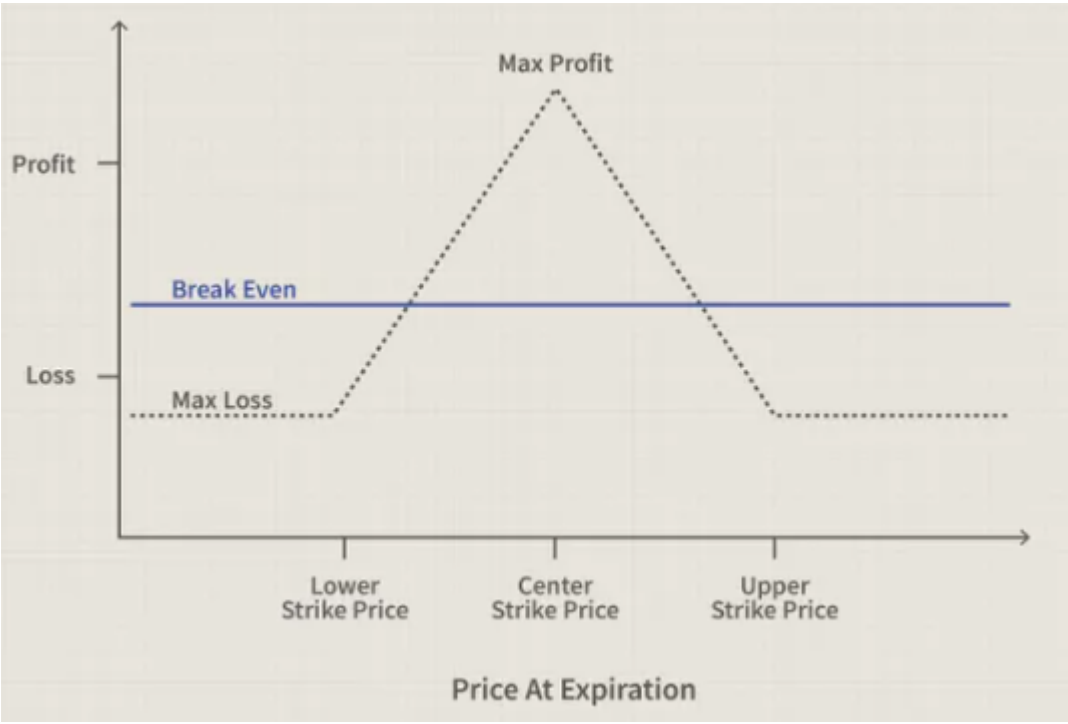
The most valuable hedging strategy you aren't using:

The IRON FLY STRATEGY.

Knowing how to use it will protect you from gaps and intraday spikes and 10x your hedging experience.

Here's the step-by-step guide:

Collaborated with @niki_poojary



@niki_poojary Here's what you'll learn in this thread:

1. What is an iron fly
2. Perks and Drawbacks

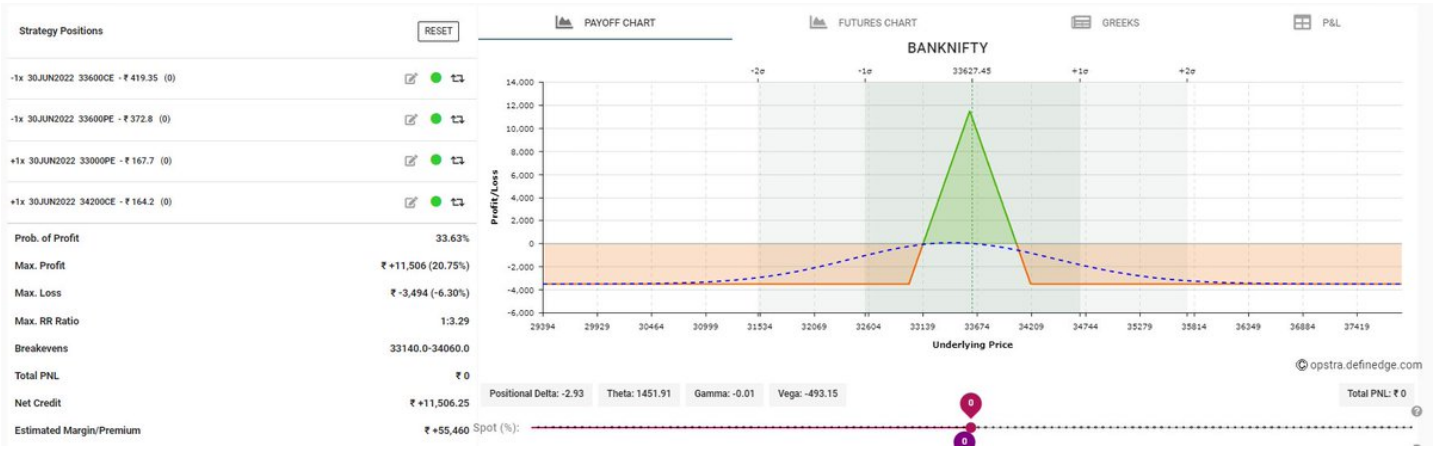
3. What to do when in profit?
4. How to adjust when in loss?
5. Thread on How to keep shifting an iron fly for max credit?
6. Risk-free trades benefits

Let's dive in ↓

@niki_poojary 1/ What is an iron fly?

Sell ATM CE and PE (Short straddle)
Buy OTM CE and PE (Hedge it by buying on both sides)

Look at the picture below for an example of an iron fly in current weekly options.



@niki_poojary 2/ Why do traders like iron fly?

Many traders want to receive maximum theta or max credit.

This is why they sell straddles.

But straddles have unlimited risk in them, and can't handle gaps or intraday spikes.

This is why traders like knowing the maximum loss in their trades.

@niki_poojary 3/ Perks of Iron Fly

Low capital required—Possible to buy first, sell later

Limit losses—Know your maximum loss upfront

Adjustments—Can reduce losses to zero or almost nothing

Weekly earnings—Possible on a weekly basis

Jackpot—Potential for a jackpot if it expires in middle

@niki_poojary 4/ Drawbacks of Iron fly

Low Probability—If you want a low max loss, the probability is less than 30%

Higher Brokerage costs—Since there are 4 legs and then you will add 3-4 more to adjust costs will be higher

Slippages—Want to free margin from itm strikes, slippages are high

@niki_poojary 5/ Price action

Apply price action and combine your strategy along with your view and technical analysis.

If good in technicals, then can increase the odds of success.

This will fetch you more money than blindly selling iron flies every week.

Technicals increase ROI.

@niki_poojary 6/ What to do when in profit?

When in profit usually, traders square off their buy legs and buy 1-2 strikes closer.

The aim is to—make the maximum losses even lower than when you started the trade.

Once this is very low, can even stay in the trade for a jackpot.

@niki_poojary 7/ What to do when in loss?

Since the initial range is small, when in loss, traders want to extend the range of the fly.

They pump in more capital and open another iron fly or a broken wing fly (buy just one side and not two like iron fly).

This way the payoff becomes better.

@niki_poojary This is not the only way to adjust an iron fly.

There are multiple ways for different scenarios.

Very good content on Youtube regarding this.

I will have to do another thread on just the adjustments.

@niki_poojary 8/ Directional Iron fly

I already mentioned that if you are good at technicals you can use iron fly to have a very good risk-reward trade on your hands.

For eg, in the current week, if your view was bullish instead of selling ATM straddles, you sold 4-5 few strikes above ATM.

@niki_poojary Let's have a look at a few threads and articles on iron fly.

I found good content about them on @kapildhama Bhai & @SarangSood Sir's handles.

Both have been extensively doing iron flies for a few years.

Also attached Nitin Kamath's article on trading via strategies.

@niki_poojary @kapildhama @SarangSood 9/ How to manage an iron fly with the aim of receiving the max credit always?

Shows you how to adjust an iron fly.

Intuitively understand what you are doing.

(@SarangSood)

https://t.co/S6r5IXy3dP

> THREAD ON IRONFLY
>
> These days the most preferred strategy for option sellers due to improved margins is IRONFLY. It's essentially a short straddle with long strangle. Long strangle acting as 'WINGS', which help in capping the unlimited risk associated with a short straddle.(1/n)
>
> — Sarang Sood (@SarangSood) December 12, 2020

@niki_poojary @kapildhama @SarangSood 10/ Benefits of risk-free trade

Can wait for a jackpot

Avoid getting out early with small profits, he believes if you book the strategy out fully in small profits

over the long run hard to make money

as we take full losses when wrong.

(@kapildhama)

https://t.co/RcSwZBknZh

> Thread on Iron fly\U0001f447
>
> Many people ask me what is the benefit if we make Iron Fly loss free
>
> last week we made a 35900 Iron fly, and market closed at 35500, if we didn\u2019t make if loss free then we would

> get max 50 points and if market fall below 35500 then we will book loss
>
> (1/4) pic.twitter.com/8wQ1uO7zCb
>
> — Kapil Dhama \U0001f1ee\U0001f1f3 (@kapildhama) August 19, 2021

@niki_poojary @kapildhama @SarangSood 11/ Discussion on Iron Fly

I asked @SarangSood Sir a question, he used to sell an iron fly before expiry day every week.

Good pointers from him and @kapildhama Bhai.

Can read this thread for their answers.

https://t.co/p28hU5LgIS

> Why do you sell an iron fly every Wednesday? What are the perks of doing it versus selling naked?
>
> I sell strangles 99% of the time. No hedge.
>
> Which one is a better strategy to make more money on Thursday opening? @SarangSood
>
> — Aditya Todmal (@AdityaTodmal) August 29, 2020

@niki_poojary @kapildhama @SarangSood 12/ How to make use of an iron fly on Wednesday before expiry day?

Sell next week straddles as they will have huge premiums.

Buy current week options to hedge them as they will be very cheap.

If anywhere near the center can make good money.

(@kapildhama)



@niki_poojary @kapildhama @SarangSood 13/ Moneycontrol article explaining how to use an iron fly.

(@shubham_quant)

https://t.co/k1GRkq1BCM

@niki_poojary @kapildhama @SarangSood @shubham_quant 14/ Zerodha's founder Nitin Kamath has the largest database of traders.

Even he has suggested trading through strategies keeps traders profitable over the longer run.

(@Nithin0dha)

https://t.co/qq5hePi9Ue

@niki_poojary @kapildhama @SarangSood @shubham_quant @Nithin0dha That's a wrap!

If you enjoyed this thread:

1. Follow us @AdityaTodmal & @niki_poojary for more of these

2. RT to share this thread with your audience

Here's another thread we think you'd like:
https://t.co/SrfYWVaLt7

> 12 TRADING SETUPS used by professional traders:\U0001f9f5
>
> Collaborated with @niki_poojary
>
> — Aditya Todmal (@AdityaTodmal) June 25, 2022