Trade Psychology
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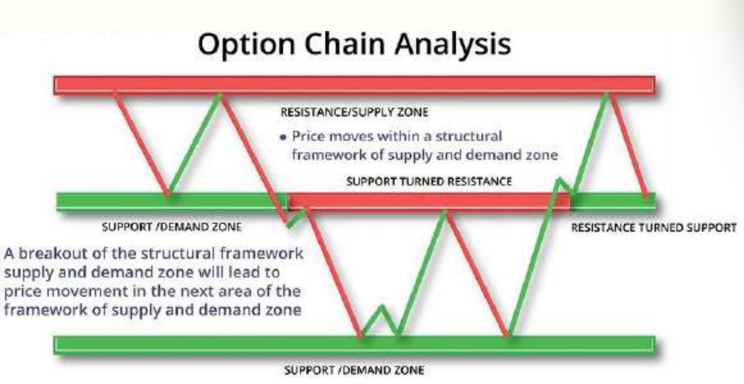
Decoding Options:

A Deep Dive into Option Chain, Open Interest, and FII Data Analysis



PRICE	OPEN INTEREST	INDICATION	
↘	↗	BEARISH	Increase on the number of contracts (Increase of **Shorts** positions)
↗	↗	BULLISH	Increase on the number of contracts (Increase of **Longs** positions)
↘	↘	BEARISH	Closing **longs** intensively (getting profits)
↗	↘	BEARISH	Despite price increasing, the number of open positions(contracts) is decreasing, meaning Longs are closing, loss of interest

Navigate the Markets with Confidence

Preface:

Welcome to "Dive into the World of Trading Psychology & Price-Action Mastery," an ebook born from the crucible of real-world trading experiences and a commitment to demystifying the intricate dance between human psychology and market dynamics.

In the vast ocean of financial markets, success isn't merely a consequence of strategy; it's an intricate fusion of understanding oneself and comprehending the language of price-action.

This ebook is not just a compilation of theories; it is a journey through the trenches of practical trading, a voyage where we unravel the secrets that institutional traders employ to navigate the volatile waters of the financial world.

Crafted with a methodology firmly rooted in data analysis, this ebook offers a unique perspective on trading psychology and price-action mastery. It delves into the mindset of institutional traders, dissecting their decision-making processes, and decoding the subtle yet powerful patterns hidden in price movements.

As you embark on this journey, you'll explore the world of case studies derived from actual trading scenarios. These aren't abstract tales but concrete examples that illustrate the application of psychological principles and price-action strategies in the heat of the market. Through these cases, we aim to bridge the gap between theory and practice, providing you with actionable insights that can be applied in your own trading endeavours.

The foundation of this ebook lies in the belief that knowledge should be practical, applicable, and transformative. We recognize that each trader is unique, and success is a personal journey.

By understanding the methodologies of institutional traders, you gain a powerful toolkit to refine your own approach, aligning your strategies with the patterns that move the markets.

We invite you to immerse yourself in the pages that follow, to absorb the wisdom derived from practical experience, and to emerge on the other side equipped with the knowledge and skills that can elevate your trading game.

The world of trading is dynamic, and success belongs to those who not only understand the market but, more importantly, understand themselves.

Happy reading, and may your trading journey be as rewarding as the insights you'll discover within these pages.

Trade Psychology

Disclaimer:

Trading in options involves substantial risk and is not suitable for every investor. Options trading is a complex financial activity that can result in significant financial losses. Before engaging in options trading, it is crucial to carefully consider your financial situation, risk tolerance, and investment objectives.

Options trading may not be suitable for everyone, and past performance is not indicative of future results. The strategies and techniques discussed in any materials related to options trading are for informational purposes only and should not be construed as investment advice or recommendations.

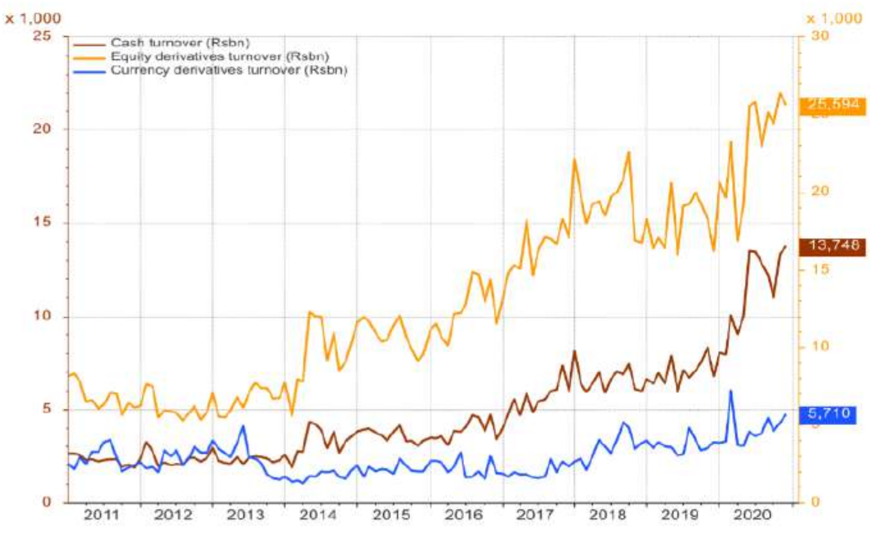
It is essential to conduct thorough research and, if necessary, seek advice from qualified financial professionals before making any decisions related to options trading. It is important to be aware that the potential for profit in options trading is accompanied by the potential for substantial financial loss.

By participating in options trading, you acknowledge and accept the risks involved, and you agree to assume full responsibility for your actions. Only trade with capital that you can afford to lose, and carefully assess the appropriateness of options trading within the context of your overall financial portfolio.

Remember that market conditions can change rapidly, and there are no guarantees of profit in options trading. Educate yourself, stay informed, and exercise caution when participating in options trading activities.

This graph below shows that the trading turnover has gone up almost 4 times in the last 10 years, and nearly 60% , indicating participation in Indian capital markets has gone up at a similar rate.

Figure 262: NSE's total monthly turnover across segments



Contents:

1 : Introduction to Options

TAKE the FIRST STEP

Understanding Option Trading:

When beginners step into the world of martial arts or boxing, their eagerness often leads them to focus on attacking moves, keen to master the exciting art of striking opponents. However, much like a trainer emphasizing defensive techniques in the initial stages, the importance of protecting oneself becomes evident.

In this context, the wisdom of "defense wins championships" in sports resonates, emphasizing that even scoring points won't secure victory if opponents score more.

This lesson extends to the world of option trading in India. Novice and experienced traders alike are eager to delve into trading strategies and making profits, often neglecting the crucial aspect of defense.

While trading options doesn't involve physical attacks, the capital invested is constantly under threat. Similar to boxers safeguarding their bodies and heads, investors and traders must learn to defend their capital against losses.

Allowing too many "attacks" on your trading capital can deplete your funds, forcing you out of the trading game. Therefore, Indian option investors must prioritize defense, learning to shield their capital before venturing into the offense of making trades or establishing positions. Just as in sports, where a solid defense lays the foundation for success, protecting one's capital is the key to navigating the challenges of the dynamic Indian market.

Trading as a Business:

To integrate principles of risk and trade management effectively into your investments, treat your trading as a new business venture in India.

You, as the trader, are the president and chief financial officer of this professional endeavor, emphasizing that trading is not a mere game or hobby – real money is at stake.

View trading as a career where your responsibility is to manage the company controlling your investments. Your trading positions act as employees whose job is to generate profits.

Start-Up Phase:
During the start-up phase of your trading business, akin to starting any new company, there are initial costs and necessary preparations. Develop a detailed business plan outlining the purpose, operations, and budgeting of your trading venture.

Learning Curve in Option Trading
Just as in any business, understanding the mechanics of options is critical before committing funds. Some traders, both novice and experienced, admit to lacking basic knowledge about options mechanics, leading to costly mistakes. Learning on the go, without adequate preparation, is an expensive form of education. Committing time and effort to understand options' basics before investing reduces the risk exposure during trading.

Growth Phase
As your trading business enters the growth phase, your portfolio expands, and your trading themes become more established. Execute trades aligned with your investment themes and practice effective risk and trade management. While some months may result in losses, and others in gains, maintaining capital management prevents significant losses. This phase demands discipline, especially as profitability increases. Straying from principles and making risky choices can lead to disastrous consequences, akin to businesses expanding too quickly.

Mature Phase
After consistent growth, your trading business reaches the mature phase. The focus on risk control remains paramount, adapting to changing market conditions using a diversified pool of strategies. The number of strategies may increase, but effective management is crucial. Adaptability and a continuous learning mindset are essential in this phase, ensuring you remain flexible in response to dynamic market shifts.
In conclusion, treating your trading as a business venture in India involves navigating through the start-up, growth, and mature phases with disciplined risk and trade management. The key is not just making money but retaining and growing it by adhering to sound trading principles.

2 : Deciphering Option Chain

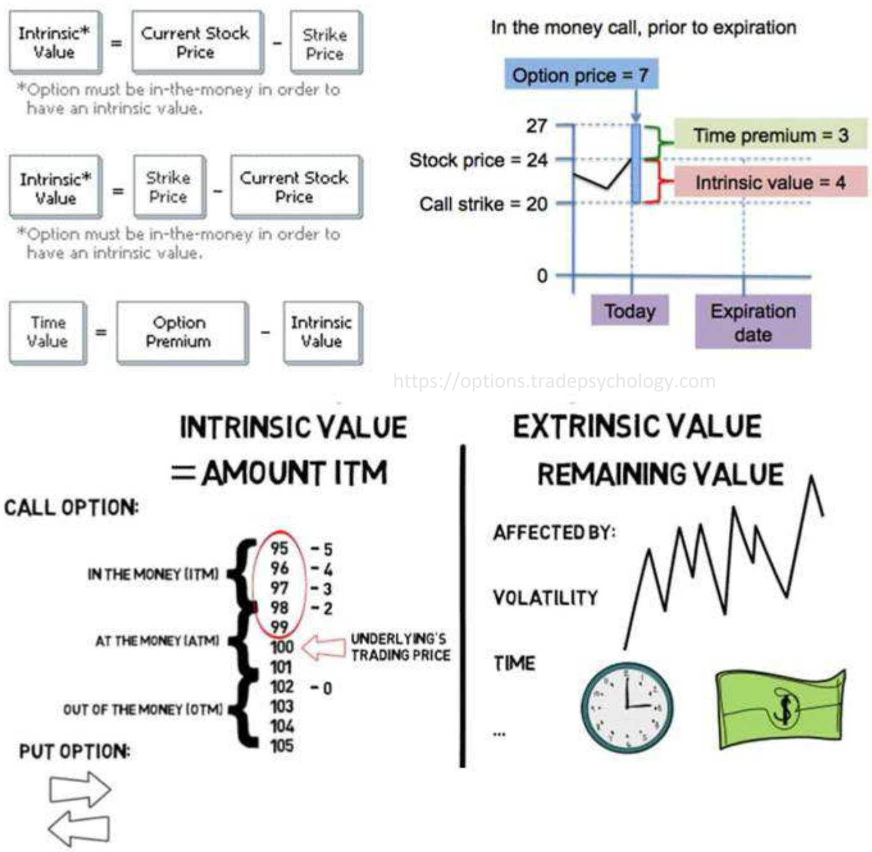
IN THE MONEY ↑ | OUT OF THE MONEY ↑ (PUTS)

CALLS											PUTS									
OI	CHNG IN OI	VOLUME	IV	LTP	CHNG	BID QTY	BID PRICE	ASK PRICE	ASK QTY	STRIKE PRICE	BID QTY	BID PRICE	ASK PRICE	ASK QTY	CHNG	LTP	IV	VOLUME	CHNG IN OI	OI
3,244	59	155	-	795.00	-20.90	50	786.15	793.15	250	15,900.00	150	54.00	54.30	150	-1.85	54.00	15.90	4,106	-272	11,839
219	-3	28	-	747.20	-45.10	50	738.20	753.35	50	15,950.00	100	59.40	60.00	50	-2.10	59.05	15.92	1,317	684	1,309
14,105	540	1,703	-	700.35	-29.80	50	699.85	701.50	50	16,000.00	400	66.95	67.25	50	-0.50	67.25	15.69	23,194	4,337	49,041
116	1	-	-	-	-	600	651.30	663.95	50	16,050.00	50	72.85	73.40	50	-0.90	72.75	15.63	575	174	565
1,702	25	184	-	619.15	-21.95	550	615.85	619.15	50	16,100.00	300	80.35	80.85	150	-	80.30	15.37	4,659	212	10,891
75	-1	10	-	580.00	-51.65	50	568.10	582.60	50	16,150.00	200	88.40	89.05	50	0.35	88.60	15.30	327	62	593
3,884	352	597	-	535.90	-20.50	600	532.60	534.20	50	16,200.00	100	97.50	97.85	500	1.60	97.50	15.09	8,878	2,772	19,346
346	-35	68	-	493.60	-24.00	200	492.25	501.65	100	16,250.00	50	107.85	108.50	900	2.35	107.80	15.14	902	20	1,309
7,342	672	865	-	460.45	-19.00	150	456.40	458.10	350	16,300.00	100	119.65	120.05	50	3.70	120.20	14.91	10,245	1,869	16,541
334	-81	124	-	423.80	-15.80	50	415.65	422.00	350	16,350.00	50	131.90	132.65	50	3.35	130.75	14.79	1,058	232	1,003
10,421	608	1,862	-	384.00	-18.30	50	383.05	384.25	50	16,400.00	50	145.55	146.10	50	5.70	146.00	14.74	12,678	1,488	16,456
489	-77	160	3.00	351.45	-15.05	50	348.05	349.55	50	16,450.00	100	160.00	160.70	750	7.25	159.70	14.62	661	427	1,242
36,798	1,477	8,551	5.42	315.50	-18.45	50	315.05	316.00	500	16,500.00	50	176.00	176.60	50	7.20	176.25	14.55	19,995	2,280	41,645
912	-44	427	6.00	284.80	-15.60	50	284.05	285.30	100	16,550.00	100	194.40	195.65	100	8.70	194.75	14.57	827	41	1,023
25,329	1,767	17,326	6.65	255.00	-14.75	100	255.05	255.70	100	16,600.00	200	214.00	214.75	100	10.95	214.95	14.50	22,325	2,072	20,152
2,161	1,393	3,341	6.94	226.50	-14.25	300	226.50	227.40	50	16,650.00	150	236.05	237.50	100	10.05	236.15	14.61	3,683	1,771	2,386
28,386	9,981	20,502	7.17	200.45	-12.10	350	200.40	201.00	500	16,700.00	400	257.20	258.25	50	11.30	258.70	14.55	21,087	11,063	21,160
1,178	578	743	7.35	175.95	-12.05	100	174.50	175.25	50	16,750.00	50	283.10	284.55	50	7.05	281.55	14.65	549	248	499
16,371	3,091	10,798	7.47	152.10	-12.00	100	152.50	153.15	450	16,800.00	50	309.50	310.70	150	11.20	309.55	14.76	5,432	3,681	6,828
608	206	554	7.68	133.90	-9.40	800	132.00	132.60	50	16,850.00	50	342.10	344.65	50	12.90	341.55	15.05	140	112	181
12,229	2,014	7,677	7.75	115.20	-9.30	100	114.45	114.90	50	16,900.00	50	372.45	373.50	50	14.50	372.60	15.23	1,335	761	1,671
850	-66	996	7.85	99.90	-8.00	150	98.75	99.20	50	16,950.00	400	404.50	410.95	400	11.45	402.45	15.90	37	51	72
31,130	3,431	19,533	8.07	85.35	-7.95	400	85.05	85.45	350	17,000.00	200	441.25	442.55	100	16.75	441.40	15.77	9,109	6,110	15,350
900	371	952	8.17	72.90	-7.60	50	72.65	73.10	1,000	17,050.00	100	475.45	485.05	200	11.20	479.20	16.77	80	75	103
7,308	2,036	4,730	8.25	62.25	-6.90	150	61.55	62.00	1,700	17,100.00	50	516.40	525.30	250	19.00	522.45	16.76	85	24	283
637	285	628	8.39	53.35	-6.55	50	52.50	52.85	50	17,150.00	50	560.20	564.05	250	34.85	559.80	17.20	126	118	121
9,157	4,688	9,037	8.52	45.00	-6.70	150	44.70	44.95	250	17,200.00	50	604.85	607.65	100	13.70	602.30	17.88	2,622	7,098	7,692
290	187	547	8.56	38.45	-5.50	1,650	37.65	38.15	50	17,250.00	50	644.90	650.95	200	-3.00	644.80	18.23	136	137	138
6,534	2,638	4,229	8.70	31.95	-3.10	50	31.80	32.00	300	17,300.00	50	683.65	692.95	150	19.40	690.00	18.91	55	45	429

OUT OF THE MONEY ↓ | IN THE MONEY ↓ (PUTS)

CALLS PUTS

Understanding Option Pricing:



"Moneyness" in the context of options refers to the potential profit or loss upon immediate exercise. Options can be categorized as In the Money (ITM), At the Money (ATM), or Out of the Money (OTM) based on their relationship to the current stock price.

In the Money (ITM):

A call option is ITM when the stock is trading above its strike price.

A put option is ITM when the stock is trading below its strike price.

Out of the Money (OTM):

A call option is OTM when the stock is trading below its strike price.

A put option is OTM when the stock is trading above its strike price.

The option premium comprises intrinsic value and time value. Intrinsic value is the amount by which the option is ITM, and time value is the premium above intrinsic value. For instance, if XYZ is at ₹3,100, and an XYZ ₹3,000 Call is priced at ₹150, with ₹100 being intrinsic value (the amount the stock price exceeds the strike price) and ₹50 being time value.

On the contrary, an XYZ ₹3,500 Call priced at ₹30 when XYZ is trading at ₹3,100 is OTM. Since the stock is below the strike price, this option has no intrinsic value and is entirely composed of time value (₹30).

Calculating intrinsic value is straightforward – it's the difference between the stock price and the strike price for ITM options. Time value is influenced by various factors and remains present as long as there is time left to expiration. On expiration day, time value approaches zero, and the option is either worth its intrinsic value or is worthless if not ITM.

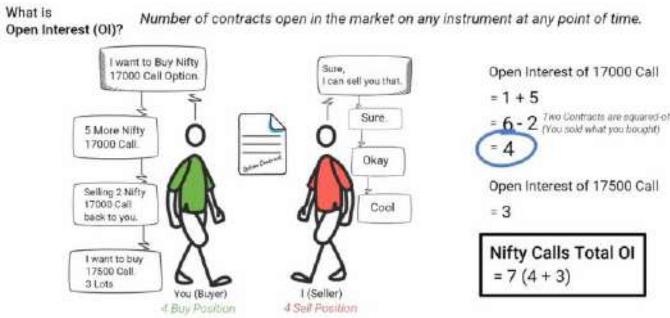
Understanding Option Chain:

Option Chain Benefits:

- Offers insights into ITM and OTM options.
- Assesses depth and liquidity of specific strikes.
- Helps find option premiums against Expiry dates

Early Warning and Macro-level Indicators:

- Serves as a warning for index breakouts
- Provides macro-level indications in index option chain.



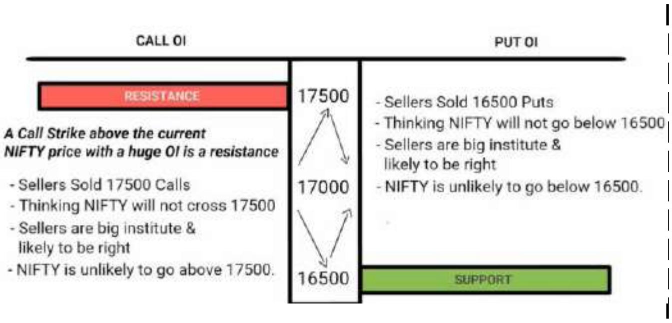
Indicates the total number of outstanding futures or options contracts in the market.

Two Sides to a Trade:

- Every trade involves a buyer and a seller.
- If a seller sells 1 contract to a buyer, the buyer is considered long, and the seller is considered short on the same contract.
- In the given scenario, where a seller sells 1 contract to a buyer, the open interest is 1.

The open interest can increase or decrease depending on market fluctuations.

- OI increases when there are new market contracts
- OI decreases when existing contracts are closed by the buyer and seller as positions are settled
- A high number of OI indicate that there are more buyers and sellers for a given security.
- Lower number of OI mean that investors are not opening new positions but are closing existing positions

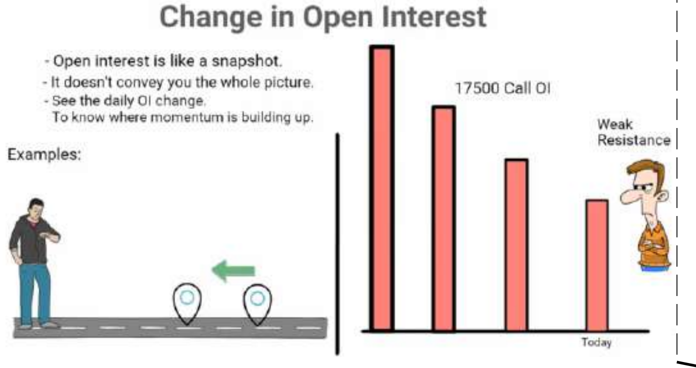


- Rising OI indicates new money is coming into the market and the present trend is likely to continue.
- Reducing OI tells us that the market is starting to liquidate. This implies that the ongoing price trend may be reaching its end.
- Understanding of OI can therefore prove to be beneficial while reaching the end of significant market moves.
- A leveled off OI after a sustained price rise is usually an early indication of the reversal of a bull market phase.

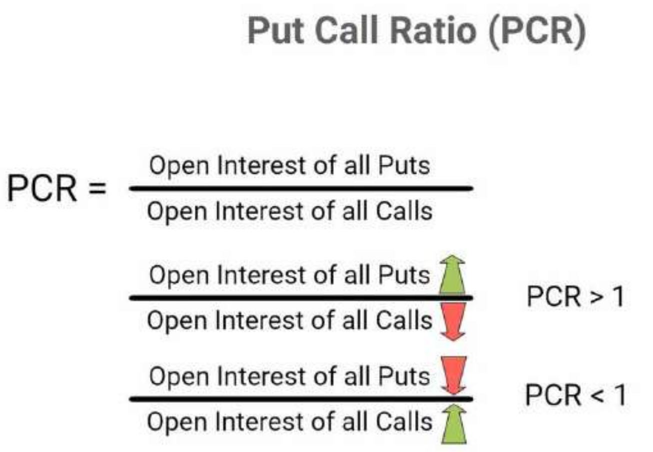
3 : Open Interest & Volume Data

Understanding Open Interest:

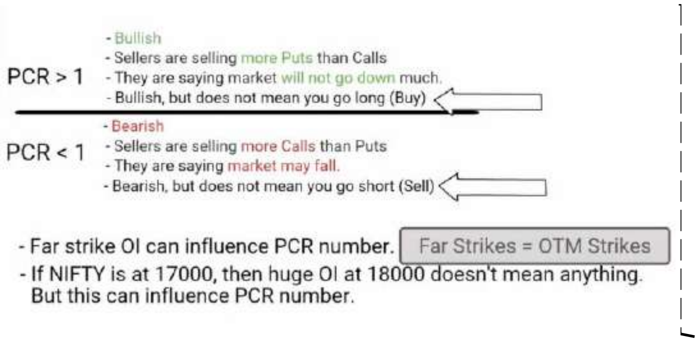
- **Support Zone:** Price point below the current market price indicating buying interest.
- **Resistance Zone:** Price point above the current market price indicating selling interest.
- When the OI is seen in multiple strike prices then we can consider it as Zone of resistance or support
- When there is huge OI built up at one strike then it is the key support/resistance level



- Represents the addition/unwinding of open interest from the previous trading session.
- Market strength with added Open Interest suggests an expectation of an upward movement.
- Increase in Change in Open Interest in put options signals support at that strike.
- Addition of Open Interest in call options indicates resistance.
- Reveals the direction in which traders are initiating their positions.



- Put-call ratio is a derivative indicator. It is designed to enable traders to determine the sentiment
- Serves as a contrarian indicator and is mostly concerned with options build-up
- A PCR above 1 indicates that the put volume has exceeded the call volume. It indicates an increase in the bearish sentiment
- A PCR below 1 indicates that the call volume exceeds the put volume. It signifies a bullish market ahead.



- Traders might consider a high Put Call ratio of say 1.4 as a great opportunity for buying because they believe that the market sentiment is extremely bearish and will soon adjust, when those having short positions switch places to cover and the market will eventually face a downturn.
- Generally, NIFTY Put call ratio follows a trend in which it seems to oscillate between 0.8 and 1.3 with 0.8 being the lower band and 1.3 being the upper band.

Case Study: Open Interest Analysis

Open interest is a measure of the total number of outstanding contracts for a particular financial instrument, such as a stock or a futures contract. Open interest can be helpful in the stock market in several ways:

- **It can indicate the level of market participation:** High open interest indicates that there is significant market interest in a particular security or instrument. This can be a positive signal that the market is active and that there is a lot of trading activity in the stock.

- **It can provide insight into market sentiment:** Open interest can help traders and investors gauge market sentiment. For example, if open interest is increasing in a particular stock, it can indicate that traders are becoming more bullish on the stock's future prospects.

- **It can help predict price movements:** Changes in open interest can provide important clues about potential price movements.

- For example, if open interest is increasing as prices are rising, it can indicate that traders are becoming more bullish and that prices are likely to continue rising. Conversely, if open interest is declining as prices are falling, it can indicate that traders are becoming more bearish and that prices are likely to continue falling.

Open Interest & Volume Analysis:

PRICE	OPEN INTEREST	INDICATION	
↘	↗	BEARISH	Increase on the number of contracts (Increase of **Shorts** positions)
↗	↗	BULLISH	Increase on the number of contracts (Increase of **Longs** positions)
↘	↘	BEARISH	Closing **longs** intensively (getting profits)
↗	↘	BEARISH	Despite price increasing, the number of open positions(contracts) is decreasing, meaning Longs are closing, loss of interest

Key Points:

- Price movements in the options are a reflection of decisions made by traders to buy or sell options
- Open interest is the number of open positions in options contracts
- The greater the open interest and volume, the better the liquidity and more efficient pricing
- Open Interest Rising: Gives an indication that the present trend (uptrend, downtrend or flat) is likely to continue.
- Open Interest Falling: Gives an Indication that the present trend (uptrend, downtrend or flat) is likely to change or is coming to an end.

Price	volume	open-interest	Interpretation
▲	▲	▲	strong bullish price continue rise
▲	▼	▼	weakness Moderately bearish uptrend unsustanable
▼	▲	▲	weakness bearish downtrend continue
▼	▼	▼	low strength moderately bullish downtrend weakness

Key Points:

- Volume measures the number of contracts that exchanged hands during the trading session. It measures market activity. Open Interest is the total number of outstanding contracts. It gauges market participation.
- Normally, large institutions and informed investors are on the sell side of calls and puts. So, if you see an aggressive increase in open interest in puts, it is most likely being led by the institutions who are selling puts and it hints at a support level below which the market is unlikely to fall.
- If the price rises with rise in open interest the market is bullish

Price Trend	Volume Trend	OI Trend	Inference
↗	↗	↗	Strong Uptrend (Long Buildup)
↗	↘	↘	Weak Uptrend (Short Covering)
↘	↗	↗	Strong Downtrend (Short Buildup)
↘	↘	↘	Weak Downtrend (Long Unwinding)

Key Points:

- Open interest increases and decreases dynamically; it increases when new contracts are added and decreases when positions in existing contracts are closed by buyers and sellers.
- Open interest represents the number of open and live contracts in the market, while on the other hand, volume signifies how many trades were executed on the given day.
- Open interest will not change where there is merely a change of hands from one party to another. Unlike volumes, open interest is continuous data.

Example: Nifty Future OI Analysis

Futures Long Vs Short

Symbol	Expiry	Interval	Live	Historical Date
NIFTY	07/12/2023	30 Min	✓	12/06/2023

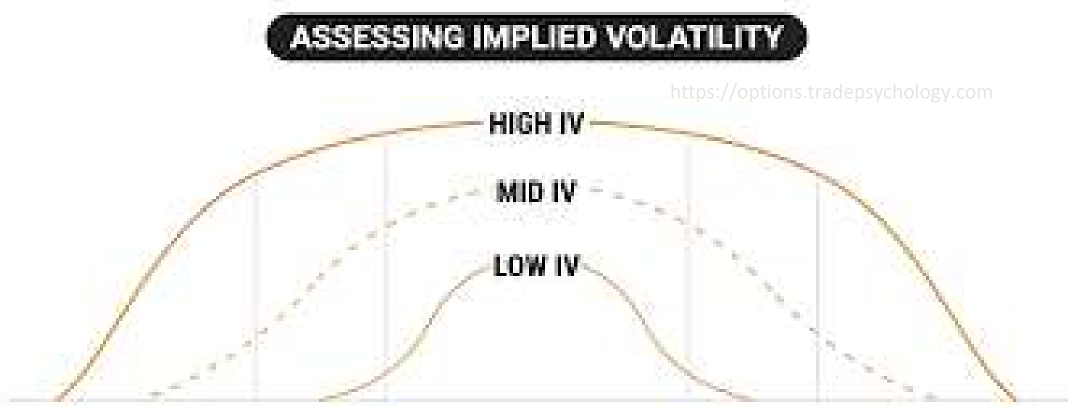
Date	Symbol	Last Price	Price Change	OI Change	Long vs Short
15:15:00	NIFTY	21042.5	-2.05	72700	Short Buildup
14:45:00	NIFTY	21044.55	25.40	61600	Long Buildup
14:15:00	NIFTY	21019.15	21.50	77450	Long Buildup
13:45:00	NIFTY	20997.65	29.10	13800	Long Buildup
13:15:00	NIFTY	20968.55	-17.70	-6650	Long Unwinding
12:45:00	NIFTY	20986.25	-41.45	2400	Short Buildup
12:16:00	NIFTY	21027.7	-4.45	59650	Short Buildup
11:45:00	NIFTY	21032.15	4.15	46750	Long Buildup
11:15:00	NIFTY	21028	26.90	67300	Long Buildup
10:45:00	NIFTY	21001.1	13.15	21250	Long Buildup
10:15:00	NIFTY	20987.95	-26.40	-4200	Long Unwinding
09:45:00	NIFTY	21014.35	-19.65	427200	Short Buildup
09:16:00	NIFTY	21034	0.00	0	

In this example we are analysing Nifty Futures Open Interest Built-up for every 30 min with Technical price-action chart of NIFTY:

- **09:16 – 09:45:** In the first 30 min we are seeing Nifty had lost 19 points and gained 4.2L OI indicating Short built-up, Also in chart you can see in 15 min Nifty tried to test 20950 but pulled back to 20900.
- **09:45 – 10:15:** We are observing Nifty lost over 26 points but the OI is also reduced by -4200 indicating long-Unwinding, which indicate people are losing interest in short and there is likely a reversal.
- **10:15 – 10:45:** Nifty gained 13 points & OI also gained by 21250 indicating Long Build-up, So, the trend has turned bullish, Nifty rallied from 20900 to 20925.
- **10:45 – 11:15:** Nifty gained 27 points & OI also gained by 67300 indicating Long Build-up, So, the trend still remains bullish, Nifty trading above 20925.
- **11:15 – 11:45:** Nifty gained 4 points & OI also reduced to 46750 indicating Long Build-up, So, the bullish trend is losing momentum, Nifty hovering around 20925.
- **11:45 – 12:15:** Nifty lost 4 points & OI also gained by 59650 indicating short Build-up, So, the trend is turning bearish, Nifty fell below 20925.
- **12:15 – 12:45:** Nifty lost 41 points & OI reduced to 2400 indicating short Build-up, So, the bearish trend is losing momentum, Nifty fell below 20900.
- **12:45 – 13:15:** Nifty lost 17 points & OI also reduced to -6650 indicating long-Unwinding, So, the bullish trend is losing momentum, Nifty fell below 20875.
- **13:15 – 13:45:** Nifty gained 29 points & OI gained by 13800 indicating Long Build-up, So, the trend is turned bullish, Nifty rallied from 20875 to 20900.
- **13:45 – 14:15:** Nifty gained 21 points & OI gained by 77450 indicating strong Long Build-up, So, the trend is bullish, Nifty rallied from 20900 to 20925.
- **14:15 – 14:45:** Nifty gained 25 points & OI gained by 61600 indicating Long Build-up, So, the trend is bullish, Nifty rallied from 20925 to 20950.

Note: Refer the above example for better understanding.

4 : Mastering Volatility



Mastering Volatility : Implied Volatility [IV]

Implied Volatility:

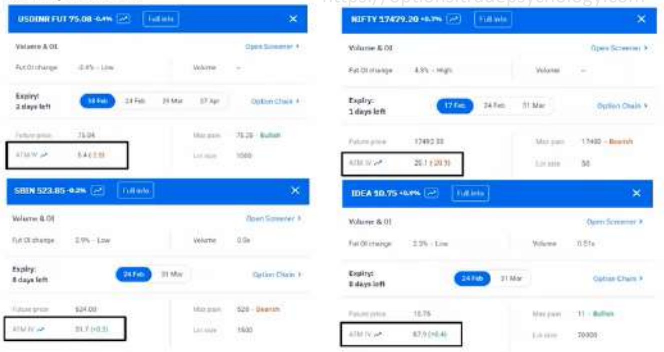
- Perception of Risk is Implied Volatility (IV)
- High Risk = High IV = High Option Prices

- The volatility is implied in the option price.
- It is calculated from the option price.

Key Points:

- Implied Volatility is a measure of uncertainty/Fear
- Higher IV means higher Option Prices
- Usually high when market goes down or bearish
- Usually low when market is stable or bullish
- In case of events the IV is very high like;
    - Elections Results, RBI Policy etc…
    - Stock Results, budget and announcements!
- IV goes up before the event which increases Option premiums
- IV goes down after event which decreases the Option premiums

Example of IV:



IV is low for low movement underlyings &
High for high movement underlyings

Key Points:

- By looking at the examples you can observe USDINR is having low IV means its more stable compared to SBIN where IV is high indicating high volatility
- In Nifty example ATM IV is decreased & their by Nifty is bullish gaining +0.7% so, if IV decreases market is bullish & IV increases we can expect volatility
- In the example of IDEA stock the IV is very high it can be due to the following reasons;
    - Results expectation or Announcement
    - IV will reduce after the event is completed

Practical example of IV:

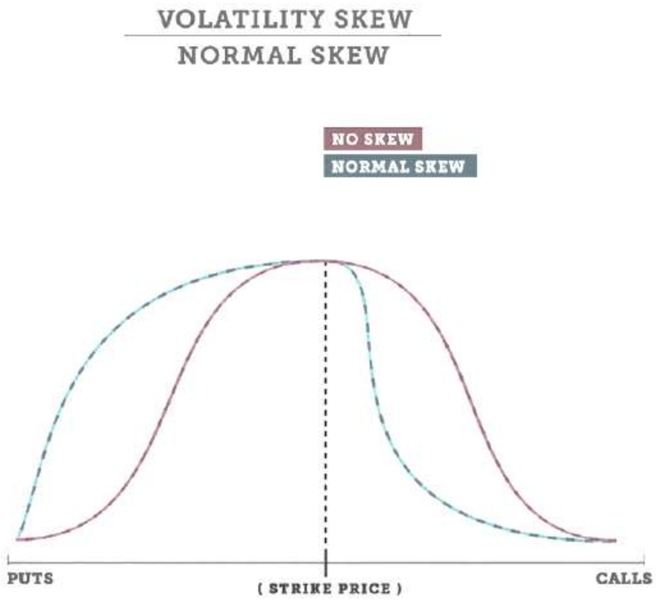
This is a bad idea, why?

- IV is High so the Option Prices are High.
- Option Price is high so breakeven (no profit-no loss point) will be far.
- If stock reverses, they'll lose from direction and IV both. Because IV will decrease.

Key Points:

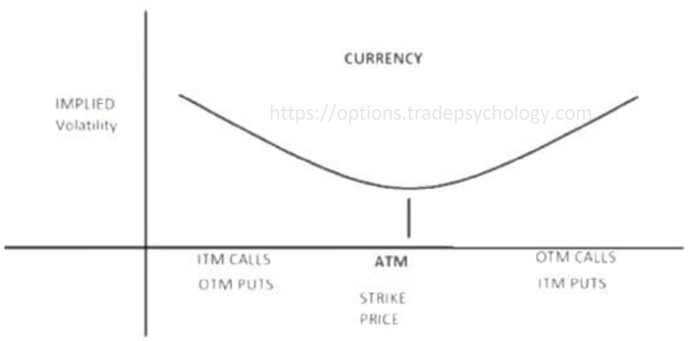
- Implied volatility is a fundamental prediction of how much market movement is expected regardless of the direction.
- High implied volatility tells that there is a higher chance of large price swings expected by traders. In contrast, low implied volatility means that that the market expects price movements to be relatively harmless.
- Implied volatility levels, in theory, do not indicate market direction and so do not necessarily indicate bearishness. High IVs, on the other hand, are frequently interpreted as a bearish indication by traders.

Implied Volatility Skew



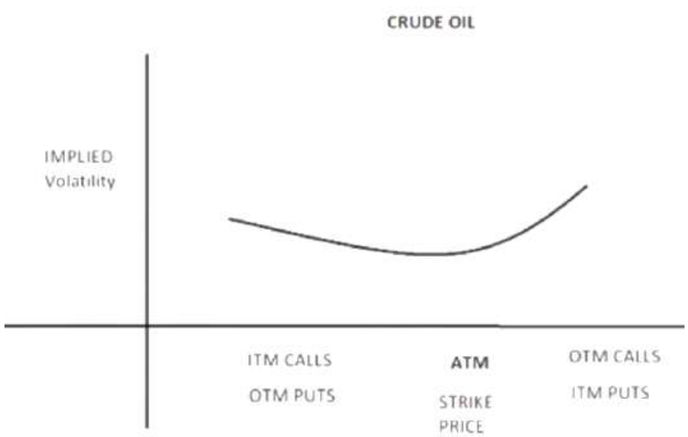
Option Volatility Skew:

- Skew is the implied volatility disparity between different strike prices within the same expiration.
- In some cases, implied volatility is relatively equal along all strikes in an expiration, which is referred to as a "straight skew" or a "flat skew".
- On a typical volatility skew, downside strikes have higher implied volatility, because historically stocks tend to fall with much greater speed and magnitude.
- Drops in stock prices go along with increased uncertainty in the market. Conversely, on upside strikes, the implied volatility is typically lower, as markets tend to go up in a more steady, constrained way.



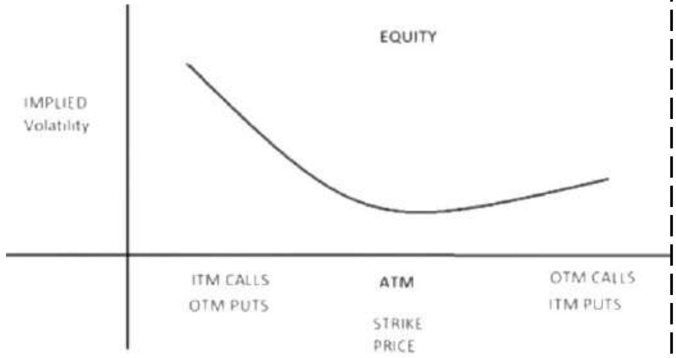
Skew for Currency options:

- For Currency options, implied volatility employed in pricing options at the extreme ends tends to be elevated compared to at-the-money (ATM) strikes.
- This is because a significant currency shift in either direction (appreciation or depreciation) can adversely impact exporters or importers.
- Consequently, the volatility smile in this asset class exhibits greater symmetry, reflecting an equal intensity of adverse movement on either extreme.



Skew for Crude oil options:

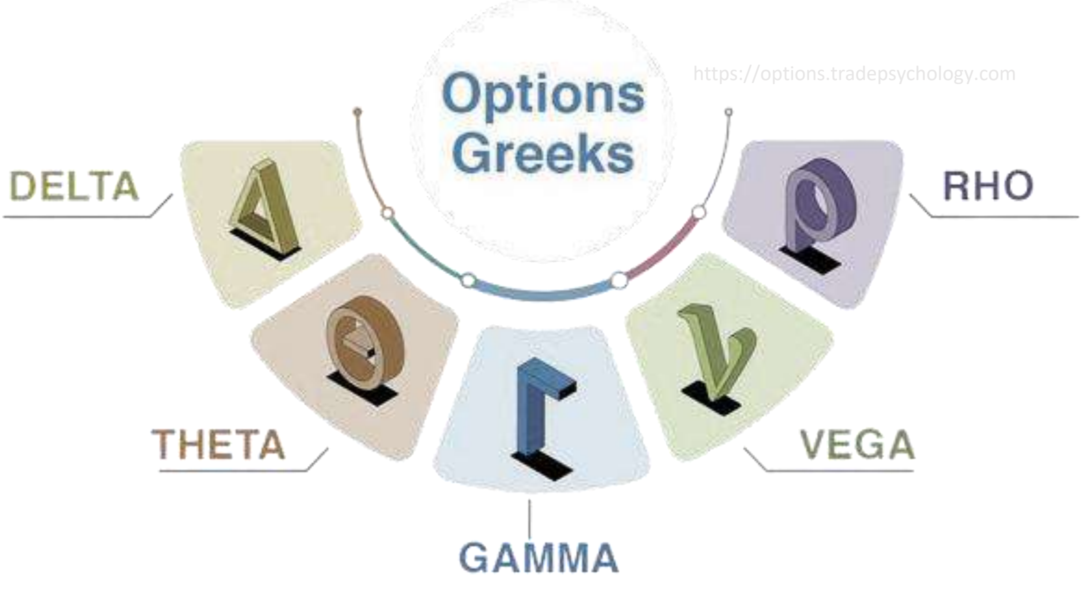
- The crude oil options' implied volatility smile and its curvature is significantly influenced by hedging pressure on the underlying.
- The scarcity premium which could emanate due to supply issues tends to keep the higher strike prices at a higher implied volatility than the left extreme.
- With the **ATM volatility** being the lowest point of the smile or, rather, volatility skew, causing the right side of the curve to be tilted above, in comparison to the left side of the curve surrounding the ATM.



Skew for Equity options:

- In case of equity options, IV used to price the lower strike price options is significantly higher, than those used for higher strike price options.
- This is because when the price of equity drops, there is more risk of destructive move, therefore options are bought, to hedge that destructive move.
- So implied volatility is higher during drops in strike price (i.e. left extreme) compared to the right extreme.

5 : Greek Formulas for Options



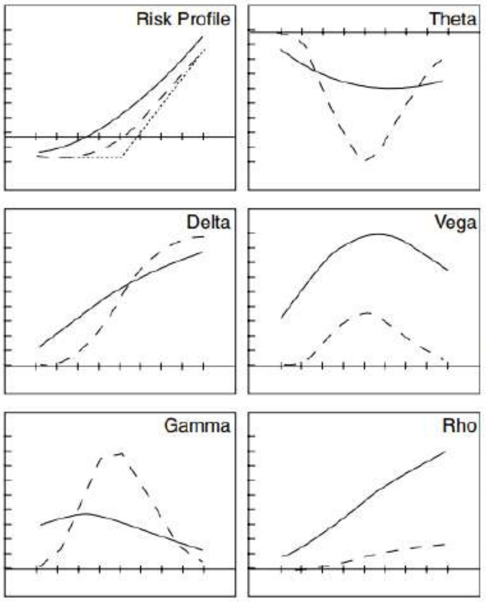
1.1 Long Call

Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Novice	Bullish	N/A	Long Call	Capped	Uncapped	Capital Gain

Risk Profile
As the stock price rises, the long call moves into profit more and more quickly, particularly when the stock price is greater than the strike price.

Delta
Delta (speed) is positive and increases at its fastest rate around the strike price, until it reaches 1. Notice how Delta is zero when the option is deep OTM.

Gamma
Gamma (acceleration) is always positive with a long call, and it peaks when Delta is at its fastest (steepest) rate.



Theta
Theta is negative, illustrating that time decay hurts the long call position.

Vega
Vega is positive, illustrating that volatility is helpful to the position because higher volatility translates into higher option values.

Rho
Rho is positive, illustrating that higher interest rates would increase the value of the calls and therefore help the position.

1.2 Short (Naked) Call

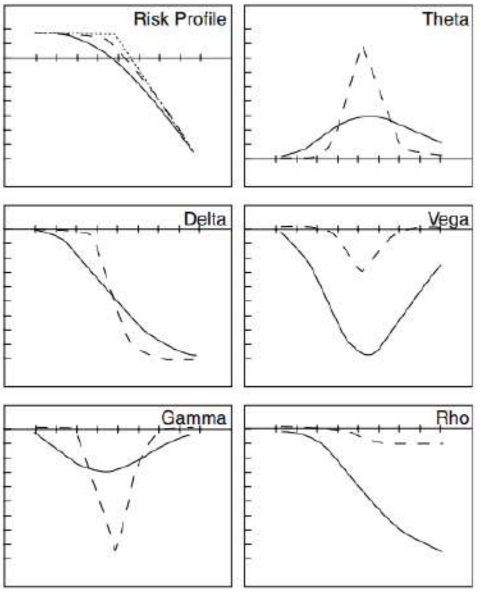
Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Advanced	Bearish	N/A	Short Call	Uncapped	Capped	Income

Risk Profile
As the stock price rises, the short call loses money more and more quickly, particularly when the stock price is greater than the strike price.

Delta
Delta (speed) is negative and moves at its fastest (negative) rate around the strike price, until it reaches -1. Notice how Delta is zero when the option is deep.

Gamma
Gamma (acceleration) is always negative with a Short Call, and it peaks inversely when Delta is at its fastest (steepest) rate. Gamma is zero when the position is deep OTM or ITM (i.e., when Delta isn't moving).

Key:
Expiration ....
Today – 6 months ———
Time(t) – 1 month – – –



Theta
Theta is positive, illustrating that time decay helps the short call position. As an option seller, this is of course completely logical.

Vega
Vega is negative, illustrating that volatility is unhelpful to the position because higher volatility translates into higher option values. As the seller of option premium, we'd rather the option value decreases.

Rho
Rho is negative, illustrating that higher interest rates would harm the Short Call position.

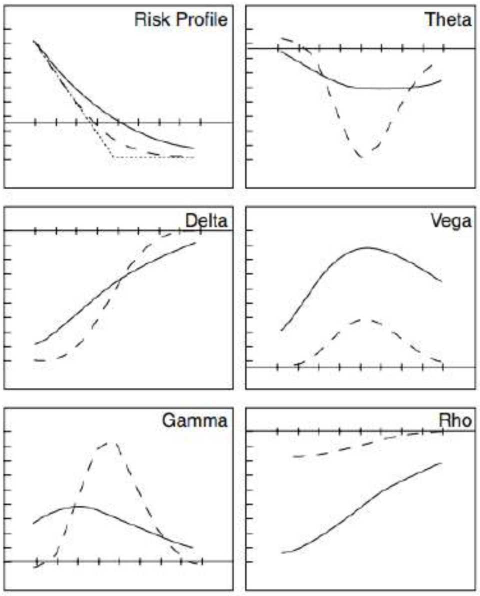
1.3 Long Put

Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Novice	Bearish	N/A	Long Put	Capped	Uncapped	Capital Gain

Risk Profile
As the stock price falls, the long put moves into profit more and more quickly, particularly when the stock price is lower than the strike price.

Delta
Delta (speed) is negative and moves at its fastest rate around the strike price, until it reaches -1. Notice how Delta is zero when the option is deep OTM.

Gamma
Gamma (acceleration) is always positive with a long put, and it peaks when Delta is at its fastest (steepest) rate.



Theta
Theta is negative, illustrating that time decay hurts the long put position.

Vega
Vega is positive, illustrating that volatility is helpful to the position because higher volatility translates into higher option values.

Rho
Rho is negative, illustrating that higher interest rates would reduce the value of the puts and therefore hurt the position.

1.4 Short (Naked) Put

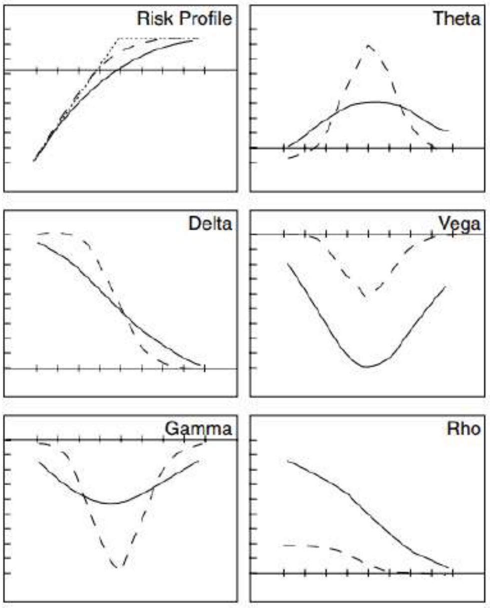
Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Intermediate	Bullish	N/A	Short Put	Capped*	Capped	Income

Key:
Expiration ....
Today – 6 months ———
Time(t) – 1 month – – –

Risk Profile
As the stock price falls, the naked put moves into loss more and more quickly, particularly when the stock price is lower than the strike price.

Delta
Delta (speed) is positive and falls to zero after the position reaches its maximum profit potential after the stock has risen above the strike price.

Gamma
Gamma (acceleration) is always negative with a naked put (because you are net seller of options), and it peaks inversely when Delta is at its fastest (steepest) rate, which is when the position is ATM.

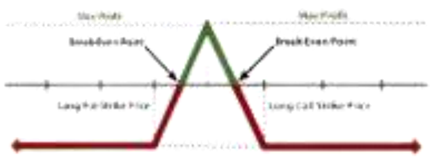


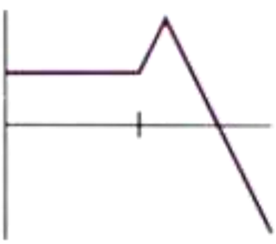
Theta
Theta is positive, illustrating that time decay helps the naked put position.

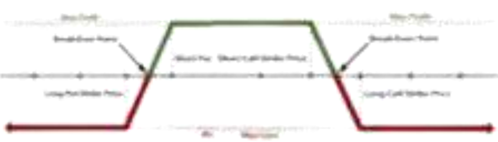
Vega
Vega is negative, illustrating that volatility is harmful to the position because higher volatility translates into higher option values.

Rho
Rho is positive, illustrating that higher interest rates would help the naked put position.

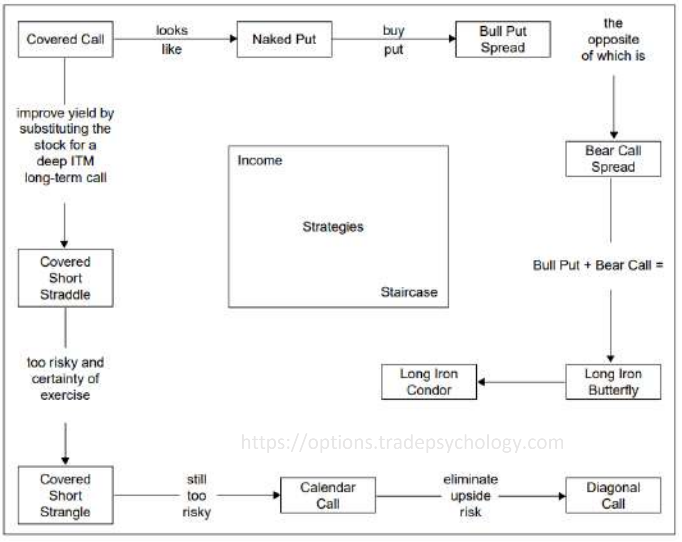
6 : Strategic Hedging Techniques







Strategic Hedging Techniques: 1



Key Points:

- Options enable us to enhance our returns by combining buy/sell legs to generate income.
- In this diagram you can observe the various income strategies link together, highlighting their similarities and differences.
- The opposite of a Bull Put spread is a Bear Call Spread, and the combination of the two forms a Long Iron Butterfly.
- There are several ways in which a Covered Call can be enhanced, but the best way is by substituting the stock with a Deep In the Money, long term call option, creating a Diagonal Call.

Covered Call

Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Novice	Bullish	N/A	Long Stock Short Call	Capped*	Capped	Income

*Risk uncapped until the stock falls to zero.

Key Points:

- The concept is that in owning the stock, you then sell an Out of the Money call option on a monthly basis as a means of collecting rent (or a dividend).
- If the stock rises above the call strike, the stock will be sold . . . but you make a profit anyway.
- If the stock remains static, then you're better off because you collected the call premium.
- If the stock falls, you have the cushion of the call premium you collected.

Bull Put Spread

Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Intermediate	Bullish	N/A	Long Put Short Put	Capped	Capped	Income

Key Points:

- The Bull Put spread is an intermediate strategy that can be profitable for stocks that are either range bound or rising.
- If the stock rises, both puts will expire worthless, and you simply retain the net credit.
- Your maximum loss is the difference in strikes less the net credit received.

Bear Call Spread

Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Intermediate	Bearish	N/A	Short Call Long Call	Capped	Capped	Income

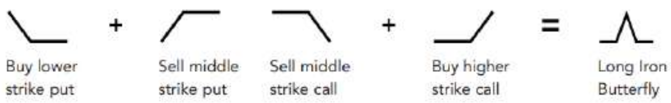
Key Points:

- The Bear Call Spread is an intermediate strategy that can be profitable for stocks that are either range bound or falling.
- The concept is to protect the downside of a Naked Call by buying a higher strike call.
- If the stock rises, then your breakeven is the lower strike plus the net credit you receive.

Strategic Hedging Techniques: 2

Long Iron Butterfly

Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Intermediate	Neutral	Low	Long Put Short Put Short Call Long Call	Capped	Capped	Income



Key Points:
- The Long Iron Butterfly is an intermediate strategy that can be profitable for stocks that are rangebound
- Often, traders will leg into the Long Iron Butterfly, first trading a Bull Put Spread just below support and then as the stock rebounds off resistance adding a Bear Call Spread, thereby creating the Iron Butterfly
- Ideally the stock will remain between the lower and higher strikes, with the maximum profit occurring if the options expire when the stock is priced at the central strike price.

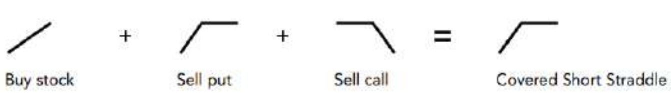
Long Iron Condor

Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Intermediate	Neutral	Low	Long Put Short Put Short Call Long Call	Capped	Capped	Income

Key Points:
- A variation of the Long Iron Butterfly, it is in fact the combination of a Bull Put Spread & Bear Call Spread.
- Traders often will leg into the Long Iron Condor, first trading a Bull Put Spread just below support and then as the stock rebounds off resistance adding a Bear Call Spread, thereby creating the Long Iron Condor.
- Ideally the stock will remain between the two middle strikes, with the maximum profit occurring if the options expire between these.

Covered Short Straddle

Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Advanced	Bullish	N/A	Long Stock Short Put Short Call	Uncapped	Capped	Income



Key Points:
- The concept is to increase the yield of the Covered Call by selling a put at the same strike as the sold call.
- In this way, we take in the additional income from the sold put; however, there is a significant price to pay in terms of risk.
- If the stock is above the strike at expiration, then we're quite happy because our sold put expires worthless, our sold call is exercised, and we simply deliver the stock we already own.

Calendar Call

Proficiency	Direction	Volatility	Asset Legs	Max Risk	Max Reward	Strategy Type
Intermediate	Bullish	N/A	Long Call Short Call	Capped	Capped	Income

Key Points:
- Calendar spreads are known as horizontal spreads, and the Calendar Call is a variation of a Covered Call, where you substitute the long stock with a long-term long call option instead.
- Your maximum risk on the trade itself is limited to the net debit of the bought calls less the sold calls. Your maximum reward is limited to the residual call value when the stock is at the strike price at the first expiration, less the net debit.

7 : Probability Theory

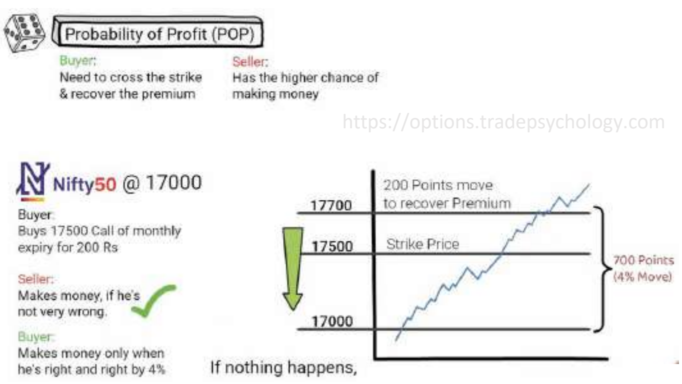
Max ±250 points from current levels

Making Informed Decisions Using Probabilities:

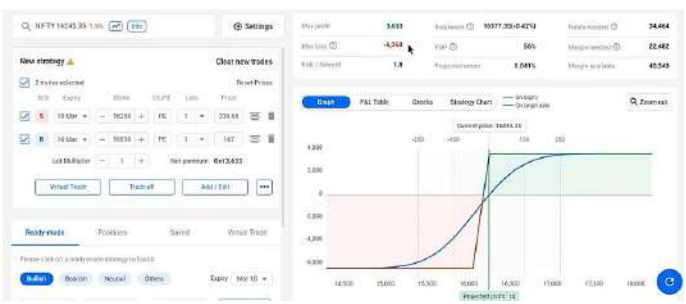
Key Points:
- An option buyer can make limited losses (i.e., the premium paid) but his losses are unlimited.
- An option seller can make limited profits up to the premium paid, but stands the risk of unlimited losses.
- The seller of options makes profit more frequently, but he/she earns small amounts every time
- The buyer of options earns larger profits from each winning trade, but he wins less frequently

Nifty Expiry Level	17000 Put Premium	17000 Put Option Price	Option Buyer (Your P&L)	Option Seller (My P&L)
17500	250	0	-250	250
17200	250	0	-250	250
17100	250	0	-250	250
17000	250	0	-250	250
16900	250	100	-250+100 = -150	250-100 = 150
16800	250	200	-250+200 = -50	250-200 = 50
16750	250	250	-250+250 = 0	250-250 = 0
16500	250	500	-250+500 = 250	250-500 = -250
16000	250	1000	-250+1000 = 750	250-1000 = -750

Key Points:
- If you are interested in making big profits from one trade, then you should go for buying options. If you are satisfied with making small profits multiple times, then you can sell options.
- Many option buyers aim for big profits and end up losing the premium when their view goes wrong. So, over a six-month period, it may happen that in the first five months they lose the premium, get demotivated and exit the market.



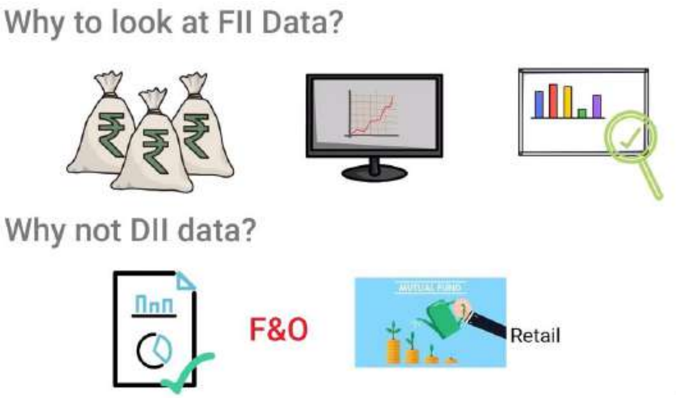
Key Points:
- In this example for Option buyer to make money the Nifty has to move more than 200 points to breakeven
- For Option seller makes money if Nifty doesn't goes more than 200 points and that is where the probability is high in Option Selling
- Also, Even if the Nifty is flat Option Seller makes money from the time decay which is termed as Theta.
- From this example lets analyse a practical example on how to trade Option with high probability.



Key Points:
- This is a Bull-Put spread where we expect Nifty to trade above 16250 level so, we have sold 16250 PE & bought 16050 PE as Hedge.
- This strategy has 56% POP & breakeven is 16177 which is lower than trading level
- So, If Nifty goes up or stays flat above 16177 we will still make money in this strategy.
- The only way we will lose if Nifty falls below 16177 level, because we have bought Hedge our loss is limited to -6368.

8 : FII Data Analysis

Advanced Strategies with FII Data Analysis:



Key Points:

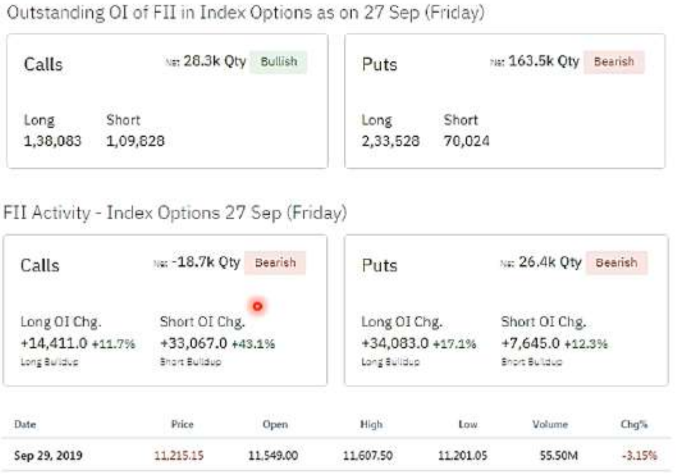
- The FIIs hold around 21 % of the overall holdings in the companies & DIIs hold about 14 % of all shares in the nifty 500 companies.
- Investment duration of FIIs is for short or medium term. And the DII invest mainly for the long term.
- When one is the buyer, the other turns seller, and the opposite. The outflow of FII funds got offset by the growing participation of the domestic institutional investors.

Participants in Option Trading:

1. Margin Traders are mainly trading covered call strategies using existing stock holdings
2. Arbitrageurs are traders looking for difference in stock, future or Option miss-pricing
3. Hedge Fund traders are trading Option with strategies it can be combination of future or stock
4. Speculators are mainly retail traders who are trading intraday to capture short momentums.

Parameters to analyse FII Data:

- While reading FII Data, Daily Options Activity plays a major role in deciding the market trend while compared to Futures.
- Because Options are having expiry every week so the traders need to make quick decisions to exercise Options while compared to Futures on monthly basis
- In FII Data analysis Stock activity is least significant because, the decisions on stocks are usually made for long term or for monthly basis.



Outstanding OI of FII in Index Options as on 27 Sep (Friday)

Calls	Net: 28.3k Qty	Bullish
Long	Short	
1,38,083	1,09,828	

Puts	Net: 163.5k Qty	Bearish
Long	Short	
2,33,528	70,024	

FII Activity - Index Options 27 Sep (Friday)

Calls	Net: -18.7k Qty	Bearish
Long OI Chg.	Short OI Chg.	
+14,411.0 +11.7%	+33,067.0 +43.1%	
Long Buildup	Short Buildup	

Puts	Net: 26.4k Qty	Bearish
Long OI Chg.	Short OI Chg.	
+34,083.0 +17.1%	+7,645.0 +12.3%	
Long Buildup	Short Buildup	

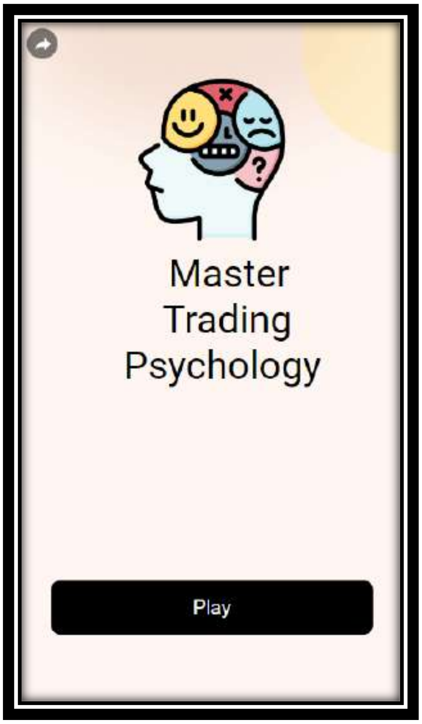
Date	Price	Open	High	Low	Volume	Chg%
Sep 29, 2019	11,215.15	11,549.00	11,607.50	11,201.05	55.50M	-3.15%

Example:

- First data is outstanding OI in INDEX Options tells us net CALL or PUT option which are live
- FII Activity indicate what is the daily change in **CALL** or **PUT** Option contacts compared to outstanding
- While reading FII Data we need to assume FII are buyers in Option, like Net CALL is **28K** that means they are holding long CALL contracts
- In this example outstanding Net PUT contracts are more indicating Bearishness in trend.

Bonus Content

Game of Psychology



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What people are saying?

Yogendra Shah

Appreciate the dedication of the Team, their timely Interventions to help investors. This knowledge sharing platform is really helpful.

1d

Kranti Sanglam

Great Peer-to-Peer learning, good and better strategies for Positional Traders, Office Goers, Young Guys, and even Old People. Mr. Ravi is 63 yrs young chap who is doing positional trades while having an 8 am to 5 pm job, Hats-off for his smart work. Talking about the new launch of online Peer-to-Peer learning & community is definitely a wonderful step. Go...
Read more

1m

Mrinmay Mandal

Thank you very much for all of your support, guiding and teaching us. It was a wonderful section. Thanking you very much for sharing your valuable knowledge & experience. Your way of teaching & explanation , made me easy in a very liquids manner. Your teaching style is excellent. It is enriching and enhancing my knowledge. Thank you very much one again for...
Read more

6m

ravichandran

@tradepsycholog_ your explanation of strategies were simple and understandable. i m new and could follow up each and every word of you. all the best God bless you.

1y

Dr. Audumbar Netalkar

Good experience from people of various walks of life. Great knowledge is shared through the forum. It's all about learning, teaching and in turn earning. Thanks for your great endeavor. Pls keep it up. Dr. A. S. Netalkar

1d

Umasankar Alluri

HI MB Very Clearly explained I got clarity o interpretation of FII/DII data

1m

Bob

@tradepsycholog_ The course is dynamic. Data analysis and strategy selection are explained with real data.The framework is simple and effective. The weekly sunday webinars are effective learning experiences. The course is a formula for trading success.

6m

Ajith

MB ji and Ravi ji are truely gr8 since they are not afraid to contradict and this shows the transpercy and dedication

17d

Harsh Rastogi

The session was very informative and brought clarity of concepts and points to watch out when analyzing the market trend and levels.

1m

Raghvendra Rao. Pune Maharashtra.

Today's session is excellent learning lot of insights of options from Mr.Ravi sir I am totally beginer Ravi sir guidance opened my eye that options are not so easy that what I have thought . I am so much happy to be a part of Trade Psychology. I will be confident this course will help me to trade options independently within short period.No words to express...
Read more

1m

Laishram Sama

It's great and simple method of teaching, easily undertandable, great

19d

Atul Torne (Gold member)

nice session. keep discussing different strategies as per current market directions !!! Thanks !!!

19d

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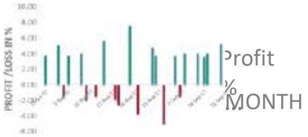
Thank you



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