

# Option Basic Course

## IMPORTANT:

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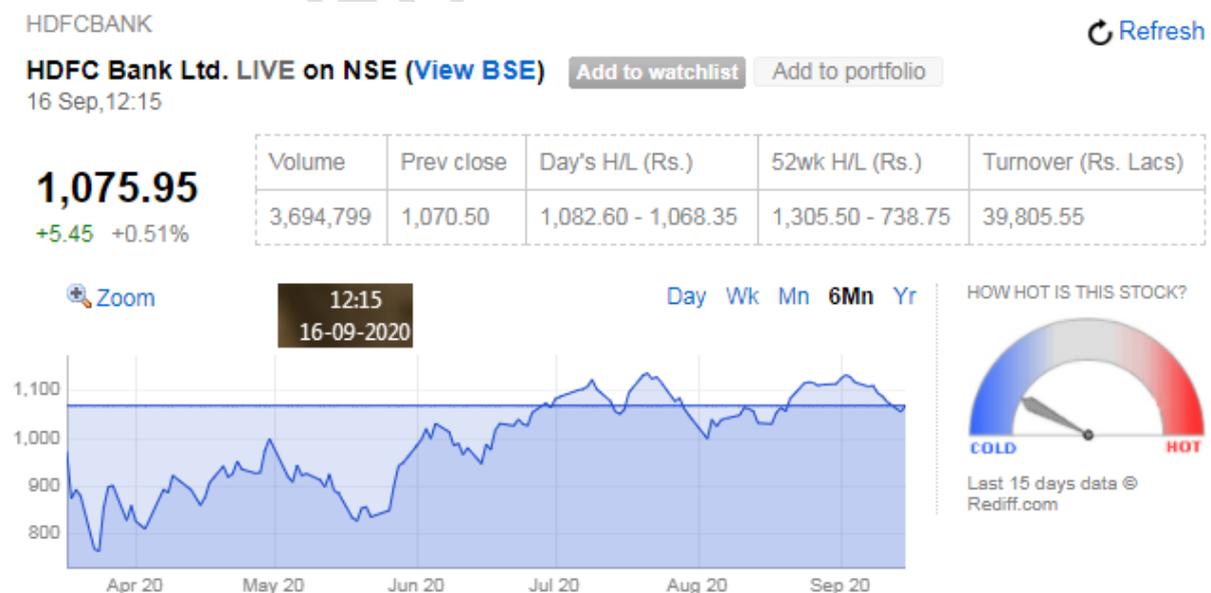
Any act of copying, reproducing or distributing this information in part or edited, for any purpose without the permission of DILIP SHAW, owner of website, [www.TheOptionCourse.com](http://www.TheOptionCourse.com), is strictly prohibited and shall be deemed to be copyright infringement. But you may refer your friends, relatives, associates and/or colleagues to my site [www.TheOptionCourse.com](http://www.TheOptionCourse.com). You may also forward this PDF file AS IT IS without editing, to anyone who is interested in trading the stock markets or want to learn basics of options.

## Interested in Swing Trading / Short Term Investing combined with Long Term Investing?

Before I explain about options let me tell you that **you must be good at stocks investing as well, which includes swing trading/short term investing and long term investing. Stock markets are not just option & future trading, but stock investing as well.** To help you learn short term trading a.k.a swing trading I have made a detailed and well explained document that I will send it to you.

## First let me explain what is Swing Trading?

See this image:



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Screenshot dated: 16-09-20. This is last six months move of HDFC Bank. **Can you see it's not moving up in a straight line? Why can't we take benefit of this swing moves in between and make some money while still being invested in the stock?** This is entirely possible if we plan it well.

**This is something that you will not learn anywhere.** I have done this many times and am still doing in 14 such great stocks. I will **reveal the name of the 14 stocks**, plus, teach **you how to do swing trading in them**. All you have to do is open a Demat account in **ZERODHA** mapped to me.

**Click Here to Open an Account in ZERODHA:**

<https://www.theoptioncourse.com/redirects/zerodhaopenaccount.html>

It will take 5 minutes to open the account online. Once the account is opened please WhatsApp me on 9051143004. I will send you the strategy and if you have any doubts you can ask me. Opening an account in ZERODHA will cost you just 300, but what you will learn will be helpful throughout the rest of your life.

**You will also benefit if you open an account in ZERODHA. Here is why:**

It's a waste of money to pay high brokerages trading Options & Futures. Let say right now you pay Rs.50 per lot to buy and sell an option. Just to trade one lot you end up paying 50+50+taxes in brokerages alone. And if you trade two lots then on just one trade you pay 50+50+50+50+taxes = Rs.200/-. **It is very important to save money in brokerages. ZERODHA is India's No. 1 Discount Broker.** They **DO NOT charge any brokerage for stock buy and sell** and they charge only **Rs.20/- PER ORDER NOT PER LOT** in Options and Futures. If you trade even 10 lots you pay only 20+20+taxes. This will save you lots of money in your 20 years (average life) of trading career.

If you open an account mapped to me then I will send you name of **14 stocks** that you must be invested in for short term and long term combination. On top of that **I will teach you how to do Swing Trading in them to keep making regular profits in the short as well as long term.** You see stocks keep moving like ocean waves – they go up and come down – why not take benefit of this movement and enjoy the short term profits as well as the long term profits? Yes you will learn to do that in this

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course which is **not thought anywhere** – which you will learn if you open an account mapped to me in **ZERODHA**. For that you will have to click on the link given below which will take you to ZERODHA Sign Up page. Please click and start the process immediately. It will take less than 5 minutes to open your account. Once your account opens, please contact me by sending me a WhatsApp message on **9051143004**.

I will send you the strategy to your email. For any queries you can contact me on WhatsApp.

The earlier you learn the better because you never know out of those 21 stocks one or two may make this:

<https://www.theoptioncourse.com/how-to-make-crores-from-the-stock-markets/>

**Click Here to Open an Account in ZERODHA:**

<https://www.theoptioncourse.com/redirects/zerodhaopenaccount.html>

If you use the above link to register your account will be mapped to me in ZERODHA. Once your account opens in ZERODHA, please contact me by sending a WhatsApp message on **9051143004**. Please save this number as TheOptionCourse.com.

**If you already have an account in ZERODHA, you can open an account in UPSTOX and get the same strategy. Stock Buy & Sell is FREE in UPSTOX and Rs.20/- per order in Option/Futures trading – same as ZERODHA. Plus you can sell/buy any strike option in UPSTOX. If you open the account using the given below link you will not have to pay anything to open the account. It's FREE!!**

**Click Here to Open your account in UPSTOX:**

<https://www.theoptioncourse.com/redirects/upstoxopenaccount.html>

If you use the above link to register your account will be mapped to me in UPSTOX. Once your account opens in UPSTOX, please contact me by sending a WhatsApp message on **9051143004**.

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# Option Basic Course

In this PDF file you will learn Basics of Options. After reading you will be better informed than many option traders.

## CHAPTER 1: Option Trading Basic Terms

In this chapter you will learn Option Trading Basic Terms like Call Option, Put Option, At The Money, In The Money, Out of The Money Options, CE, CA, PE and PA.

### **Call Option:**

In your broker's trading platform you will see this as CE. This means Call Option European-style settlement. In USA traders see it as CA. This is Call Option American-style settlement.

**Note:** Traders buy CE or Call Option when they feel the stock will move up. Which Call Option is the best to buy? This is a vast topic. In short it is very dangerous to buy OTM (Out of The Money) Call Options as they do not increase in value fast. New traders with less money in trading account buy them and lose money. Experienced traders buy ATM (At The Money) Option or ITM (In The Money) Options but they also have risks.

### **Put Option:**

In your broker's trading platform you will see this as PE. This means Put Option European-style settlement. In USA traders see it as PA. This is Put Option American-style settlement.

**Note:** Traders buy PE or Put Option when they feel the stock will move down. Which Put Option is the best to buy? This is a vast topic. In short it is very dangerous to buy OTM (Out of The Money) Put Options as they do not increase in value fast. New traders with less money in trading account buy them and lose money. Experienced traders buy ATM (At The Money) Option or ITM (In The Money) Options but they also have risks.

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**In short:** The price of an option depends on price of the underlying stock or Indices like Nifty, Bank Nifty. Call Options normally go up when the price of the underlying stock goes up. Put Options normally go up when the price of the underlying stock goes down.

We will later discuss what is ATM (At The Money) and OTM (Out of The Money) and ITM (In The Money) Options. However buying ATM (At The Money) and ITM (In The Money) Options are risky too, but if direction right they make more money. On the other hand if direction wrong they lose more money.

### **What is the difference between American-style options and European-style options?**

American-style options can be exercised any time prior to expiry.

European-style options can be exercised only on the expiry day.

Now you must be thinking in India we can exercise anytime not necessarily on the expiry day so why CE or PE or European-style options?

Actually in India Options are cash settled so they just exchange hands like shares but are exercised on the expiry day only which means they finish trading on expiry day.

### **Let me take an example:**

One trader buys 8500 CE of October 2016 expiry at 100. Next day he sold at 120. 20 points profit for the first buyer. Option is still alive and being traded if the person who bought wants to trade. After three days he sees the price at 70. He fears and sells it at 70. His loss  $70-120 = -50$  points. Option still alive not yet exercised.

The third person is an Intraday trader. After one hour the same option at 61 he sells and takes a loss of 9 points. Option still alive. Positional trader buys it. Nifty zooms after 3 days. Option now again at 100. Trader sells it and makes a profit of  $100-61 = 39$  points.

Like this it keeps exchanging owners. On expiry day (Thursday, 27-Oct-2016) this Option expires at 30 points as Nifty closes at 8530. The person who owns it can be either buyer or seller and at 3.29.30 pm closes it and it is exercised. It cannot be traded anymore. It dies.

As you can see in between it was traded like stocks but not exercised until the expiry day. Therefore in India we call it European-style options.

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### **ATM (At The Money) Call and Put Option:**

Right now (14-Oct-2016 11.40 am) Nifty is at 8582. So the nearest Option is at strike 8600. Therefore both CE and PE strikes of 8600 will be called ATM Option for now until Nifty moves beyond 8650 or below 8550. In India there are Options at 50s strike also but they are less traded than 100s strike. So I will consider 100s strike only.

### **OTM (Out of The Money) Call Option:**

Nifty is at 8582. All CE Call Options of any expiry above 8600 are considered Out of The Money Options. Like 8650 CE, 8700 CE, 8750 CE, 8800 CE, 8850 CE etc. You will see their price decreasing as strikes move Out of The Money because chances of them getting exercised is very less. In most cases they expire worthless. But sometimes they get In The Money making huge loss for the OTM sellers of Call Options.

### **OTM (Out of The Money) Put Option:**

Exactly opposite for OTM Put Options. All PE Put Options of any expiry below 8600 are considered Out of The Money Options. Like 8550 PE, 8500 PE, 8450 PE, 8400 PE, 8350 PE etc. You will see their price decreasing as strikes move Out of The Money because chances of them getting exercised is very less. In most cases they expire worthless. But sometimes they get In The Money making huge loss for the OTM sellers of Put Options.

### **ITM (In The Money) Call Option:**

Nifty is at 8582. All CE Call Options of any expiry below 8600 are considered In The Money Options. Like 8550 CE, 8500 CE, 8450 CE, 8400 CE, 8350 CE etc. You will see their price increasing as strikes move In The Money because chances of them getting exercised is very high. In most cases they expire In The Money. But sometimes they get Out of The Money and expire worthless making huge loss for the ITM buyers of Options.

### **ITM (In The Money) Put Option:**

Exactly opposite for ITM Put Options. All PE Put Options of any expiry above 8600 are considered In The Money Put Options. Like 8650 PE, 8700 PE, 8750 PE, 8800 PE, 8850 PE etc. You will see their price increasing as strikes move In The Money because chances of them getting exercised is very high. In most cases they expire In The Money only. But sometimes they get Out of The Money making huge loss for the ITM buyers of Put Options.

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## CHAPTER 2: Option Trading Advanced Terms

**In this chapter you will learn advanced option trading terms like what is an option buyer and an option seller and how they make profit and losses.**

Any business can be done only when there is a seller and a buyer. Otherwise a business cannot be done. Same is the case with stock trading.

Option is a derivative contract on which business is done. So someone is a seller and some buyers.

In other business sellers make money while buyers get a product but will lose money. However in option trading both sellers and buyers can make money. But logic of the way business is done is applied here too. It is mostly the option sellers who make money not the option buyers. And if you properly hedge your traders the sellers can keep making money for life. My course 100+ testimonials is a proof that it is option sellers who keep making money. Since 2014 all my course subscribers are making money.

### **Option Buyer:**

Any trader who buys an option to sell. Currently the At The Money Nifty option of 27-Oct-16 8600 CE is trading at 75.05. Suppose an option buyer wants to buy one lot. Since the lot size of Nifty option is 75 he will have to pay  $75 \times 75.05 = \text{Rs.}5628.75$  + brokerage charges. Once the trade is completed he owns one lot of Nifty 27-Oct-16 8600 CE option for Rs.5628.75.

### **How Option Buyer Makes a Profit?**

If any time after he buys till expiry he sells the option at let say 85. He will make the profit of the difference between the buy price and the sell price.

His Profit = Sell price (85) – Buy price (75.05) =  $9.95 \times 75$  (one lot) = Rs.746.25/- minus brokerages and taxes.

### **How Option Buyer Makes a Loss?**

If any time after he buys till expiry he sells the option at any price less than 75.05 he will make a loss. His loss will be the difference between the buy price and the

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sell price. Let say after two days Nifty falls and the option is traded at 50. He panics and sells it at 50. His Loss = Sell price (50) – Buy price (75.05) = -25.05 \* 75 (one lot) = Rs.-1875.75/-plus the brokerages and taxes.

**Note:** If you are paying too much for brokerages you are losing money which can be saved. Please fill the form here and I will help you to open an account with the best discount broker in India (best broker declared 3 years in a row in India). Their charges are just Rs.20/- per order not per lot like many other brokers charge. Which means even if you buy 10 lots you still pay only Rs.20/- for the order even if it takes half an hour to complete to order. You will save thousands just in brokerages.

### **Option Seller:**

Any trader who sells an option to buy it back later someday. Currently the At The Money (ATM) Nifty option of 27-Oct-16 8600 CE is trading at 75.05. Suppose an option seller wants to sell one lot he can place a sell order.

Here the broker blocks more margin. Why? Because on paper selling an option is unlimited loss. Those who have done my course know very well that if we hedge the sell trade the losses are going to be limited and we can keep making money for life. Anyways your broker does not want to take a risk so they block more money.

### **How much is blocked to sell an option?**

If I go for proper explanation than this will take a long time to explain. So I will write some other day. In your trading platform you can try placing the sell order for an option and see how much margin money your broker is asking. If you have that much money you can sell the option, if not your order will be cancelled due to lack of funds.

Since it is very hard to calculate how much margin will be blocked for an option since it differs from stock to stock it is best to put a sell order in the trading platform to see how much money will be blocked. This will help you to know how much money will be blocked.

To sell an option in Nifty most brokers block anywhere from 1 lakh to 1.4 lakh as on Sep 20. However if you hedge it the brokers will reduce the margin blocked to 25,000. You will learn hedging in my paid courses.

### **How an Option Seller Makes a Profit?**

Going by the above example assuming the seller was able to sell the option for 74.50. Now after that next day Nifty falls and his option is trading at 50.

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He sells it and books a profit.

His profit is the difference between sell and buy.

His profit: Sell at 74.50 – Buy at 50 =  $74.50 - 50 = 24.50 * 75 = \text{Rs.}1837.50$  minus the brokerages and taxes.

### **How an Option Seller Makes a Loss?**

Remember that option was sold at 74.50. Assuming Nifty goes up the next day and the same option is traded at 80.

The seller panics and sells the option at 80.

His loss is the difference between sell price and the buy price.

His loss: Sell at 74.50 – Buy at 80 =  $74.50 - 80 = -5.50 * 75 = \text{Rs.}-412.50$  plus the brokerages and taxes.

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## CHAPTER 3: What is Open Interest in Option Trading?

**In this chapter you will learn what is on Open Interest in Option trading and will help you to know what may happen to Options with regards to Open Interest.**

In short the total number of outstanding option contracts in the exchange market on a particular day is open interest in options.

Let us simplify this.

As we have read for a trade to happen there has to be a seller and a buyer of option otherwise a trade cannot happen.

Now let us suppose At The Money (ATM) call option is 8700 CE and a lot of traders are looking to trade that.

Lets also assume that India VIX (Option Volatility Measure Index which has a lot impact on option pricing) has gone high and there is no such news that may move the markets to any direction.

Since India VIX has gone high most experienced traders will try to sell this option.

And if you see today's market Nifty is up by 70 points. So a lot of traders will think it is a great buy option. Mostly the new traders who have no experience.

Due to this a lot of trading will happen in the 8700 CE option and also there is a possibility of a lot of trading happening in 8700 PE option.

In fact this is the main reason why mostly the open interest is higher in At The Money Options.

Just to let you know that in my course I do not teach to trade on At The Money option as they are the most dangerous option to trade even for an experienced or for a new trader.

Only time value is there in At The Money (ATM) options so I tell a different strike to trade in my course. Those who have done are pretty happy with the course, the reason you know now why.

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## **How The Open Interest is counted?**

Obviously this cannot be done by humans so there are software working in the background in NSE and BSE to count the open interest.

### **Let us take one example.**

One seller wants to sell January 2017 8900 CE. There is no buyer there.

Open Interest 0. Trade is open.

Suddenly one buyer sees it and thinks it's too cheap and buys it.

Open Interest account opens for January 2017 8900 CE. It is 1.

Another seller comes and trade happens.

Open Interest for January 2017 8900 CE is now 2.

Let say over the next three days 200 people have done the trade and so the Open Interest is now 202.

Let say on the fourth day three people closed their trade.

Open Interest on January 2017 8900 CE is now  $202 - 3 = 199$ .

Hope now it is clear. All open trades on a strike are only counted. The trades that gets closed are taken out. The new trade that happens are added. This is how open interest are calculated by the software working with the BSE, NSE or MCX – the trading houses.

## **Can We Benefit From Open Interest?**

You will see that in Television Business channels a lot of experts keep saying Open Interest has increased in that Call or that Put so it looks like markets resistance is there or support is there with reference to the strike prices where open interest are the most.

Next day they change their view according to the open interest.

So if you ask me I do not care. One day it will be right next day it will be wrong.

Like this one day you make money next day you lose and it will keep happening. So I do not care.

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I am a conservative trader happy with small and consistent profits and least bothered about the direction of the markets. That's the reason my course paid subscribers keep making money.

**Those who think too much about Open Interest, support and resistance keep making and losing money. Those who do not care about it and properly hedge their trades keep making money over time.**

So do not look at Open Interest and trade these strikes because half of them are sellers and half buyers, so nothing can be concluded for sure.

## **Where to Know the Highest Open Interest?**

In the NSE site here is the link:

[https://www.nseindia.com/products/content/equities/equities/oi\\_sports.htm](https://www.nseindia.com/products/content/equities/equities/oi_sports.htm)

You can also see increase in open interest here:

[http://www.moneycontrol.com/stocks/fno/marketstats/futures/openint\\_inc/index.php](http://www.moneycontrol.com/stocks/fno/marketstats/futures/openint_inc/index.php)

Decrease in Open Interest here:

[http://www.moneycontrol.com/stocks/fno/marketstats/futures/openint\\_dec/index.php?sel\\_option=openint\\_dec&optinst=allfut&sel\\_mth=all](http://www.moneycontrol.com/stocks/fno/marketstats/futures/openint_dec/index.php?sel_option=openint_dec&optinst=allfut&sel_mth=all)

Highest Open Interest here:

[http://www.moneycontrol.com/stocks/fno/marketstats/futures/high\\_oi/index.php](http://www.moneycontrol.com/stocks/fno/marketstats/futures/high_oi/index.php)

Lowest Open Interest here:

[http://www.moneycontrol.com/stocks/fno/marketstats/futures/low\\_oi/index.php](http://www.moneycontrol.com/stocks/fno/marketstats/futures/low_oi/index.php)

In the next chapter we will learn more important advanced terms on options trading like difference between Ask, Bid, LTP, Best Sell, Best Buy and about the stock exchanges.

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## CHAPTER 4: Option Pricing: The Factors That Determine Option Price

**In this chapter we will learn the important factors that determine Option Pricing.**

I assume anyone who has directly landed in this page knows what an option is. If you do not know then in simple terms an Option is a derivative contract that give the holder the right, but not a compulsion to buy it back if sold or to sell it if bought when the Option expires on the Expiry day. Expiry day is usually last trading Thursday of the month in India. If Thursday is a holiday expiry happens on Wednesday. Of course one can buy an Option expiring in 2 months or more.

Though I personally close all In The Money (ITM) Options on the expiry day which I hold because most brokers as a risk management will close the ITM Options at around 3.15 pm at prevailing market prices which you need to accept. I would rather close myself.

Of course you can leave all Out Of The Money (OTM) Options to expire worthless whether you bought or sold them to save on Brokerage charges.

**Anyway let's discuss today's topic Option Pricing: The Factors That Determine Option Price.**

A few days back I got this email from one of my email subscriber:

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Hi sir,

I am S. MD (CA Student). I am avid reader of your website articles. I started Nifty Options trading from last 2 months. It's actually mock trading but with small amount like Rs 1000.

I would like to join [your course](#) as soon as I start earning and to my best of knowledge. All of your articles are very informative and educative.

Thanks a lot.

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Sir, today I came across a situation where my Nifty Call Option didn't increase but the next call options increased. (By next he meant further Out of The Money)

I will explain in detail.

I bought Nifty July 8900 CE at Rs.5/- one lot at that time Nifty July 9000 CE was Rs.3.75 only. At the end of the day my Option was at Rs.5.25 and 9000 CE Option was at Rs.6.90.

Literally I could not believe my eyes because 8900 CE Option opens at 6.15 and 9000 Option at 4.35, but at the end of day 8900 CE Option was 5.25 and 9000 CE Option was 6.15.

What is this Dilip Sir? I am looking for true answer. I need your analyses because I believe you.

I am attaching you the screen short also for your reference.

S. MD (CA Student)

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I know a lot of you must be surprised after reading his email by now.

**So let's discuss The Factors That Determine Option Price.**

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## CHAPTER 5: Options Greeks Explained Delta Gamma Theta Vega Rho

**In this chapter you will learn Options Greeks Explained – Delta, Gamma, Theta, Vega, & Rho. These factors determine options pricing.**

Most retail option traders in India do not know option Greeks or do not care for them. Option Greeks are very vital part of options trading. If you do not understand them, than it is very important to know about them. At least you should have an idea of what they are. Let's discuss them.

### **The Five Option Greeks:**

#### **1. Delta:**

It is the amount an option price will move with every 1 point move in the Index/Stock. If expiry is not near, Delta movement is NOT 1 point increase with 1 point increase in the stock. Which means if the stock moves 1 point up, depending on the strike price of the option, the option will move less than 1.

The reason is that you buy option at a lesser price than the stock in cash for the same lot size, so why should you get profits equal to someone who bought the same stock in cash? Of course option buyer's losses are also less than stock buyers'.

At the money (ATM) options usually have a delta of 0.5. If the stock moves up 1 point – the price of the ATM option will go up by 0.5. In The Money options have more Delta than out of the money options. Deep In The Money options move almost 1 to 1 with the stock. This is reason why some traders prefer buying deep ITM options. If right ITM options will make more than ATM or OTM options.

As an example. Let's assume Nifty at 8000. The 8000 strike price of calls and puts will have Delta of 0.5. Similarly 8100 CE (OTM) may have a delta of 0.4, 8200 CE (far OTM) may be 0.3, and 7900 CE (ITM) may have a Delta of 0.6. Note how they are changing. Deltas are assumed here not real – but you get the idea.

As expiry nears Delta of all in the money options will move very closely with the stock price as there is no time value left. When expiry is very near Delta of all ITM options move towards 1. Delta of all Out Of The Money (OTM) options will move

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towards zero. Therefore on expiry day the premium of all Out Of The Money options becomes zero and they expire worthless.

Note: Some traders think that a Delta of 0.1 means the option has 10% chance to expire In The Money (ITM). Or 0.5 means the option has a 50% chance of expiring In The Money. You got the idea. This is very important figure for option sellers. I do not have any data to prove this to be true. So please take precaution while selling option even if it has a Delta of 0.1.

## **2. Gamma:**

With the movement of the stock someone has to change the price of Delta as the option moves from ATM to OTM and then back to ATM to ITM.

In the example that we described above, when Nifty moves to 8100 – the 8000 CE becomes In The Money (ITM), and its Delta increased from 0.5 to 0.6, similarly Delta of 8100 CE increased from 0.4 to 0.5. Gamma is responsible for this change.

Gamma controls the Delta. It is the mathematical formulae (a software) that decides the change in Delta based on a 1 point change in the stock. If Nifty goes back to 8000 – the 8000 strike will again become Delta 0.5.

## **3. Theta:**

This factor is known by most traders. Theta is the Time Factor in the option premium. This time factor moves towards zero as expiration approaches. Theta is the amount the premium will decrease for a one-day change in the time to expiration. Theta works on holidays and non-trading days too. Theta behaves differently for different strike prices.

One important thing that needs mention. Considering options expiring in 30 days – Theta for deep OTM (Out Of The Money) and Deep ITM (In The Money) options decrease faster in the first 15 days and almost nothing is left for the last 10 days. However ATM options (and the near strike prices) behave exactly opposite. The speed of decrease in Theta is almost constant till the last 5 days – after this the speed increases rapidly. In the last 1 hour it is the maximum.

Compare Theta to the melting of ice. If you take some ice out of your freezer and observe, you will see that for the next few minutes almost nothing happens, then slowly the ice starts melting. After 10-15 minutes the speed of ice melting increases. The last 2 minutes are pretty fast when the ice totally melts. Theta behaves the same way especially for ATM options.

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Option sellers are the one who love to see the Theta of options decreasing – because this is what makes money for them. Most option sellers sell out of the money options – which means they are only selling Theta. They buy back the options when Theta decreases in value significantly to make a profit.

### **4. Vega:**

Is the volatility factor. Vega is the amount option prices will change for one point change in implied volatility. It is a measure of fear or uncertainty in the markets. When a big news is expected – there is uncertainty in the markets – so the volatility too increases. When volatility increases option prices for both calls and puts also increases. When volatility decreases option prices for both calls and puts also decreases. Vega only effects the time value of the options not its intrinsic value.

For example if Nifty is at 8000. Assuming the 7900 call option is available at a premium of 130, then the intrinsic value of this option is 100 (the difference between the spot price and the strike price of the option). The time value is 30. When Vega increases, only the time value is affected. This 30 can increase to say 32 depending on the volatility increase.

Similarly when the news is out and uncertainty dies down, volatility decreases. This in effect decreases the premium of the options. This is where most trades lose money. Vega has such a big effect that sometimes even if the direction is right, an option buyer loses money because Vega decreased.

This happens mostly with call option buyers. Usually when the markets go up, the volatility decreases. Call option buyers are up against Time (Theta), and Volatility (Vega). OTM call option buyers lose money even if the stock goes up because by the time it goes up a significant portion of the premium would already have been eaten by Theta and the decrease in Vega will also reduce the premium.

For them to make money the speed of the stock going up is very important. However put buyers are in slightly advantageous position because usually when the markets fall, the Vega increases and they can benefit. However they are also up against Theta. Here too speed matters, though not as important when the stock moves up.

I am sure you now understand why most option buyers lose money.

In India volatility is called India VIX. NSE (National Stock Exchange) has allowed Vega Trading too. Right now only Futures trading is allowed. But I think too much

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capital is required for margin. Right now it is only for (HNIs) High Net worth Individuals. India VIX can be found here:

<http://www.moneycontrol.com/indian-indices/india-vix-36.html>

**Lower end of VIX (when sellers get less premium): 10-15**

**Average VIX: 15-20**

**High VIX: 20 and above**

As an example on 12-May-2014 when the India VIX hit a high of 39.3 because the election results were due, and spot Nifty closed at 7014 the ATM call was at 294 and the put at 244. Total premium a seller would have got:  $294+244 = 538$

On 13-Nov-2014 (almost same days left for expiry for the current month). India VIX was 13.80 (64.88% less than 12-May-2014). Nifty closed at: 8357. Here are closing prices for both 8300 and 8400 strike options.

8300 CE: 122

8300 PE: 42

Total:  $122+42 = 164$  (69.51% less than total of the ATM options on 12-May-2014)

8400 CE: 61

8400 PE: 79

Total:  $61+79 = 140$  (73.97% less than total of the ATM options on 12-May-2014)

As you can see for the same Theta (time value left), when Vega is down 65%, the option premium also reduces by almost the same amount.

I hope now you understand how important Vega is for option traders. Why does premium of options increase when Vega increases?

The reason is simple. When there is uncertainty in the markets no one knows exactly where the markets are heading. The risk during these times are more. The risk is much more for the option seller. Why? Because they are willing to take

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unlimited risk for a limited profit. When the markets are uncertain and the premium they are getting is not sufficient why would they sell an option and take unlimited risk for a small profit?

For example on 12-May-2014 if the total premium of the ATM strikes was just 150, do you think anyone would have sold these options? If there are no sellers, there can't be any buyers. And if this happens – options trading will cease to exist. Therefore when Vega increases the option premium also increases to lure the sellers.

### **5. Rho:**

Is the interest rate offered at the banks for a fixed deposit of 1 year. It is the amount an option value will change with one percentage-point change in interest rates. As mostly the interest rates are same for a long period, Rho does not have a big impact on the option prices. Since interest rates are not important lets not discuss this further.

### **How you can get the Option Greeks while trading?**

Your broker should be able to provide you with an option Greek calculator if you are approved to trade options. You may also look online. You need to put in the values like strike price, time left, interest rates etc and the calculator should return the Option Greeks.

### **How to trade with the help of Option Greeks?**

This is a very big topic. You will find books written on this topic alone. However I will tell you what most retail traders do in the US. By default in the US all brokers show ALL the Greeks on a traders screen. They need not use any calculator. Unfortunately in India there is not a single broker that shows them by default. If you know any please mail me or write in the comments.

If they want to sell options, they sell option that has Delta of less than 0.15. Which means they sell deep Out Of The Money options. The idea behind this trade is that the chance of this option to expire worthless is 85%. ( $1-0.15 = 0.85$  or 85%)

If they want to buy, they buy options that have delta of 0.5 or more. Which means they buy At The Money (ATM) or slightly In The Money (ITM) Options.

Some traders sell both call and put options – mostly out of the money options. These traders try to keep their trades at Delta Neutral. Again this is a very big topic out of scope of this article. Still I will try to explain in a simple way.

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Delta Neutral means keeping Deltas of all the options they sold same with any movement of the stock.

For example if stock moves up – the Delta of the call option will increase. So they will move the position a few points up. Essentially booking profits in the puts and booking loss in the calls – but maintaining the Deltas of the calls and puts more or less same. The idea is to profit when expiry nears. The Theta will decrease rapidly of both the calls and puts when expiry nears. Ultimately both the options will expire worthless.

Profits or losses are known only on the expiry day, or when the trade is closed. If all the delta neutral adjustments resulted in profits then the trader is in profit, else he loses.

Some people write software to automate this trading. Yes you can write a piece of software to automate your trading and strategies. Benefit is that emotions are not involved. I have rarely come across a person who made money doing automated trading.

Frankly it is very challenging to keep a trade Delta neutral. You need to keep a watch on the stock every time and be ready to shift your trades with few points movement in the stock - this may require leaving your job to trade, which I do not recommend plus there is no guarantee that you will succeed. If not you will again start looking for a job which is a bad situation to be in.

On top of that shifting the trade every now and then will require lots of trading therefore lot of brokerage also needs to be paid. Profits or not, your broker will thank you for being a Delta Neutral trader. It is better to stay away from strategies that makes your broker rich not you.

If you are on a job or a busy person it is humanly impossible to keep changing your trades to be Delta Neutral. And there is no guarantee of profits either. We don't trade to waste time and lose money right? If you are busy and don't want to trade too much and are happy with small profits month after month you can [do my course](#). It's much better than wasting money on losing trades that teach you nothing.

This came out to be a pretty long chapter but I hope you learned a lot, still this is tip of an iceberg as far as Option Greeks are concerned. Though, I hope after reading this article you will have some idea about them.

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## About My Conservative Options Course:

In my [conservative options course](#) you will learn 5 very good hedging methods to take profits out from the markets without the hassle of trying to time the markets or trying to guess the direction of the markets. If you are trading either options or futures I am sure you must know how difficult it is to guess the market direction. Even the best of the best technical analysis traders and experienced traders fail to guess the direction of the markets and fail to make a lot of money trading.

If finding the direction was easy, most of the directional traders would be making money. But it is a fact that they are the biggest losers in stock markets. Story is very different with traders who do not predict the markets and use logic not magic of trading. If the logic of trading is very strong and it is well planned with proper hedging it is obvious it will make money in the long run. In fact hedging will give you a sense of security that your money is safe and you will never lose your home even if anything goes wrong. Maximum loss is limited to 1.5-2% of total margin blocked and success rate is 80%. So even if there is a small loss you will never bother about it and move on. Point is over a year you will make around 3-5% average profits per month. Since the risk is very low due to hedging, you can [compound your trading profits](#) and grow it as much as you would like to.

Then after a few years take it out and live a peaceful life out of interest on the money kept in any government securities like Bank Fixed Deposits or Liquid Funds.

Here are some real testimonials of my clients who are doing this right now and enjoying the profits:

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Thank You for Reading!

My Best Wishes for Your Trading Career!

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Founder:

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===== THE END =====