

WHAT ARE NIFTY OPTIONS
Written by: DILIP SHAW
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What Are Nifty Options?

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I hope you have the basic knowledge of options. If not you can [download this PDF](#) written by me to know the Basics of Options and Option Greeks.

Nifty stands for National Stock Exchange Fifty and is the equity benchmark index of the National Stock Exchange (NSE). It was introduced by NSE in 1996, and its other aliases are Nifty 50 and CNX Nifty. Nifty 50 includes stocks from the top 50 of nearly 1600 companies actively traded in NSE across 24 sectors.

Nifty Option is a derivative trading tool to trade Nifty also known as Nifty 50/ National Stock Exchange Fifty (a very popular Stock Market Index in India). Index methodology to find the 50 stocks to qualify for NIFT 50 is here:

https://www1.nseindia.com/content/indices/Method_Nifty_50.pdf

NSE Website:

<https://www.nseindia.com/>

NSE Logo:



Nifty 50 Website:

<https://www.niftyindices.com/indices/equity/broad-based-indices/NIFTY-50>

List of Nifty 50 Stocks:

https://www1.nseindia.com/live_market/dynaContent/live_watch/equities_stock_watch.htm

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Nifty 50 Logo:



According to [Wikipedia](https://en.wikipedia.org/wiki/Nifty_50):

The **NIFTY 50** is a benchmark Indian [stock market index](#) that represents the weighted average of 50 of the largest Indian companies listed on the National Stock Exchange. It is one of the two main stock indices used in India, the other being the [BSE SENSEX](#).

Nifty 50 is owned and managed by NSE Indices (previously known as India Index Services & Products Limited), which is a wholly owned subsidiary of the NSE Strategic Investment Corporation Limited. NSE Indices had a marketing and licensing agreement with Standard & Poor's for co-branding equity indices until 2013. The Nifty 50 index was launched on 22 April 1996, and is one of the many stock indices of Nifty.

The NIFTY 50 index has shaped up to be the largest single financial product in India, with an ecosystem consisting of exchange-traded funds (onshore and offshore), exchange-traded options at NSE, and futures and options abroad at the SGX. NIFTY 50 is the world's most actively traded contract. WFE, IOM and FIA surveys endorse NSE's leadership position.

The NIFTY 50 index covers 13 sectors (as on 30 April 2021) of the Indian economy and offers investment managers exposure to the Indian market in one portfolio. Between 2008 & 2012, the NIFTY 50 index's share of NSE's market capitalisation fell from 65% to 29% due to the rise of sectorial indices like NIFTY Bank, NIFTY IT, NIFTY Pharma, NIFTY SERV SECTOR, NIFTY Next 50, etc. The NIFTY 50 Index gives a weightage of 39.47% to financial services, 15.31% to Energy, 13.01% to [IT](#), 12.38% to consumer goods, 6.11% to Automobiles and 0% to the agricultural sector. (Data as per 2021)

The NIFTY 50 index is a free float market capitalisation weighted index. The index was initially calculated on a full market capitalisation methodology. On 26 June 2009, the computation was changed to a free-float methodology. The base period for the NIFTY 50 index is 3 November 1995, which marked the completion of one year of operations of the *National Stock Exchange Equity Market Segment*. The base value of the index has been set at 1000 and a base capital of ₹ 2.06 trillion.

Nifty option behaves just like any stock option. Nifty option also has a lot size and other factors like call and put options, different strikes to trade and of course time limit to expiry.

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What is the Current Lot Size of Nifty Option?

Till October 30, 2014 the lot size was 50. This was the expiry day of the October 2014 series. From the very next trading day, that is October 31, 2014, the lot size was reduced to 25.

Then in the year 2015 Nifty increased its [lot size to 75](#). The lot size of CNX Nifty in the futures & options (F&O) segment was revised to 75 from 25. The lot size of CNX Bank index (Bank Nifty) was hiked to 40. The changes in the lot size took effect from 28 August 2015. Contracts with maturity of September 2015 and October 2015, which were already traded in old lot size continued to have the same market lots until the expiry of F&O contracts for those two months.

Any change in lot sizes are posted in NSE circular [here](#).

Then the National Stock Exchange of India (NSE) on March 31 decided to reduce the lot size for the Nifty50's futures & options (F&O) contracts to 50 from 75 from July 2021 expiry. All monthly expiry contracts starting from the July 21 expiry contract will have a lot size of 50.

Here is historical Nifty lot size till July 2021:

YEAR LOT:

|2000-05|200|

|2005-07|100|

|2007-15|25|

|2015-18|75|

July 21 – till the time of writing this update: 50

Please note that you must check in the NSE website for the current lot size of Nifty whenever you start trading. You can also

Google: <https://www.google.com/search?q=current+lot+size+of+Nifty+50>

Why Nifty Lot Size was reduced from 50 to 25?

This is because Nifty had a spectacular rally from 5500 odd levels to 8000 levels. National Stock Exchange (NSE) wanted to keep most F&O values to around 2 lakhs. If you multiply 50*8000 you get 4,00,000.00 (4 lakhs). Since there are a lot of retail traders in India who

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trade Nifty options, NSE reduced the lot size to 25 to keep the value of one lot of Nifty option to approx. 2 lakhs. ($25 \times 8000 = 2,00,000.00$)

Update Aug 2021: Now the scenario has changed. SEBI wants retail traders to be out of Options trading (my view I may be wrong). Reason. As in Aug 24, 2021 at the time of writing NSE was trading at 16,571.00. The current lot size is 50. Multiply 16,571 with 50.

$16,571 * 50 = 8,28,550.00$ (Above 8 Lakh)

What happens when lot size increases?

The SPAN and EXPOSURE margins to short an option increases. Right now to short an option above 1 Lakh is required. It's obvious that small retail traders who cannot afford to bring this much money will not be able to sell Nifty options.

Note that unlike stocks, Nifty does not have any shares in the stock market. If you want to own Nifty shares you can buy [Nifty BeES](#). Just like shares of a company you can hold them and sell whenever you want. Nifty BeES does not expire, and is a great product for someone who wants to accumulate Nifty shares and not shares of a particular stock.

Nifty BeES, technically is not a share, it's the first ETF (Electronic Trading Fund) in India. So you own a part of a fund, not shares of Nifty. Of course Nifty BeES mimics Nifty. So if you buy Nifty BeES when Nifty was at 6000 and sold it when Nifty reached 8000. Your total profit would be 33.33%.

Similarly you do not own any share when you buy/sell an Option or Future, you are just leveraging cash to take a business risk. Everything is cash settled on or before expiry. For example, when you buy one lot of Nifty future – it means you have bought an equivalent of current lot size of shares of Nifty. Same is the case with one lot of Nifty Option.

If you bought Nifty Future at 8000 and sell it at 8300 – you make $8300 - 8000 = 300 * \text{lot size}$ profit.

However if you bought a Call Option of Nifty when Nifty was at 8000, and Nifty increases by 300 points you may not make the same profit as in the case of Future buy. Why? Because options have a premium – the profit of the trader/buyer will be above the premium paid. So it will be less than futures depending on the premium of the option you bought.

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Why is this difference?

This is because the person who bought Future is at unlimited risk if Nifty falls down, however a person who bought Nifty option is at limited risk of the premium he paid to buy the option. So why should they make the same profit for the same movement? If the losses are more, the profits should also be more.

Can you see the benefit of trading in options? Though in my experience [option buyers usually lose money](#). Here are some more [benefits of trading Nifty options](#).

First just like any other stock you have choice of two options – **Call option and Put option**. **If you think Nifty may go up you should buy Call option, and if you think Nifty will fall you should buy Put option**. Why? Because the value of the call option will rise if Nifty goes up, and similarly value of the put option will rise if Nifty goes down.

You can also sell these options. **You should sell a call option if you think Nifty may go down, and you should sell a put option if you think Nifty may go up**. In technical terms – the buyer of the call option is **long call** and the seller of the call option is **short call**. Similarly the buyer of a put option is **long put**, and the seller is **short put**.

When you sell a call option and Nifty goes down, the option premium will get reduced, then you can buy back your option at a profit. However what happens when you are wrong and Nifty keeps going up after you have sold a call option? You are at unlimited risk, because you don't know where the Nifty Bull Run will end. **In that case you must take a stop loss or hedge your position**. In my paid course hedging a sold option is thought.

Similarly if you have sold a put option and Nifty continuous its slide downwards, you are again at unlimited risk as the put option will keep rising. Here too you must buy back your options to limit your losses.

No it does not mean that you will not make a loss if you buy an option – **you will make a loss if your view goes wrong whether you buy or sell an option**. The only thing is whatever you do you should be ready to take a stop loss if your views have gone wrong.

So here is what you can do according to your view:

- 1. Bullish on Nifty: Buy Call Option or Sell Put Option**
- 2. Bearish on Nifty: Buy Put Option or Sell Call Option.**

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Whatever you do, you will be required to pay a margin. When you sell an option depending on which option you are selling and the current volatility – your margin may differ. The more risky the option, the more margin you pay. When you buy an option you only pay the premium and that's your only risk.

For example if Nifty is at 8000, the 8000 Call Option will be around 150 if one month is left for expiry. So to buy one lot you need to pay $150 * 50 = \text{Rs. } 7,500.00$. Now if Nifty goes up to 8100, the call option will be up by almost 40 points so you can realize a profit of $40 * 50 = \text{Rs. } 2,000.00$. Please note that if the lot size changes you will have to multiply with the current lot size to get the correct margin blocked and the profit made.

Interestingly you would have realized almost the same profit had you sold one lot of put option at 8000 and bought it back at 8100 – but (very important) **if enough time passes away then the call option buyer may realize a small profit, but the put seller may gain a lot of points. In fact if on expiry day Nifty is at 8100, the call buyer will lose money because the value of the 8000 call option will be 100. The trader bought it for 150, and now he has to sell it for 100 for a loss of 50 points. However the put will expire worthless and the put seller can keep all the premium he got for selling the put.** This is the main reason [why option buyers find it hard to make money](#).

BUT if Nifty falls, the call buyer will only lose the money he paid to buy the 8000 call, however the put seller will be at unlimited loss.

Now after reading all this you must be thinking that selling an option is unlimited risk and buying an option is limited risk so one must buy an option. Well unlimited risk is only on paper. **If you have a stop-loss in system it will take care of itself. And it's the same with buying options.**

One thing I forgot to mention is that when you sell an option, you get a premium the very next day in your account – **but it's blocked until the trade is over**. If your observation was right you can keep the entire premium and that's your profit. Yes profit in selling an option is limited to the premium received and losses are unlimited. When you buy an option the risk is the premium you paid and profits are unlimited. However you make money only if Nifty moves in the direction you predicted, else you lose money.

It is therefore very hard to say if buying an option is better or selling is better. In both the cases to win, your viewpoint must be right or else you may lose money.

There is a myth going in the markets that institutional investors always sell and retailers always buy. This is not the case. No studies have been done on this so no one for sure can

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tell who actually sells or who buys. But this is true that institutional investors have money and when they sell options, they do it huge. **They mostly hedge their positions.** For example if they buy some stock, they may sell Nifty Call Options to hedge their position, in case the stock falls, it's almost certain that Nifty will fall and call option will give them some profit. (This is just an example please do not try this as institutional investors have lots of data to take action, you may not have such data and you may suffer losses. They have software that indicates them to take a certain action. Most retailers just speculate and suffer losses.)

Nifty options can be bought for the near month and for the next month. From the next-to-next month onward, the liquidity starts to fall. And that is a problem because you may not get a call or a put at the rate that you desired because there may not be enough sellers or buyers. Therefore it's advisable that you play in current and/or next month options only. However you will still see some options very liquid which will expire in 6 months' time. If you are a new comer I suggest stay away from such options. In USA these are LEAP options. (LEAPS) are publicly traded options contracts with expiration dates that are longer than one year. In India there is no liquidity in LEAP options.

Remember that time value effects most in the near month (current month) options. Therefore some people buy next month options to beat time value. It all depends on what you want to do with options. **If your view is only for the day (intraday) it's better to buy near month options as their value changes fast and you should get the value you were looking for.**

However if you have taken a risk with two months in mind you should buy/sell the next month options as you will have enough time to realize a profit.

So what you do? Do you sell options or buy options? Whatever you do, if you are losing money trading options you can do my [conservative option course](#) to make 2-3% average return on the money you used to trade per month trading options with very **high success rate and very low risk.**

Please paper-trade any idea you got from the above article before starting real trading.

All the Best.

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