How to trade in Futures and Options

1 There are some thumb rules to succeed in futures trading. Well, first of all we must learn and understand that the expansion of FUTURES and OPTIONS list is dangerous for small traders as you tend to commit more knowingly or unknowingly. You will enjoy FUTURES trading only if you expose yourself to the extent of 10% of your net wealth (portfolio size) and also do this to satisfy your passion and not for earnings.

2 First choice should be same stock can be bought in CASH to the extent of MARGINS you pay for FUTURES. e g 20% is the margin assumed then you can go long for 20% of the lot size in cash only which will avoid over leveraging and no mark to market will be required to pay.

3 Second choice is if you still go ahead and trade in FUTURES then please note that you should not exceed more than 3 stocks. On safer side 2 should be safe case but maximum should be 3. The moment you cross this limit you will face heat of mark to market when market corrects.

4 If you are trading in Nifty then avoid F and O stocks as it will lead to over leveraging.

5 Keep in mind that when you go long in futures on charts with stop loss, 99% chances are there that stop loss will trigger. In such scenario you can have alternative strategies. Either you can enter at stop loss level itself or add more at stop loss levels.

6 This happen as operators work with super algo. Where your buy is triggered on chart their selling starts most of the time unless there is extremely good news which can beat the operator. You must have knowledge of ALGO and SUPER ALGO. Traders use ALGO whereas FPI and operators use SUPER ALGO which works exactly the opposite of ALGO.

7 Expect any good stock to fall 20% once the buy is triggered on chart. E g Mahindra Finance buy triggered at 195 stock went to Rs 203 and collapsed to 140. (Almost 30% ) Another example can be seen INDUS IND Bank.

8 You should have capacity to add second lot at 20% down the price. On way up after 10% recovery remove one lot and rest hold. When stock reverse it has to cross earlier high and it may take 3 to 4 months also which you should be prepared to roll.

9 Those who trade only in 1 lot may have to struggle even for 6 months to see their price back. For such traders stop loss is the only option. In fact 1 lot traders should always buy when stop loss get triggered so naturally their entry price is much lower than others.

10 Trades based on rumors or buzz generally triggers the stop loss.

11 Main reason for stock correction in FUTURES most of time is the OPTIONS market. Options is bread and butter of FPI and operators. There are hundreds of series in options (Calls and Puts). Retail trader can’t be writer as they will to have pay equal margin which is applicable to Futures. Operators can afford as they have running account.

12 While stock correct even 10%, there will be 100% premium income to operators as call premium keeps of decaying with time loss.

13 This sets a rule that options trades generally successful only in the 1st week of any month.

14 If you are buying options then better is to go for in the money strike rate. Though premium is higher the break even cost is lower. E g If you buy SBI of Rs 600 call when ruling market price is Rs 608 premium could be Rs 20 means the break even cost is Rs 620 (actual premium paid is Rs 12). Now consider Rs 610 call at 16 premium and breakeven price could be Rs 626 (actual premium is Rs 18). You will pay 50% higher premium.

15 The breakeven price should be seen to buy deep in the money calls. Lower is the premium higher is chances of success.

16 Time loss should be kept in mind. Operators sell calls as hedge against cash long. So there is no dearth of selling in calls. If you need to succeed there has to be very strong reason for stock moving up.

17 Avoid volumes based buying on charts near expiry. Operators create false buzz and false volume which trigger your buying.

18 You must keep in mind near expiry rumors are buzz are spread for creating noise which becomes a roll point for operators and they always take UNDHA badla for rolling their positions.

E g Strong buzz come just 4 days ahead of expiry that Tisco will blast 10 % may be for price hike result or whatever... you buy and Tisco keep on falling. You bought say at 1200, stock corrects to 1120 and triggers stop loss. You sell on stop loss and operator buy in next settlement till 1150 and effectively he takes away Rs 50 for selling and buying back. This along with all calls and puts premium reduce operators cost by almost Rs 200 250 in one settlement. Hence no one can beat them.

19 Last rule of the game to succeed and possible only if you trade less than 10% of your portfolio, is to convert the Futures stock in delivery by selling some other stocks in case stock price falls without any major reason.

20 Anything in excess is dangerous.

Though check list looks long, last 13 years we have been following this for generating buy calls in F and O and succeeded without a single month in RED. Can check the performance in our Website.