## Seminar on

Exploring Income Opportunities through Derivatives

Session at **RAJKOT BRANCH OF WIRC OF ICAI** 

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Disclaimer

I am not SEBI Registered Research Analyst or Investment Advisor.

Views shared here in this seminar is purely for the EDUCATIONAL PURPOSE.

Neither me nor Organizer will be responsible for any financial losses/damage, if any, in any circumstances.

Please consult your financial advisor before investing/trading.

## Disclaimer

#### Risk disclosures on derivatives

- 9 out of 10 individual traders in equity Futures and Options Segment, incurred net losses.
- On an average, loss makers registered net trading loss close to ₹50,000.
- Over and above the net trading losses incurred, loss makers expended an additional 28% of net trading losses as transaction costs.
- Those making net trading profits, incurred between 15% to 50% of such profits as transaction cost.

Source: SEBI study dated January 25, 2023 on "Analysis of Profit and Loss of Individual Traders dealing in equity Futures and Options (F&O) Segment", wherein Aggregate Level findings are based on annual Profit/Loss incurred by individual traders in equity F&O during FY 2021-22.

# Exploring Income Opportunities through Derivatives

# Knowledge of Market

- Uptrend
- Downtrend
- Sideways

# Knowledge of Market



• Downtrend

• Sideways

### DIRECTIONAL

#### **NON-DIRECTIONAL**

# Important Concepts

- Option Chain Build-up Data
- Technical Chart Patterns, Indicators, etc.
- Support / Resistance
- Implied Volatility i.e. IV

Knowledge of Implied volatility

Implied volatility is calculated by taking the market price of the option, entering it into the Black-Scholes formula, and back-solving for the value of the volatility v/s PRICE

IV

IV PRICE • LOW IV • LOW PRICE

• HIGH IV • HIGH PRICE

# IV v/s PRICE

• VERY LOW • LOW • MEDIUM

• HIGH

IV

• VERY HIGH

#### PRICE

- VERY CHEAP
- CHEAP
- MODERATE
- INFLATED
- VERY INFLATED

## DIRECTIONAL

## **BEST ENTRY TIME**

IS

## **TURNAROUND POINTS**

# DIRECTIONAL

## **CREDIT SPREADS**

#### **IDEAL IMPLIED VOLATILITY SITUATION**

## VERY INFLATED, INFLATED, MODERATE

Higher Probability – Limited Returns

Favorable: IV Fall, Theta Decay Unfavourable: Delta

# DIRECTIONAL

## **DEBIT SPREADS**

### **IDEAL IMPLIED VOLATILITY SITUATION**

## VERY CHEAP, CHEAP, MODERATE

• Lower Probability – High Returns

Favorable: IV Spike, Delta Unfavorable: Theta

# NON-DIRECTIONAL

## **IRON CONDOR, SHORT STRANGLE**

### **IDEAL IMPLIED VOLATILITY SITUATION**

## VERY INFLATED, INFLATED, MODERATE

Higher Probability – Limited Returns

Favorable: IV Fall, Theta Decay Unfavorable: Delta

# BUY

v/s

SELL

## BUY

- Right on Direction
- Right on Timing
- Right on Strike Price
- Right on Momentum

- SELL
- Very Risky
- Violent Move
- High Margins
- Limited Returns

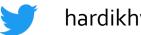






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