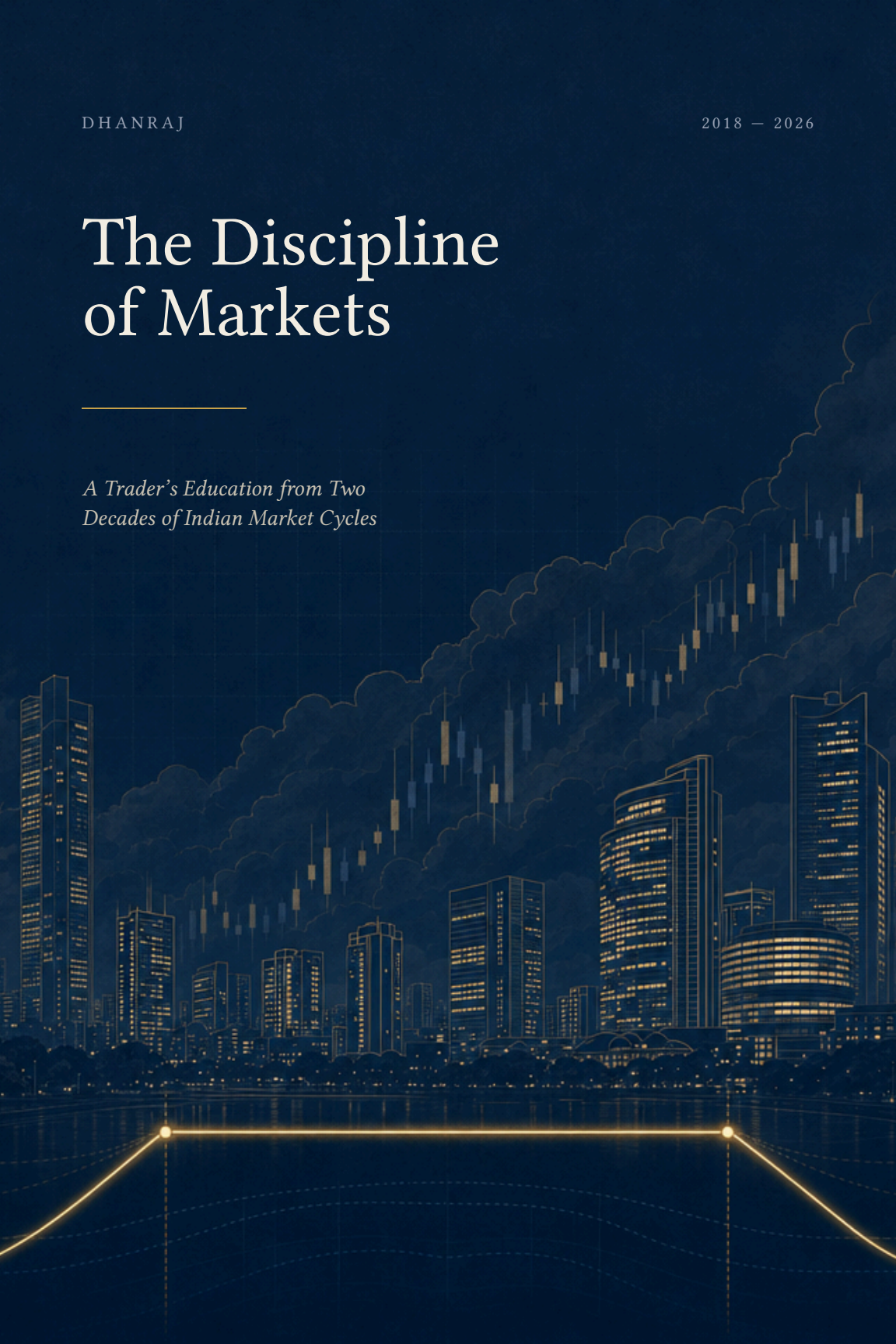


DHANRAJ

2018 — 2026

The Discipline of Markets

*A Trader's Education from Two
Decades of Indian Market Cycles*



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This book is a work of synthesis compiled from public market commentary, presented under a pseudonym. Nothing in this book is investment advice or a recommendation to buy or sell any security. Rupee figures attributed to personal experience are illustrative recollections, not audited results. Markets involve substantial risk of loss. Consult a registered financial adviser before acting on any idea in this book.

Market events described in these pages were verified against public records; the corrections to the original commentary are logged in the companion volume *Sources and Verification Notes*. The dated record itself is in the companion volume *Verified Market Timeline, 2018-2026*.

Set in Libertinus Serif. Interior typeset with Typst.

How This Book Was Made

This book is a work of *synthesis*: it compiles, organises and fact-checks the public market commentary of one practising Indian derivatives trader, posted almost every trading day between late 2018 and mid-2026. The raw material was 3,288 video transcripts - a pre-market brief before the bell, a post-market review after the close, a weekly outlook on Sundays, a complete options course, and walkthroughs of every budget, election, war and regulatory shock that touched Indian markets - several million spoken words in all.

The build ran in eight stages. The transcripts were extracted and cleaned: mangled characters repaired, boilerplate stripped, dates parsed. An editorial bible locked the shape of the book before a word was written - one volume, six by nine inches, eight parts, thirty-one chapters. Every transcript was then read into a structured record holding its summary, levels, events and lessons. Each market event named in the commentary was pushed through a verification queue against the public record, producing a database of 900 events: 415 verified, 292 corrected, 188 unverifiable and 5 simply wrong. Chapter briefs were compiled from that material, the chapters were written against them, and a final review pass enforced anonymisation and style.

Where the commentary remembered a number wrongly, the corrected figure is the one printed here, and the two companion volumes carry the evidence. *Verified Market Timeline, 2018-2026* lists the dated events as asserted and as corrected; *Sources and Verification Notes* lists the 1,243 public sources behind them, with the correction log.

Stage	Scale	Detail
Input	3,288 transcripts	2,366 .docx + 922 .txt
Analysis	3,253 records	170 batch files
Verification	900 events	415 verified - 292 corrected - 188 unverifiable - 5 wrong
Writing	31 chapters, 8 parts	about 118,000 words
QA	0 banned terms	anonymisation and style pass

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PREFACE

Preface

Market events described herein were verified against public records; corrections to the original commentary are logged in Appendix E.

Between late 2018 and mid-2026, one Indian trader posted market commentary almost every trading day: a pre-market brief before the bell, a post-market review after the close, a weekly outlook on Sundays, and — between the daily grind — a complete course in options, hundreds of strategy walkthroughs, dissections of every budget, election, war, and regulatory shock that touched Indian markets, and honest accounts of his own worst losses. That commentary amounted to several million spoken words. It contains a full trading education — but scattered across eight years of daily noise, repeated, revised, and occasionally contradicted as markets changed. This book is that education, distilled. Every transcript was read, structured, and cross-checked. Market events described in these pages — the 2020 COVID crash and rebound, the 2024 election-day plunge, the Adani–Hindenburg episode, the Jane Street order, the great FII exodus — were verified against public records, and where the original commentary misremembered a number, the corrected figure appears with a note. Three principles shaped the editing:

- **1. The market is the protagonist.** Where the commentary chased daily headlines, this book keeps the durable lesson and lets the dated example illustrate it — never the reverse.
- **2. Honesty about difficulty.** The speaker’s most repeated line was that option writers are “always wrong” — including him. That honesty is preserved, because it is the actual edge: respect for risk, not confidence in prediction.
- **3. Verification over memory.** Where memory and record disagreed, the record won.

The book has eight parts. Part I is the mind: why most traders lose, and the discipline that separates the few who don’t. Part II explains how this particular market works — the flows, the volatility regimes, the option chain, the expiry machinery. Part III builds options from first principles. Part IV is a working library of strategies with their construction, breakevens, and rescue procedures. Part V is a playbook for events. Part VI is a verified chronicle of eight market years. Part VII exposes the predators —

scams, bad incentives, taxes — and the regulators who shape the game. Part VIII looks past the screen: investing, real assets, and crypto. — The Editors

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The Editors

PART I

THE TRADER'S MIND

Why Most Traders Lose

In September 2023, the Securities and Exchange Board of India published a study of the country's futures and options market. The numbers were staggering. Of the roughly 45 lakh individual traders who attempted F&O trading during the three years studied, 89 percent lost money in the single year examined. A follow-up report in December 2024, covering FY24, pushed that figure to 93 percent. Of the remaining 7 percent, only 1 percent earned more than ₹1 lakh in annual net profit. The bottom 3.5 percent of traders, by contrast, lost an average of ₹28 lakh per person each year. *Figures are illustrative recollections drawn from multiple personal trading accounts; they are not audited results. Nothing in this book constitutes investment advice.* These numbers raise an uncomfortable question. The Indian equity derivatives market is the largest in the world by trading volume. Over 90 percent of its participants are individual retail traders. And yet, after every trade, after every year, the vast majority walk away poorer. If the market is a zero-sum game between buyers and sellers, that means the losses of the 93 percent are the gains of the very few who win. But the winning side is not a collection of faceless institutions. It is a vanishingly small sliver of individuals who have figured out something the rest have not.

The Gambler's Mirror

The stock market has a peculiar relationship with gambling. In both, you commit capital today in the hope of more capital tomorrow. In both, outcomes are uncertain. In both, the emotional highs of a winning streak feel indistinguishable from euphoria, and the lows of a losing streak indistinguishable from despair. This resemblance is why, for decades, regulators around the world struggled to decide where speculation ends and gambling begins. The difference is structural. In gambling, the odds are fixed and the house always wins. In the derivatives market, the odds are negotiable — and the house is whoever understands probability better. Yet most retail traders approach options trading as if they were buying lottery tickets. They pay a small premium — ₹100, ₹500, ₹2,000 — for a call or put that could, in theory, return ten or twenty times that amount if the market moves in the right direction. The asymmetry sounds irresistible: limited loss, unlimited gain. It is the same pitch every lottery ticket makes. The difference is that option buying has an expiry date and a decay function, which

means its probability of profit collapses the longer you hold it. Consider a typical weekly Nifty call option bought at a premium of ₹100 when Nifty trades at 24,500. If Nifty rallies 200 points by expiry, that option may be worth ₹300 — a 200 percent profit. If Nifty falls 200 points, the option expires at zero — a 100 percent loss. But here is the reality the buyer rarely calculates: for that ₹100 premium to pay off, Nifty must move in one direction by more than the premium paid, *within the remaining time to expiry*. Every day the market sits still, the option loses value through time decay. On the final day before expiry, time decay accelerates — roughly 100 percent of the remaining premium can vanish in a single session. The probability that a random directional bet overcomes both the distance-to-strike and time-decay barriers is, on most days, well under 30 percent. Over a year of repeated weekly bets, the buyer's probability of ending net positive is closer to the SEBI study's 7 percent than to the 50 percent most beginners assume. The seller, on the other hand, collects the premium at entry and keeps it if the option expires worthless. The seller's probability of profit on any single trade is typically above 70 percent. The gain is capped at the premium collected, but the seller can control position size, hedge, and adjust. The buyer can only guess direction and pray.

The Failure Rate That Doesn't Shock

When SEBI released its first comprehensive F&O study in early 2023, the headlines wrote themselves: 89 percent of individual traders lose money. A year later, the updated number was 93 percent. The media covered it as a scandal. Retail traders shared it as a warning. But to anyone who has spent time studying business failure rates, the number was almost predictable. Consider a kirana store — India's ubiquitous neighbourhood general shop. In any given neighbourhood, most kirana stores are losing money or barely breaking even. Industry estimates put the failure rate of small retail businesses in India at roughly 95 percent over a ten-year period. A restaurant has a similar mortality curve. A vegetable vendor on the street corner has a similar one. The stock market, which demands far more skill, discipline, and emotional control than running a small shop, should logically have a failure rate that is at least as high. The SEBI study confirms this baseline. The problem is not that 93 percent lose money. The problem is that only 1 percent of traders accept this reality before they start. The rest believe they are the exception.

The Zero-Sum Myth

A common fallacy among new traders is that the options market is a zero-sum game between buyers and sellers — that every rupee a buyer loses is a rupee a seller gains. This is approximately true at expiry, if one ignores transaction costs. But it is profoundly misleading as a description of the market's daily life. The options market

exists because it serves a real economic function. A manufacturer hedges against rising commodity prices by buying call options. A portfolio manager insures her fund against a crash by buying put options. These participants pay the premium for insurance, fully expecting to lose it most months, in exchange for protecting against a rare but ruinous event. Their premium payments flow to the option sellers, who function as the insurance industry's underwriters. Neither party is gambling. Both are engaged in risk transfer. When a retail trader buys a far-out-of-the-money weekly call option hoping for a 500-point Nifty rally, he is not transacting with a hedger. He is transacting with professional option sellers who have modelled the probability of every possible outcome and sized their positions accordingly. The retail buyer and the professional seller are playing the same game, but with vastly different tools. The seller has margin, diversification across strikes and expiries, adjustment strategies, and the statistical edge of collecting premium in a market where implied volatility almost always overstates realized volatility. The buyer has hope. Hope is not an edge.

The Bull Market Lifecycle

Dhanraj, whose framework this book builds on, had a favourite observation about how markets deceive retail participants. "A bull market," he would say, "is born out of pessimism, grows on skepticism, matures on optimism, and dies on euphoria." The cycle repeats every major market phase. In March 2020, when Nifty collapsed to 7,511 and COVID panic was at its peak, pessimism was total. Markets were born during that despair. Through early 2021, as Nifty climbed from 11,000 to 15,000, skepticism dominated — every rally was met with calls for a retest of the lows. By mid-2021, when Nifty crossed 17,000 and retail participation hit records, optimism had taken over. By September 2024, when Nifty touched 26,277 and every conversation at every social gathering turned to stock tips, euphoria had arrived. The correction that followed — 3,000 points from the peak in under three months — was as predictable as it was painful. Most retail traders enter during the optimism or euphoria phases. They mistake the easy gains of a rising tide for their own skill. When the tide turns, they are leveraged, concentrated, and emotionally attached to positions that no longer make sense. The next bear phase wipes them out, and the cycle resets.

Key Takeaways

- SEBI studies show 89–93 percent of individual F&O traders lose money over a multi-year period; only 1 percent earn more than ₹1 lakh annually.
- Option buying offers asymmetric payoffs but probability-of-profit is typically below 30 percent; time decay makes it worse with each passing day.
- The failure rate in retail trading mirrors the natural failure rate of small businesses — it is not an anomaly, it is the baseline.

- The zero-sum framing ignores the real hedgers who pay premium for insurance; retail buyers compete with professional sellers who have structural advantages.
- A bull market's phases (pessimism → skepticism → optimism → euphoria) determine when retail enters and exits; joining at euphoria guarantees the worst outcome.

Anatomy of a Trader's Failure

The SEBI statistics are a snapshot of outcomes, not a diagnosis. To understand why 93 percent lose, one must look at the path that leads there. That path follows a pattern so consistent that it can be mapped, predicted, and — with enough self-awareness — avoided. The typical journey of a retail trader in Indian markets begins not with a strategy, but with a story. A friend made money. A colleague doubled his capital in a month. A YouTube testimonial claims ₹50,000 turned into ₹30 lakh in six months. The trader opens an account, deposits a few lakh rupees, and buys a call option or two based on a tip. If the first trade wins, the pattern is set. If it loses, he doubles down. By the second month, the trader has discovered option selling — the idea of “being the casino” rather than the gambler. He sells a Nifty straddle without fully understanding the margin mechanics or the asymmetry of tail risk. The market moves 200 points in a day. The position’s mark-to-market loss exceeds his entire premium collected. Panic sets in. He closes at a loss, vowing never to sell again. By the third month, he is back to buying, but now with larger size to recover the loss. The third blowup is usually the final one. This is not a hypothetical. It is the pattern that plays out millions of times across every cycle. Dhanraj, after fifteen years of trading and teaching, distilled it into five discrete failure modes.

Failure One: No Position Sizing

When a trader has no rule for how much capital each trade should consume, every trade consumes whatever capital feels proportionate at that moment. A confident trade gets 40 percent of capital. A nervous trade gets 5 percent. The confident trade blows up; the nervous trade would have won big. The portfolio is ruined not by average outcomes, but by a single oversized bet that the trader was most certain about. The remedy is mechanical: decide, before any trade is entered, the maximum percentage of capital any single position can risk. The most cited rule is the 1 percent rule — as Chapter 3 details, it ensures that position size is determined by capital, not by conviction. Dhanraj described this mercilessly: “If you do not have the discipline to risk only what you decided before the trade, you have no business being in the market. The market will find your limit and will break it.”

Failure Two: Mechanical Stop-Loss Religion

A stop-loss is a risk-control tool. For many traders, it becomes a substitute for judgment. They enter a trade, place a stop-loss at 1 percent, and assume the problem is solved. When the stop-loss hits, they exit. When it does not hit, they stay. Over a year, they lose as many small amounts as they win, and the net is negative — eaten by transaction costs and slippage. Worse, the mechanical stop-loss ignores regime. In a high-volatility market — one where Nifty moves 500 points intraday — a 50-point stop-loss on a futures position will be hit within the first hour almost every day, even if the closing direction would have been favourable. The stop-loss protects against the wrong kind of risk while ignoring the actual risk of the instrument. Dhanraj's restaurant analogy captures the tension. A restaurant owner does not open for business with a predetermined stop-loss — “if we lose ₹2 lakh in the first month, we close.” Instead, the owner diagnoses, adjusts the menu, changes the location, and only closes when the business becomes genuinely unsustainable. Trading, he argued, should be treated similarly. A position that goes against you is not necessarily a bad position — it may be a position that needs adjustment. A stop-loss is a safety net, not a strategy. The “slow poison versus quick poison” dilemma is real. “If you put a stop-loss, it is like slow poison — small cuts that eventually kill you. If you don't put a stop-loss, it is like quick poison — one massive loss that kills you immediately.” Neither is ideal. The solution is to understand what kind of poison your style of trading is most vulnerable to, and dose accordingly.

Failure Three: Overtrading and the Action Bias

The derivatives market charges four layers of cost on every trade: brokerage, exchange transaction charges, securities transaction tax (STT), and stamp duty. For an option seller who rolls positions weekly, these costs can amount to 10–20 percent of annual premium collected. For an option buyer who chases the “next big move,” the cost-to-premium ratio is even worse — the STT on option buying alone, after the 2024 budget hike, runs at 0.1 percent of the premium paid, which for a short-dated option can represent a significant fraction of its value. This cost structure punishes activity. Yet most traders trade more when they are losing, out of a desperate need to “get back to even.” The action bias — the urge to do something, anything, when a position is in trouble — is the single largest destroyer of trading capital. In every documented blowup, the trader's largest loss was not the first trade that went wrong. It was the fifth or sixth trade taken to recover from the earlier ones. Dhanraj tracked this pattern in his own early years. His worst trading month — June 2020 — was not caused by a market crash or a regulatory change. It was caused by two trades: an SBI strategy that lost ₹3.62 lakh on one leg, and an expiry-day naked call sale that was stopped out at ₹23 after being entered at ₹4 — a loss of ₹2.82 lakh on a single contract.

Without those two trades, the month would have been profitable. The lesson: “People lose money because they do not want to lose money. They expect zero-loss trades, which is impossible. When a loss happens, they double down, and that is when the small loss becomes a big one.”

Failure Four: Chasing Trainers and Systems

The retail ecosystem is dense with trainers, courses, and “proven systems.” Most sell a narrative of effortless wealth. Attend a two-day workshop, get a lifetime of trading systems, and turn ₹1 lakh into ₹1 crore within five years. The pitch works because the target audience has already absorbed the 93 percent statistic and is desperate for an antidote. Dhanraj’s advice was blunt: no trainer who claims a fixed system works should be trusted. “If any one system worked,” he wrote, “everybody would be following that.” Technical analysis, fundamental analysis, options greeks, and market microstructure are inputs, not systems. The input that works today may fail tomorrow because the regime has changed. A trader who blindly follows a system without understanding why it works in a given regime is a gambler with a fancier entry ticket. A more reliable test is the Ministry of Corporate Affairs filing check. Any trainer who sells courses can be looked up: what are their revenues, their declared profits, their base of operations? Most who promise effortless wealth have no trading income to declare. The lore of trading is full of cautionary tales. Consider the anonymous villager who reportedly borrowed money from his entire village at 6 percent per month to ride the gold bull market of 2008–2011 on roughly 5 percent margin. Gold rose from around ₹900 per gram to over ₹3,000. His leverage was so extreme that a single 10 percent correction — gold’s September 2011 crash — wiped out 200 percent of his capital. He was jailed. The village lost its savings. The moral is ancient but must be repeated: bring to the market only what you can afford to lose. Even a year of posted profits proves nothing. Or consider the story of Jesse Livermore, the legendary trader who made and lost multiple fortunes in the early twentieth century. After his final bankruptcy, he wrote a memoir titled *Reminiscences of a Stock Operator* that is still read today. Then he shot himself. His suicide note began: “My life has been a failure.” The man who could read markets better than almost anyone could not read himself.

Failure Five: Confusing Direction with Skill

A trader who makes money in a bull market attributes the profit to his analysis. A trader who loses in a bear market blames the market. Both are wrong. In a strong uptrend, buying random stocks will produce positive returns most of the time. A trader’s real skill — or lack of it — reveals itself only in sideways or falling markets. The Indian market’s 2021–2022 record illustrates this perfectly. From mid-2021 to mid-2022, Nifty oscillated between 15,700 and 18,200 — a 2,500-point range — while

foreign institutional investors sold over ₹2.5 lakh crore of Indian equities. It was a trader's market, not an investor's one. Those who had learned to position for two-way moves survived; those who had only learned to buy the dip went through their stop-losses one by one. The 2024 calendar year offered a similarly instructive sequence: a 26 percent rally from January to September, then a 12 percent crash from September to November. The euphoric phase (September) was when retail participation peaked and the crash that followed was when the largest wealth destruction occurred. Direction and skill are not the same thing. Until a trader has proven profitability through a complete market cycle — at least four years — he should treat every rupee of profit as borrowed from the market, not earned.

Key Takeaways

- The 1 percent rule (max 1% of capital at risk per trade) is the single most effective structural discipline for preserving capital.
- Stop-losses are safety nets, not strategies; regime awareness matters more than mechanical rules.
- The cost structure of Indian derivatives trading punishes high activity — over-trading is the largest destroyer of capital.
- No system works permanently; understanding *why* a strategy profits in a given regime is more valuable than the strategy itself.
- Profitability during a bull market is not evidence of skill; only a complete market cycle proves competence.

Discipline, Process, and Surviving First

The trader who loses less during bad months outperforms the trader who makes more during good months. This is the mathematics of compound returns: a 50 percent drawdown requires a 100 percent subsequent gain just to break even. Avoiding the drawdown is not conservative — it is mathematically superior. The first principle of trading survival is therefore simple: define the maximum you are willing to lose on any single trade, on any single day, and on any single month. Write these numbers down. Then size every trade to ensure you stay inside those boundaries. This is not a tactic for cautious traders. It is the baseline for anyone who intends to trade for more than one year.

Risk-First Sizing

The 1 percent rule is the cleanest expression of this principle. On a ₹50 lakh portfolio, the maximum acceptable loss per trade is ₹50,000. If a trade has a stop-loss of 10 points on Nifty futures, and each point is ₹75, the position size that produces a ₹50,000 loss at the stop-loss is roughly 66 units — or about two contracts. The trader who follows this rule can lose twenty consecutive trades and still have ₹40 lakh of her ₹50 lakh capital left. That twenty-trade losing streak is unlikely. But if it happens, the trader survives. The alternative — the trader who sizes by feel — may lose her entire capital in five trades. The trader who sizes by the 1 percent rule has a ninety-five percent chance of never losing more than 7 percent of capital before a corrective pattern emerges. The difference between these two outcomes is not a matter of prediction or analysis. It is a matter of process.

The Business Mindset

Dhanraj used a simple thought experiment to distinguish traders from gamblers. A businessman who opens a store does not ask, “What is the minimum deposit I can make to get started?” He asks, “How much capital does this business need to operate safely, and what is my expected return on that capital?” An options trader who does the same has already won half the battle. The SEBI studies confirm that the vast majority of F&O participants trade with capital under ₹1 lakh. The cost of a single Nifty options contract, after the lot-size increase from 25 to 75 in November 2024,

can run upwards of ₹1.5 lakh for a margin-based short option and ₹30,000–50,000 for a cheap long option. A trader with ₹1 lakh who buys a single far-out-of-the-money call has put 30–50 percent of her capital into a single trade with a low probability of success. That is not trading. That is speculation with no margin of safety. A business-appropriate approach would hold that ₹1 lakh in total capital is insufficient for active derivatives trading. If the trader insists on participating, the only tenable approach is a single-lot Nifty short straddle at a wide enough strike distance to give the position time to work — and the capital to adjust. But even that carries risk of a 300-point gap that can wipe out the entire ₹1 lakh in a week. The honest advice, which few trainers give, is: do not trade F&O until your risk capital is large enough that the loss of a single contract does not change your lifestyle.

Patience as Edge

Implied volatility, the price of options, is mean-reverting. When the India VIX spikes above 40 — as it did during the COVID crash of March 2020, the Russia-Ukraine war of February 2022, and the election-day crash of June 2024 — option premiums are inflated far above their statistical expected payoffs. Selling premium during those moments has a high probability of profit, provided the trader has the capital to survive the interim volatility. But the interim volatility can be brutal. During the COVID VIX spike, Nifty fell 1,100 points in a single day on March 23, 2020. An unhedged short put position entered at the beginning of the week would have looked catastrophic by Wednesday. The trader who survived — who had sized correctly and had spare capital for adjustments — saw the VIX collapse from 86 to 40 over the following two months, and the premium collected on those puts turned into extraordinary profits. Dhanraj's April 2020 result was a profit of roughly ₹66 lakh on a portfolio of approximately ₹95 lakh — about 70 percent — driven almost entirely by the combination of a directional view (V-bottom recovery) and the collapse of VIX from 86 to 40. "A trader can make profit even in a falling market and lose money even in a rising market," he noted. "It is the view of the trader that is more important than the market itself." The lesson is not that VIX-range selling is a guaranteed strategy. The lesson is that patience — the willingness to endure the worst intraday move, the worst week, the worst month, while a thesis plays out — is an edge that cannot be taught. It can only be practiced.

The Adjustment Decision Tree

Even the best-positioned trade will sometimes go wrong. The divergence between what a trader expects and what the market delivers is the central challenge of trading. The response to that divergence separates those who survive from those who blow up. Dhanraj's decision tree for handling an adverse move had three branches. First, ask: do I have additional capital to adjust this position? If the answer is no, the position

must be closed — not because it is wrong, but because you cannot afford to be right if it takes more capital. Second, ask: do I have additional skill to adjust? If the answer is yes, convert the losing leg into a credit-collecting spread. Sell a further out-of-the-money option on the same side, collecting enough premium to offset the mark-to-market loss and creating a new profit zone. Third, if both capital and skill are available, consider adding a hedge on the opposite side — a protective put against a losing short call, or a protective call against a losing short put. This decision tree requires two things most traders lack: spare capital and emotional detachment. The spare capital does not have to be in the trading account. It can be an FD, a debt fund, or a line of credit that can be deployed within a day. The emotional detachment comes from knowing that one trade, no matter how large it feels, can never destroy the entire portfolio. That confidence comes from the 1 percent rule.

The Average Trader's Dashboard

A trader who tracks nothing should track four numbers: the ratio of winning trades to losing trades, the average size of wins versus the average size of losses, the maximum consecutive drawdown experienced, and the number of trades taken per month per ₹1 lakh of capital. The first ratio, for most losing traders, is the reverse of what they assume. They win often but lose big — a 70 percent win rate with a 3:1 loss-to-win ratio produces a net loss. The second number reveals whether profits are driven by frequency or by magnitude; the third reveals whether the trader is sized correctly; the fourth reveals whether the trader is overactive. Any one of these numbers being outside its healthy range is enough to diagnose the problem.

Key Takeaways

- A 50 percent drawdown requires a 100 percent gain to recover; preventing the drawdown is mathematically superior to recovering from it.
- The 1 percent rule — no single trade risks more than 1 percent of capital — keeps any losing streak survivable.
- The market's odds shift dramatically when implied volatility spikes; those who can survive the spike can profit from its collapse.
- The adjustment decision tree (capital → skill → hedge) prevents emotional blowups by providing a clear process for adverse moves.
- Track the four core metrics — win rate, win/loss size ratio, max drawdown, and trade frequency — to diagnose any trading strategy before it destroys capital.

PART II

HOW THIS MARKET WORKS

The Engine Room: FII/DII Flows

Disclaimer: Figures in this book are illustrative recollections from the trading tracks, not audited results. Nothing herein is investment advice. On 4 October 2018, a single data point sent a shudder through Dalal Street. Foreign institutional investors (FIIs) had sold more than ₹30,000 crore of Indian equities in a single month — the heaviest outflow since January 2008. The Dow Jones had swung 900 points intraday on tariff headlines, and the India VIX had climbed past 21. Yet when the closing bell rang, the Nifty was barely changed for the day. A massive institutional sell order had been met by an equally massive buy order on the other side — a tug-of-war that would define Indian markets for the next eight years. This chapter is about that tug-of-war. Understanding who sells, who buys, and why, is the single most valuable macro skill a trader can develop.

The Two Engines

Indian equity markets are driven by two broad institutional forces: foreign institutional investors (FIIs, also called foreign portfolio investors or FPIs) and domestic institutional investors (DIIs — mutual funds, insurance companies, pension funds, and proprietary trading desks of domestic banks). Retail investors, despite making up a large share of trading volume by number of trades, are often price-takers rather than price-makers in the index. FIIs bring global capital, global risk appetite, and global benchmarks. They are primarily long-term allocators — sovereign wealth funds, pension funds, global asset managers — who decide to overweight or underweight India within their emerging-market portfolios. When they buy, they buy in size: a single day of ₹3,000–5,000 crore of net FII buying can push the Nifty 1–2% higher. When they sell, they sell in similar size. DIIs are the counterbalance. Since 2018, domestic mutual funds have grown from managing about ₹20 lakh crore in assets to over ₹60 lakh crore by 2025, much of it flowing systematically through monthly SIPs (systematic investment plans). This flow is largely price-insensitive — SIP money buys every month regardless of valuations. Insurance companies (LIC, with a corpus exceeding ₹50 lakh crore) add another layer of structural domestic demand. The battle between these two forces determines the market's direction over weeks and months.

The Great Absorption

From October 2018 to February 2019, FIIs sold Indian equities almost daily. The trigger was political: after the BJP lost five state assembly elections in November 2018, foreign funds priced in a hung parliament in the upcoming 2019 general election. They sold ₹30,000 crore in October 2018 alone, and kept selling through November, December, and January. One might expect the Nifty to collapse. Instead, it traded in a range. The reason: domestic institutions absorbed every rupee of FII selling. As Dhanraj noted in a December 2018 post-market report: “DIIs have bought the same ₹30,000 crore. Because of that, markets did not fall much.” This pattern — record FII selling absorbed by domestic buying — repeated cyclically with increasing amplitude. In October 2021, FIIs began another sustained selloff that ultimately reached ₹2.77 lakh crore for the calendar year 2022 (the highest on record). Nifty fell from 18,600 to about 15,100 — a 19% decline, but far less than the 30–40% collapse that would have accompanied comparable foreign outflows a decade earlier. Domestic institutions had grown too large to be easily overwhelmed. By 2024, the pattern had become standard market language. “FIIs sold for ₹8,000 crore today; DIIs bought for ₹7,600 crore,” was a routine post-market refrain. The net effect of a ₹50,000 crore monthly FII outflow could be a Nifty decline of just 3–5% rather than the 10–15% of earlier eras.

How to Read the Data

The most useful FII indicator is not the daily cash figure but the **FII long-short ratio** in index futures. The NSE publishes a daily “Participant-Wise Open Interest” report that breaks down FII positioning into index futures, stock futures, index options, and stock options. The index- futures segment — where FIIs place their directional bets — is what matters. A reading of 60–70% long in index futures is neutral-to-bullish; below 40% signals extreme bearishness. At a Nifty level of 12,000 in early 2020, FII index futures were about 44% long and 56% short. Dhanraj’s prescription: “When retail joins hands with the FIIs, the combination becomes more powerful — that is why retail tracks FII positioning.” But a contrarian overlay is essential. Extreme FII short positioning (below 30% long) historically marks market bottoms; extreme long positioning (above 80%) marks tops. The best single directional trade often comes when FII futures positioning reaches an extreme and then begins to reverse.

ADR Read-Throughs and Block Deals

Two special types of flows are worth understanding: **ADR (American Depositary Receipt) read-throughs**. When Indian companies that also trade on US exchanges (ICICI Bank, HDFC Bank, Infosys, Tata Motors) have a strong or weak day in New York, the Indian cash market almost always follows in the next session. If ICICI Bank ADR gains 4.8% in the US, the Indian ICICI share typically opens 3–5% higher,

contributing perhaps 200 Nifty points. The read-through is mechanical because the same institutions trade both markets. Checking overnight ADR performance before the cash-market open is a reliable morning ritual. **Block deals.** These are large negotiated trades (typically ₹500–5,000 crore) executed outside the continuous order book, usually by a single institutional seller transferring shares to one or more buyers. A well-placed block trade can absorb what would otherwise be a multi-day, disorderly selloff. When the Canadian pension fund exited its 4-crore-share Kotak Mahindra Bank holding at ₹1,700 per share (a ₹6,800 crore block deal) in March 2022, the stock barely flinched — the block was structured and absorbed.

The Declining Significance of FIIs

In 2008, a single day of ₹1,000 crore of FII selling would push the Nifty down 3–4%. By 2024, FIIs had sold more than ₹3 lakh crore cumulatively since October 2022, and the Nifty had risen. How? Three structural shifts explain this: First, domestic mutual fund SIP flows grew from about ₹6,000 crore per month in 2018 to more than ₹20,000 crore per month by 2025. This is a forced bid on every dip — SIP money buys ETFs and stocks regardless of FII behavior. Second, retail direct participation exploded. The number of unique registered investors on the NSE grew from 2 crore in 2018 to over 10 crore by 2025. Retail investors, increasingly educated and contrarian, bought the June 2024 election-day crash (Nifty fell 9% intraday) while FIIs and DIIs both sold — a pattern that would have been unimaginable a decade earlier. Third, the macroeconomic geography changed. FII flows react to relative interest rates, currency stability, and political predictability. Between 2018 and 2026, India became the largest recipient of global equity flows in emerging Asia, replacing China. Domestic market capitalization relative to GDP (the “Buffett ratio”) expanded from about 80% to nearly 120%, making it harder for foreign flows to dominate price discovery. This does not mean FIIs are irrelevant. When they sell with sustained intensity — as they did in October 2024 at nearly ₹94,000 crore in a single month — the market does fall. But the fall is shallower and shorter than it once was. The engine room has two engines, and the domestic one runs on its own fuel.

Key Takeaways

- **Monitor FII long-short ratio in index futures**, not just headline cash flows; extremes (below 30% long or above 80% long) are contrarian signals.
- **DII absorption is now structural** — ₹20,000+ crore in monthly SIP flows create a bid on every dip; don’t panic at record FII selling without checking DII data.
- **ADR read-throughs are mechanical** — check overnight ADR moves for reliable next-day open direction in Indian heavyweights.

- **Block deals (₹500–5,000 crore) are market-friendly** — they absorb large institutional exits without the disorder that open-market selling would produce.
- **The era of FII-exclusive market moves is over** — retail + DII = ~60% of market depth by 2025, and rising.

Volatility as a Regime, Not a Number

In the first week of April 2020, the Nifty fell more than 500 points — a move that would normally be catastrophic for put buyers. Yet every put option, from the deep-out-of-the-money to the at-the-money, either stagnated or lost value. Buyers of puts, despite having the correct directional view, sat on losses. The culprit was the India VIX, which collapsed from 65 to 55 over the same period. That episode is the single most important volatility lesson a trader can learn: **volatility is a regime, not a number**. It shapes every option price, every strategy choice, and every risk calculation.

What the VIX Actually Measures

The India VIX is often called the “fear index,” but that label can mislead. The VIX measures the expected 30-day movement of the Nifty 50, expressed in annualised percentage terms. When the VIX stands at 20, the options market is pricing an expected monthly move of about $20/\sqrt{12} = 5.8\%$. When the VIX is at 60, the expected monthly move is about $60/\sqrt{12} = 17.3\%$. This is the first principle: the VIX tells you what range the market expects, not what direction it fears. A VIX of 60 during the COVID crash did not mean traders were panicking about a further collapse — it meant the market expected a $\pm 17\%$ monthly swing in either direction. This is why high-VIX environments are profitable for option sellers, not for option buyers: the premiums are large enough to compensate for the wider range.

The Three Regimes

Over eighteen years of Indian market history (2008–2026), the India VIX has settled into three broad regimes, each with distinct strategy implications. **Low VIX (<15)**. This is the normal state of a calm, trending market. Periods like July–August 2023, when the VIX touched 11.5 (its lowest since 2011), are low-VIX regimes. In these periods, option premiums are thin, and pure naked shorts of at-the-money straddles carry a poor risk-reward ratio — a single sharp 300-point move can blow through the collected premium. The low-VIX rule is: pair every short with a long. Call ratios, put ratios, and butterflies that buy protection on one side while selling size on the other are the correct tools. Margin-optimised combos — buying $2\times 18,900$ CE, selling $7\times 20,000$ CE, selling $5\times 19,000$ PE — produce a net credit of about ₹3,500 while requiring

roughly ₹5.7 lakh in margin, giving a ~3.5% return in two weeks. **Moderate VIX (15–30)**. This band covers most of the market's history outside major crises and peak calm. Naked short strangles are viable when positioned 500–1,000 points away from spot, but the market can still produce 2–3% weekly swings. The risk is asymmetry: when the market is in a moderate-VIX uptrend, the put side decays rapidly but the call side can double in a single bad news session. Always keep one side hedged. **High VIX (>30)**. This is the panic regime. It is seen during major crashes (VIX 85–92 in 2008; 86 in March 2020; 35–40 during the 2024 election scare) and geopolitical shocks (VIX 30+ during the 2022 Russia-Ukraine invasion; VIX 25+ during the 2025 India-Pakistan conflict). In a high-VIX regime, the expected monthly range is 8% or more. Option sellers who survive these periods follow one iron rule: **sell options, never buy them** — because falling volatility (vega collapse) destroys the value of long options even when the directional view is right. The COVID crash of March 2020 is the textbook example: the VIX peaked at 86, then collapsed to 55 in the recovery; an at-the-money put bought at VIX 60 could lose money while the Nifty fell 500 points.

The VIX Collapse as Profit Engine

The most profitable trades in option-selling history are made not from directional views but from VIX collapses. Consider the April 2020 recovery: as the Nifty rebounded from 8,000 to 9,800, the VIX fell from 86 to 40. An option seller with a ladder of puts from 7,000 to 9,000 — structured across multiple expiries — benefited from both the directional recovery (delta profit) and the VIX compression (vega profit). The combination produced a ~50% return on capital in six sessions. The lesson: a collapsing VIX magnifies every profitable directional position and punishes every wrong one. The single biggest question before entering any trade is: “Is VIX likely to rise or fall from here?”

Falling VIX on Red Days

One of the most reliable signals in the Indian market is a **falling VIX on a falling-index day**. When the market drops but the VIX declines, it signals that the selling is concentrated in a few heavyweights rather than broad-based. It means the put premiums are not being bid up by panicky buyers. It means the drop is likely limited in duration. The opposite — a rising VIX on a flat or green day — is just as important. When the option market starts pricing tail risk even as the index trades quietly, it often prefigures a sharp move within 1–3 trading sessions. The VIX curve, which plots expected volatility across near-month, next-month, and far-month expiries, is the best forward-looking indicator available to the retail trader.

Strategy Mapping by VIX Band

VIX Band	Strategy Preference	Margin Rule
<15 (Low)	Ratio spreads, butterflies, calendars — never naked shorts	Naked shorts bad; hedge both sides
15–25	Short strangles 500–800 pts away; credit spreads	Manageable naked risk with stops
25–35	ATM/OTM credit spreads; roll defence	High premium but wider ranges; keep 30% cash
>35 (Panic)	Sell OTM extremes; ladder into rallies	Maximum VIX collapse trade; cash is king

The India VIX closed above 30 on more than 460 separate trading days across 32 distinct episodes between 2008 and 2026. The two occasions when it crossed 85 (14 November 2008: 92.5; 24 March 2020: 86.6) were the only times Nifty tripped market-wide circuit breakers. These are once-in-a-career events, and the correct response is the same both times: sell extreme OTM options, ladder into the recovery, and wait for the VIX to normalise.

Key Takeaways

- **Learn the band** — VIX <15: low, pair shorts with hedges; 15–30: moderate, strangles viable beyond 500 pts; >30: panic, sell don't buy.
- **Falling VIX on red days = limited downside** — the selling is narrow, not systemic.
- **Monthly expected move = $VIX / \sqrt{12}$** — place short strikes beyond this band.
- **VIX collapses are profit engines** — the COVID VIX collapse from 86 to 40 produced outsized returns for disciplined sellers.
- **Never buy options in high VIX** — vega decay swamps directional profit; the COVID put-buyer who was right on direction and still lost money is the permanent warning.

Reading the Option Chain

On a Tuesday afternoon in August 2022, Nifty broke out of a multi-week consolidation. The breakout itself was not large — 128 points — but what made the session remarkable was the option chain. The sold-out position at 17,500 and 17,700 had been unwound, puts that had been heavily sold were being bought back, and call sellers were scrambling to cover. Dhanraj, watching the chain update by update, observed: “Option writers have always been wrong — that includes me.” This chapter shows you how to read the option chain not as a static snapshot, but as a real-time map of where the crowd is positioned — and where they are vulnerable.

Max Pain and the Crowd Consensus

Every option chain shows, for each strike, the total open interest (OI) in calls and puts. The strike with the highest total open interest — traditionally thought to be “where the maximum number of option buyers will be killed at expiry” — is the so-called “max pain” strike. In practice, it is more useful to think of it as the **crowd consensus anchor**: the level where the largest number of option sellers have placed their bets. When the max-pain-call strike is at 26,000 and the max-pain-put strike is at 24,000, the sellers are collectively betting that Nifty will remain within this 2,000-point band. The bookmaker’s margin — the distance from spot to the nearest heavy OI strike — is the market’s assessment of reasonable short-term range. The single most important calculation a trader can make from the option chain is the **breakeven support or resistance**. If the 24,000 put strike has the highest OI and that strike’s premium is 150, the sellers’ implied support is $24,000 - 150 = 23,850$. Below that, the heavy put sellers begin to face margin stress, and cascading buybacks can accelerate the fall. Symmetrically, if the 26,000 call strike has max OI and trades at 120, the call sellers’ safety zone ends at $26,000 + 120 = 26,120$.

Positioning Asymmetry

The option chain reveals not just where the crowd is, but whether the crowd is balanced or leaning. In a balanced market, the OI on the put side and the call side are roughly equal for similar strikes. In an imbalanced market — where, say, calls have twice the OI of puts for strikes within 500 points of spot — the market is positioned

for a break to the upside. Why? Because the heavy call writers are short vega and short delta; if the market rises, they must buy back their short calls, adding fuel to the rally. Dhanraj's most reliable macroscopic call came from exactly this reading: in May 2020, when retail traders were nearly unanimous in their bearishness (85% short index futures), he noted that the OI map showed 9,000–10,000 as the range while the broader market was “born of pessimism, grows on skepticism, matures on optimism, dies of euphoria.” The Nifty went from 9,000 to 15,000 over the following year.

Put-Call Ratio

The put-call ratio (PCR) is the simplest derivative of the option chain: total put OI divided by total call OI. In the Indian market, a PCR below 0.7 signals excessive bullishness (too many calls sold or too few puts hedging); a PCR above 1.2 signals excessive bearishness (too many puts bought or sold). The extremes — extremes below 0.6 or above 1.4 — have historically been contrarian indicators. But the raw PCR is too coarse. Dhanraj refined it by examining PCR for strikes within 500 points of current spot (the “active range”) and for different expiries. The near-week PCR tells you about positioning for the current weekly expiry; the near-month PCR tells you about the medium-term range. A gap between the two — the near-week PCR at 0.8 (moderately oversold) while the near-month PCR is at 1.1 (moderately bearish) — suggests that traders are positioning for a bounce but afraid of the medium-term downside.

OI-Derived Ranges

A weekly market typically produces one of three OI patterns. Mapping the chain helps predict which. **Pattern 1: Balanced range.** Calls and puts have roughly equal OI on strikes 500– 1,000 points from spot. This is a textbook range-bound market. Sell straddles and strangles within the range; expect the expiry to stay within the OI-expressed band. **Pattern 2: Skewed to calls.** Call OI dominates above spot; put OI is light below. This signals that option sellers expect the market to struggle to break higher. The top of the range is capped. If the market approaches the heavy call OI zone and the VIX is low, the odds of a short-covering squeeze are low. If VIX is moderate, sell calls at the heavy OI strike and collect premium; put your long delta on the other side through ratio spreads. **Pattern 3: Skewed to puts.** Put OI dominates below spot. This is the most profitable set-up. Heavy put writing below current levels means that institutional sellers are offering a floor. The correct strategy is to sell puts at or just below the heavy put OI strike, collect premium, and wait for the expiry to resolve toward the middle of the range.

A Worked Example

On 25 April 2023, the Nifty spot was at 17,750. The option chain showed:

- Highest call OI: 18,000 (86,000 contracts); premium 65
- Highest put OI: 17,700 (72,000 contracts); premium 70
- Put-call ratio (active strikes): 0.92
- India VIX: 11.5

The OI-derived support was $17,700 - 70 = 17,630$. The OI-derived resistance was $18,000 + 65 = 18,065$. The expected range was about 430 points — consistent with a VIX-implied monthly move of about $11.5/\sqrt{12} = 3.3\%$, or roughly 580 points. Given the low VIX (regime: low) and the balanced OI, the strategy was to sell the 17,800 weekly straddle at approximately ₹200 premium, collecting ₹15,000 per lot on roughly ₹1.2 lakh margin. Breakevens were 17,600 and 18,000 — within the OI-derived range. Over the next four sessions, Nifty traded between 17,650 and 17,950. The straddle expired almost exactly at-the-money, and the premium decayed to near zero. Return on margin: approximately 12.5% for the week.

Key Takeaways

- **Calculate breakeven support/resistance** as max-OI strike $\mp$ premium — the sellers' comfort zone.
- **Watch positioning asymmetry** — heavy call OI means upside squeeze risk; heavy put OI means downside protection.
- **PCR <0.7 is overbought; >1.2 is oversold** — but refine by looking at only the active 500- point range.
- **Gap between near-week and near-month PCR** reveals short-term vs medium-term sentiment divergence.
- **Three OI patterns** — balanced range (sell straddles), call-skewed (sell calls, ratio on puts), put-skewed (sell puts, ride the floor).

Microstructure — Gaps, Expiries, and the Last Half

Hour

On 28 November 2024, Nifty fell 450 points in a single session — a 2% crash that would be remarkable on any day, but was doubly so because it happened on a monthly expiry. Traders who had sold strangles too close to the money were wiped out in minutes. The option chain had been balanced, the VIX had been moderate, and nothing in the prior day's tape had signalled a 450-point collapse. And yet, any veteran trader understood exactly what had happened: the day had all the hallmarks of an expiry-driven cascade. This chapter unpacks the market microstructure that Dhanraj called “the most important thing to understand for any trader who sells options.”

The Gap Taxonomy

Gaps — the difference between the previous day's close and today's open — are not random. They fall into three categories, each with distinct behaviour. **Big gap-up (>100 points on Nifty)**. When GIFT Nifty or SGX Nifty indicates an opening 100+ points above the prior close, the typical retail trader's instinct is to sell — “markets always come down after a gap-up.” But Dhanraj documented a more nuanced reality: big gap-ups on a low VIX sustain more often than they reverse. The reason is that professional sellers who wrote calls below the gap price must buy them back at a loss, creating a short-covering tailwind that pushes the market even higher. The correct strategy: sell puts, not calls, into a gap-up. **Big gap-down (>100 points)**. The symmetric logic applies. A big gap-down triggered by an event (tariff, Fed surprise, war) produces a similar mechanical buying response from put sellers who must cover their shorts. But a gap-down on “no news” — pure technical breakdown — is more dangerous, because there are no forced buyers entering the market. The difference between a gap that bounces and a gap that continues is almost never predictable from the chart. It depends on who is on the other side: are there DII buy orders waiting below, or is the gap below all known support levels? **Flat open (±20 points)**. This is the most dangerous and the most profitable. A flat open means no overnight

forced repositioning. Everyone who wanted to be positioned is already positioned. The market can go anywhere. “A flat opening is like a starting pistol — anything can happen.” The correct response is to be flat or delta-neutral at the open, and wait 30 minutes for the first directional signal.

Expiry Anatomy

Indian markets evolved through four distinct expiry regimes between 2018 and 2026. **The single monthly expiry era (pre-2019)**. Only the last Thursday of each month. Limited product availability, limited retail participation, concentrated volatility. **The birth of weekly expiries (2019–2023)**. NSE introduced weekly expiries on Nifty (Thursday) and Bank Nifty (Wednesday). Volume exploded: weekly expiry trading became the single largest driver of option volumes. Dhanraj built his entire trading approach around selling weekly straddles and adjusting them at the last half hour. The pattern repeated every week: premium erosion Monday–Wednesday, low IV Thursday morning, pin to max pain at close — or violent two-way swing. **The proliferation phase (mid-2023 to October 2024)**. Every day had an expiry: Monday MIDCPNIFTY, Tuesday FINNIFTY, Wednesday BANKNIFTY, Thursday NIFTY, Friday SENSEX. Professional traders could sell volatility five days a week. Retail traders, studies later showed, lost money at an accelerated pace — the constant expiry cycle encouraged overtrading and provided insufficient time for premium decay to work in their favour. **The rationalisation (November 2024 onwards)**. SEBI mandated one weekly expiry per exchange per week. NSE kept Thursday (NIFTY) and ended all other index weeklies. BSE kept Friday (SENSEX). The immediate effect was an increase in premium on the remaining expiries — the same volume concentrated into fewer dates — and a gradual reduction in retail participation as the “five expiries a week” dopamine cycle was broken.

The Last Half Hour

Dhanraj’s signature observation — one that he returned to repeatedly — was this: “Amateurs open the market; professionals close it.” The last half hour of the Indian cash session (3:00–3:30 PM IST) is the most concentrated period of institutional order flow in the day. On a normal day, about 15–20% of the day’s total volume occurs in this window. On an expiry day, it can be 35–50%. The reason is settlement pricing: for options that expire that day, physical settlement rules apply to in-the-money stock options, and the cash settlement of index options depends on the last-half-hour weighted average price (until August 2026, when SEBI introduced the Closing Auction Session, or CAS, replacing VWAP with a random auction close). A trader who watches the last half hour sees the tug-of-war in real time. If the last 30 minutes produce a sharp move in one direction — a 200-point Bank Nifty ramp, or a 400-point collapse — that

move was executed by institutions, not retail. The day's close is the message. A market that closes at its high has institutional buyers in control; a market that closes off its high has seen late institutional selling. From August 2026, the introduction of the Closing Auction Session changed the expiration mechanics. Instead of the last-half-hour VWAP, the settlement price for F&O-enabled stocks is determined by a random closing time between 3:28 and 3:30 after a 15-minute order-entry window. The first CAS-affected expiry reportedly produced a 539-point swing in the Sensex in the final seconds — a 20× payoff for certain pre-positioned spreads. The lesson: microstructure evolves; the trader who understands the current mechanics has an advantage.

Index Rebalancing and ETF Flows

Index construction rules create mechanical, predictable flows that are invisible to the price chart but visible to anyone who reads index methodology documents. When Bank Nifty introduced a single-stock cap of 20% and a top-three cap of 45% in 2025, HDFC Bank — which had a weight of roughly 28% in the index — was a forced seller. Every ETF tracking Bank Nifty had to reduce its HDFC Bank holding by about one-third, selling approximately ₹15,000–20,000 crore of the stock over the rebalancing period. The selling was independent of price, independent of fundamentals, and entirely front-runnable. The same logic applies to MSCI semi-annual rebalancings (August and February each year), FTSE reconstitutions (March and September), and Nifty itself when the index committee changes constituents. Dhanraj tracked these events as religiously as the FII flow data.

Read-Through Trades

A read-through trade capitalises on correlated sector movements. When Apple reports strong iPhone sales, Indian IT stocks (Infosys, TCS, HCL) tend to open higher the next day because the same global investors reassess the sector. When Accenture reports strong consulting revenue, the read-through to Indian IT is even stronger — “same people, same mindset.” When the US bank index sells off, Indian private banks drop in sympathy. The read-through is not an exact science. The correlation is strongest in the first hour after the US close (when Indian ADRs trade) and decays after the first two sessions. But for a directional trader deciding whether to sell a Nifty straddle or a directional spread, the overnight ADR map is worth scanning before every market open.

Key Takeaways

- **Gaps have mechanics** — big gap-up favours put sellers (short covering below); flat open is a starting pistol that can go anywhere.

- **Expiry rationalisation (Nov 2024)** — one weekly per exchange, not five; premium concentration, reduced overtrading.
- **The last half hour is institutional** — 15–50% of daily volume; the close is the message.
- **Index rebalancing creates forced flows** — front-run HDFC Bank Bank Nifty cap-reduction selling by checking rebalancing schedules.
- **ADR read-throughs are strongest in the first hour** after a US close; Accenture earnings > Indian IT, Apple > Indian IT hardware, US bank index > Indian private banks.

PART III

OPTIONS FROM FIRST PRINCIPLES

Why Derivatives Exist

On 20 April 2020, the world watched a financial impossibility. The May futures contract for West Texas Intermediate crude oil — one of the most traded commodities on the planet — settled at **negative \$37.63 per barrel** by the close. For a few surreal minutes, producers were paying buyers to take delivery. The event was not a glitch. It was a lesson in **what derivatives are, how they work, and why fail-safe assumptions can kill you when you ignore their structure**. Futures contracts obliged holders to take physical delivery of crude oil into storage tanks that were already full. Traders who had bought May futures expecting to sell them before expiry discovered that there were no buyers for the actual barrels. To get out, they had to pay. That day separated two kinds of market participants: those who understood what a futures contract *actually* was, and those who treated it as a glorified bet. This chapter is about how you join the first group.

What Is a Derivative?

A derivative is a financial contract whose value is derived from an underlying asset — a stock, an index, a commodity, a currency, or even an interest rate. The contract itself is the tradable instrument; the underlying is what the contract references. In India, the largest derivative market by volume is the NSE's Futures & Options segment, where contracts reference the Nifty 50, Bank Nifty, Fin Nifty, and hundreds of individual stocks. The daily turnover in NSE's F&O segment regularly exceeds ₹60 lakh crore — roughly four times the daily turnover of the entire Indian cash-equity market. That ratio tells you almost everything about how modern markets work: the tail (derivatives) wags the dog (the underlying).

The Bridge from Forwards to Futures

Before exchanges existed, forwards were private contracts between two parties. A wheat farmer and a miller would agree in March: in June, the farmer would deliver 100 tonnes of wheat at ₹2,000 per quintal. No money changed hands at signing. The price was locked. Both parties slept easier, each having eliminated the price risk they were least equipped to handle. But forwards had two problems:

- **Counterparty risk:** if the farmer defaulted or the miller went bankrupt, the other side had no recourse beyond a lawsuit.
- **No exit:** the contract was custom-made and illiquid. If the miller needed to close early, there was no one to sell the contract to.

Futures solve both problems by standardising the contract and routing it through a central clearing counterparty (the Clearing Corporation of India or NSE Clearing). Every futures contract has fixed specifications: lot size, maturity date, tick size. And the clearing house becomes the buyer to every seller and the seller to every buyer, guaranteeing performance through a daily margin mechanism called **mark-to-market** (MTM).

Mark-to-Market: The Daily Reckoning

Here is where most retail traders get tripped up. A futures position is not like buying a stock, where you pay the full price once and wait. Every trading day, the exchange calculates the day's profit or loss on your futures position and transfers it to or from your account in cash — before the position closes. Consider an example: **Date: 5 June 2022** Buy 1 lot Nifty futures (lot size 75) at 16,500. Margin required: approximately ₹1.50 lakh (roughly 8–10% of the contract value of ₹12,37,500).

Day	Nifty Future Close	Daily P&L	Cumulative P&L	Cash Outflow/In-flow
5 Jun	16,500 (entry)	—	—	Margin paid: ₹1.50 lakh
6 Jun	16,680	+180 pts × 75 = + ₹13,500	+ ₹13,500	₹13,500 credited to account
7 Jun	16,450	−230 pts × 75 = − ₹17,250	− ₹3,750	₹17,250 debited from account
8 Jun	16,600	+150 pts × 75 = + ₹11,250	+ ₹7,500	₹11,250 credited
9 Jun	16,200 (close position)	−400 pts × 75 = − ₹30,000	− ₹22,500	− ₹30,000 debited; margin released

Net result: loss of ₹22,500 (300 points × 75). But notice the *pattern*. On day 6 the account gained cash even though the position was still open. On day 7 it lost cash. Each day's settlement was real, not notional. This is MTM. The consequence is brutal for undercapitalised traders: a sequence of daily losses can deplete the cash balance *before* the position reaches its expiry. The exchange does not wait for the final reckoning. It collects losses daily. This is why futures are said to be cash-settled daily — the option seller's dream (margin against collateral) does not apply here.

Three Kinds of Participants

Derivative markets need all three groups to function: **Hedgers** are the reason derivatives exist. A mutual fund holding ₹100 crore of equity wants protection against a market fall. It can buy index put options. An exporter expecting dollar receipts in three months wants protection against rupee appreciation. It can sell USD-INR futures. Hedgers transfer risk they do not want. **Speculators** take on that risk in exchange for potential profit. They are not gambling — they are expressing a view backed by research, positioning, and risk management. They provide liquidity and depth. **Arbitrageurs** exploit price discrepancies between related instruments. When Nifty futures trade at a premium to the spot Nifty that exceeds the cost of carry, an arbitrageur buys spot Nifty 50 stocks (or Nifty BeES) and sells the futures, locking in a risk-free return. Arbitrage activity keeps prices aligned across markets. In India, FIIs are typically hedgers or speculators depending on the regime, while the vast majority of retail participants are speculators — a fact that becomes relevant in Chapter 27, when we examine the SEBI data that shows 93% of individual F&O traders lose money.

Forward vs Future at a Glance

Feature	Forward	Future
Trading venue	OTC (bank/counterparty)	Exchange (NSE/BSE)
Standardisation	Custom	Fixed lot, expiry
Counterparty risk	Direct — both parties	None — clearing house
Daily settlement	No	Yes (MTM)
Liquidity	Zero (custom)	Deep in indices
Margin	None or negotiated	SPAN + Exposure
Regulation	Light	Full (SEBI)
India availability	Only for corporates/FIIs	All traders

Why This Matters Before You Move to Options

Futures are the simplest derivative — linear payoff, no time decay, no volatility input. If you cannot manage a futures position *through its MTM cashflows*, you should not be trading options. The option seller's margin mechanism is more forgiving (losses rest against collateral until booked), but the underlying risk mathematics is identical. The crude oil crash of April 2020 was a futures settlement event. The lesson spread to option sellers through the Franklin Templeton debt-fund closure later that year, as Chapter 12 details.

Key Takeaways

- A derivative is a contract whose value depends on an underlying asset. It is not the asset itself.

- Futures are standardised, exchange-traded forwards with daily MTM settlement and zero counterparty risk.
- MTM means profit or loss is realised in cash every day, not at expiry. Manage your cash balance, not just your position P&L.
- Derivatives serve three roles: hedgers transfer risk, speculators provide liquidity, arbitrageurs keep prices honest.
- The same risk math applies whether you hold futures or sell options. Understand MTM before you trade either.

Calls and Puts

A would-be trader hears about an options strategy that can turn ₹50,000 into ₹30 lakh in six months. He attends the “training,” buys the options, and loses everything. “But the options gave me unlimited profit potential,” he asks afterward. “And the risk was limited to the premium. What went wrong?” This question — repeated in dozens of forms — is the entry point for every options trader. The answer is not in the strategy. It is in the instrument itself: what a call and a put actually are, what happens when you buy one versus sell one, and why that “limited risk, unlimited reward” framing survives only if you ignore probability.

The Asymmetric Contract

A **call option** gives the buyer the right, but not the obligation, to buy the underlying asset at a fixed price (the **strike price**) on or before a fixed date (the **expiry**). A **put option** gives the right to sell. For this right, the buyer pays a price called the **premium** — the only cash that changes hands at entry. The seller (also called the **writer**) collects the premium and in exchange takes on the obligation to perform if the buyer exercises the right. This is the asymmetry: the buyer’s loss is capped at the premium, while the profit can be large if the underlying moves favourably (in theory, unlimited for a call buyer). The seller’s profit is capped at the premium received, while the loss can be large. On the surface, the buyer has the better deal. In practice, the seller has probability on their side — most options expire worthless. The tension between these two perspectives is the entire options market.

Where the Money Lives: Deepening the Intuition

Think of Virat Kohli batting in a World Cup match. He has just reached 50 runs. The crowd buzzes. The TV commentators discuss whether he will reach his century. The premium on “Kohli scores a hundred” rises — even though he has not hit a single additional run since the last ball. The rise is driven by **expectation**, not by runs scored. In options terms, this is **time value**: premium above the intrinsic worth of the contract. The same happens when a stock runs toward a known resistance level or a budget announcement approaches. The premium moves on what traders *expect* to

happen, not just on what has already happened. A working trader watches premium behaviour the way a cricketer watches the bowler's wrist: for tells.

The Four Positions

Every options strategy is built from exactly four basic positions:

Position	Right/Obligation	Max Profit	Max Loss
Buy Call	Right to buy at strike	Unlimited (theoretically)	Premium paid
Sell Call	Obligation to sell at strike	Premium received	Unlimited (unhedged)
Buy Put	Right to sell at strike	Strike minus premium × lot size (max)	Premium paid
Sell Put	Obligation to buy at strike	Premium received	Strike minus premium × lot size

The key insight: “unlimited loss” on a call seller applies only to the **naked** position — selling a call without holding the underlying shares or a protective call above. In practice, every professional option seller trades with a hedge, and as we will see in Chapter 12, SEBI's margin framework now structurally rewards hedging. The naked position is a retail artifact.

Intrinsic Value and Time Value

The total premium of an option is the sum of two components: **Intrinsic value** = how much the option is “in the money” right now.

- Call: $\max(\text{spot} - \text{strike}, 0)$
- Put: $\max(\text{strike} - \text{spot}, 0)$

Time value = premium – intrinsic value. This represents the market's expectation that the option could move further into the money before expiry. Consider Nifty at 18,000 with 30 days to expiry and IV at 14%:

Strike	Option Type	Premium	Intrinsic Value	Time Value
17,500	Call	525	500	25
18,000	Call	95	0	95
18,500	Call	35	0	35
17,500	Put	8	0	8
18,000	Put	102	0	102
18,500	Put	510	500	10

The 17,500 call has almost no time value left; it is all intrinsic. It is a deep in-the-money (ITM) option — almost the same as holding stock but with leverage. The 18,000 call is at-the-money (ATM); its entire premium is time value. The 18,500 call is out-of-the-

money (OTM); it also consists entirely of time value, but less than the ATM because the market assigns a lower probability to Nifty reaching 18,500 by expiry. The term structure of time value across strikes is the central input to every options strategy. In Chapter 10 we will quantify it through the Greeks. For now, the rule to internalise: **time value decays fastest in the final weeks before expiry**. An ATM option with 30 days to expiry may lose half its time value in the last 10 days alone.

In the Money, At the Money, Out of the Money

Every options trader needs these three terms on autopilot:

- **ITM (In the Money)**: has intrinsic value. Call with strike below spot; put with strike above spot.
- **ATM (At the Money)**: strike closest to the current price (sometimes the two straddling strikes).
- **OTM (Out of the Money)**: zero intrinsic value. Call with strike above spot; put with strike below spot.

Example with Nifty at 18,000:

- 17,700 call → ITM. 17,700 put → OTM.
- 18,000 call → ATM. 18,000 put → ATM.
- 18,300 call → OTM. 18,300 put → ITM.

The delta — how much the option's price changes per ₹1 move in the underlying — follows this order: deep ITM options move almost ₹1 for ₹1 (delta near 1), while far OTM options barely move at all (delta near 0). An ATM option has delta approximately 0.50 — it captures roughly half the move.

Exercise and Assignment

This is where the retail trader's education often stops — and where bad things start. In India, index options (Nifty, Bank Nifty, Fin Nifty) are **European-style**: they can only be exercised on the expiry day. Stock options and some ETF options are **American-style**: the buyer can exercise at any time before expiry. The Indian settlement landscape has several layers:

- **Index options**: cash-settled. No delivery of the underlying. On expiry day, if the option is ITM by even 0.05 paise, the difference between the settlement price (the last half-hour weighted average of the spot index) and the strike price is credited to the buyer's account. The seller pays the same amount.
- **Stock options**: physically settled. For ITM options, the buyer must deliver (call) or take delivery (put) of the actual shares. This requires the cash or shares to be available in the demat account.

- **Exercise by exception:** SEBI mandates that ITM options at expiry are automatically exercised unless the buyer explicitly opts out. OTM options expire worthless without action from either party.

The physical settlement of stock options creates a hidden risk: if you sell a stock put that expires ITM, you must have the cash ready to buy the shares at the strike price. A cash balance that looked sufficient before settlement can become a margin call on Monday morning.

European vs American at a Glance

Feature	European (Index)	American (Stocks)
Early exercise	Not possible	Possible any time
Settlement	Cash (difference)	Physical (shares)
Assignment risk for seller	Only at expiry	Any day before expiry
Dividend risk	Priced into premium	Early exercise possible before ex-div
Liquidity	Deep (Nifty/Bank Nifty)	Thin for far strikes

In practice, the difference between European and American settlement is the difference between a predictable expiry weekend and an unpredictable mid-contract surprise. Every experienced option seller builds a buffer and never lets a short position get dangerously deep ITM without a plan.

Key Takeaways

- A call = right to buy; a put = right to sell. The buyer pays premium; the seller collects it and takes on obligation.
- Payoff is asymmetric: buyer's loss capped at premium, seller's profit capped at premium.
- Premium = intrinsic value (in-the-money amount) + time value (expectation of future move).
- ITM options have delta near 1 (move almost with the stock). ATM delta ~0.50. OTM delta $\rightarrow 0$.
- Index options: European-style, cash-settled at expiry only. Stock options: American-style, physically settled, early exercise possible.
- An ITM option at expiry is automatically exercised. Know your obligation before expiry day.

The Greeks, Demystified

In June 2020, a trader sold a 9,500 Nifty call option three weeks before expiry, collecting a premium of ₹85. The market was in a rally. Within two weeks, Nifty broke past 9,500, and the option was trading at ₹220. The short call was showing a loss of ₹135 per share — nearly triple the premium collected. But the trader *also* owned a 10,000 call, bought for ₹30, that was now trading at ₹70. The combined position — a **call ratio spread** — was flat. That trader understood the Greeks. He knew that Delta — the sensitivity of the option price to the underlying — would work against him on the short call, but also for him on the long call. He knew that Theta — time decay — was punishing both sides equally. And crucially, he knew that Gamma — the rate of change of Delta — was telling him *how fast* the short leg's risk was accelerating as Nifty approached 9,500. He had a threshold to act (a Gamma trap), and he had a plan for what to do when it triggered. This chapter gives you the same toolkit.

The Framework

An option's price does not move one-for-one with the underlying. It is a function of five inputs: **the underlying price, time to expiry, implied volatility, the risk-free interest rate, and the strike price**. The Greeks measure how the option price changes when each of these inputs changes by one unit.

Greek	Symbol	Measures	Unit
Delta	Δ	Option price change per ₹1 move in underlying	₹ per point
Gamma	Γ	Delta change per ₹1 move in underlying	Delta per point
Theta	Θ	Option price decay per day passing	₹ per day
Vega	v	Option price change per 1% IV change	₹ per IV point

Greek	Symbol	Measures	Unit
Rho	ρ	Option price change per 1% rate change	₹ per rate point

In liquid index options, Rho is negligible for short-term positions — interest rates move slowly. The other four are the daily reality of an option seller's life.

Delta: The Direction Sensitivity

Delta answers the simplest question: if Nifty moves ₹1, how much does my option move?

Position	Delta at Nifty 18,000
18,000 Call (ATM)	+0.50
18,000 Put (ATM)	-0.50
17,500 Call (Deep ITM)	+0.85
18,500 Call (OTM)	+0.20
17,500 Put (OTM)	-0.15
18,500 Put (Deep ITM)	-0.85

The sign is intuitive: calls have positive Delta (profit when the market goes up); puts have negative Delta (profit when the market goes down). The magnitude is the option's "share equivalency" — a Delta of 0.50 means the option will behave roughly like owning half a unit of the underlying for every 1-point move. For a short straddle (short call + short put at the same strike), the net Delta near ATM is approximately zero. The position is Delta-neutral. This is why a sideward market — low Delta on both legs — is the straddle seller's friend, and any sustained directional move is the death of the position. The Gamma that follows will explain why the death is sudden.

Gamma: The Acceleration

Gamma measures how Delta changes as the underlying moves. It is the *second derivative* of the option price — the rate of change of the first derivative. Think of it this way: Delta tells you the steepness of the hill. Gamma tells you how the steepness itself is changing. An ATM option has the highest Gamma. As Nifty moves, an ATM call rapidly becomes ITM (Delta rises toward 1) or OTM (Delta falls toward 0). The shift happens fastest at the ATM strike. Consider a short 18,000 straddle with Nifty at 18,000, 10 days to expiry:

- **Nifty at 18,000:** Net Delta ≈ 0 , Gamma ≈ -6.5 (negative because short options reverse the curvature).
- **Nifty moves to 18,100 (+100 points):** The short call's Delta rises from +0.50 to +0.62. The short put's Delta rises from -0.50 to -0.38. Net Delta = -0.24 — the position is now structurally bearish. The straddle seller is losing money *faster* as the move continues.
- **Nifty moves to 18,200 (+200 points):** The short call's Delta is now +0.75. The short put's Delta is -0.25. Net Delta = +0.50. The position has flipped direction: it is now a net short call position exposed to every further upward tick.

This is the **Gamma trap** of short straddles. The position starts flat (Delta zero) but as the market moves, Gamma pulls Delta in the *wrong* direction — accelerating losses exactly when the trader needs to exit. This is why, in the Strategy Library (Part IV),

every short straddle has a defined exit trigger and every trade folds a hedge or a wing that caps the Gamma acceleration.

Theta: The Time Decay

Theta measures how much value an option loses each day, all else being equal. For option sellers, Theta is income. For buyers, it is a tax. Crucially, Theta is not linear:

Days to Expiry	ATM Nifty Call (strike 18,000) Daily Theta
60	-₹6
30	-₹15
15	-₹30
7	-₹60
3	-₹100
1	-₹180

In the last week, the daily decay accelerates exponentially — and almost entirely in the final hours. An option seller who has collected ₹95 premium on an ATM call with 30 days to expiry will see roughly 50% of that premium evaporate in the last 10 days, not the first 20. For the buyer, this means every day of holding a direction-less position is burning cash at an accelerating rate. For the seller, it means that a position that looks marginal at 20 days to expiry can turn into a handsome profit at 5 days — as long as the underlying stays within the seller's range. **Theta and Gamma are enemies.** High Theta positions (short options) carry high Gamma risk. The option seller earns Theta every day, but every move in the underlying triggers a Gamma-cost that can wipe out weeks of decay in hours.

Vega: The Volatility Lever

Vega measures the option price change for each 1-percentage-point change in implied volatility (IV). It does not measure historical volatility or realised volatility; it measures *the market's expectation* of future volatility, priced into the option. When India VIX stands at 15 (normal), an ATM Nifty option with 30 days to expiry might have Vega of roughly ₹8 per point. A VIX spike from 15 to 25 — which happened during the Ukraine invasion in February 2022 — injects roughly ₹80 of extra premium into that single option, irrespective of where Nifty actually trades. For the option buyer, a rising IV (Vega-positive) can turn a correct-direction trade into a loss. For the seller, a falling IV is a tailwind that supplements Theta. The important rule: **Vega is highest for ATM options and increases with time to expiry.** A 3-day option has almost no Vega — neither direction nor volatility can move it significantly. A 60-day option lives and dies by IV.

A Worked Example: The Greeks Come Together

Position: Short Nifty 18,000 straddle (sell 1 call + sell 1 put), 15 days to expiry, IV = 15%, Nifty = 18,000. Premium collected: ₹600 (call ₹300 + put ₹300). Lot size 75.

Greek	Short Call	Short Put	Combined
Delta	-0.50 (short)	+0.50 (short)	0
Gamma	-0.55	-0.55	-1.10
Theta	+₹35	+₹35	+₹70/day
Vega	-₹12	-₹12	-₹24/IV%

Scenario A: Nifty stays at 18,000, IV drops to 12% after 5 days.

- Theta earned: $5 \times ₹70 = ₹350$
- Vega benefit: $IV -3\% \times ₹24 = +₹72$ per lot
- Total: $+₹422$ (₹31,650 per lot) — profit from stagnation and falling IV.

Scenario B: Nifty jumps to 18,150 on day 3, IV spikes to 20%.

- Delta + Gamma cost: estimate roughly $-₹1,200$ per lot
- Vega cost: $IV +5\% \times -₹24 = -₹120$
- Theta earned: $3 \times ₹70 = +₹210$
- Net: $-₹1,110$ (₹83,250 loss per lot) — wiped out.

No view was wrong. The trader simply ignored Gamma and Vega.

The Gamma Trade-off

Every short-option position is a bet that Gamma will not materialise — that the market will stay calm enough for Theta to outrun the Gamma cost. Every long-option position is a bet that Gamma *will* materialise — that a large-enough move overwhelms the Theta cost. There is no moral hierarchy. Each is a valid risk transfer. The trader who survives is the one who knows *which side of the Gamma trade they are on at all times* and sizes accordingly.

Key Takeaways

- Delta: direction sensitivity. Deep ITM $\rightarrow ₹1$ per point. ATM $\rightarrow \sim ₹0.50$. Far OTM $\rightarrow$ near zero.
- Gamma: the acceleration. ATM gamma is highest. Short options carry negative Gamma — losses accelerate as the market moves against you.
- Theta: time decay. Exponential in the final weeks. Short sellers earn it; buyers pay it.
- Vega: implied volatility sensitivity. Highest for ATM, long-dated options. Falling IV helps sellers; spikes hurt them.

- Theta and Gamma trade off: high Theta = high Gamma risk. You cannot earn Theta without accepting Gamma exposure.
- A short straddle near ATM looks flat ($\Delta \approx 0$), but Gamma flips the Delta aggressively as the market moves — the most common “unexpected loss” pattern.

Implied Volatility

In late March 2020, with India under one of the world's strictest lockdowns and Nifty down nearly 40% from its January high, India VIX printed **85.7** — its highest reading in history. An at-the-money Nifty put with 30 days to expiry was trading at roughly ₹1,800, the equivalent of a 22% monthly expected move. Over the next four weeks, Nifty fell *further* — from 8,000 to 7,500 (another 6.25%). Yet by late April, that same ₹1,800 put was trading at ₹700. The buyer had been *directionally correct* and still lost 60% of the premium. The culprit was a devastating, invisible force that destroys more option buyers than wrong direction ever will: **implied volatility collapse**.

What Is Implied Volatility?

Implied volatility (IV) is the market's estimate of how much the underlying will move over the life of the option, expressed as an annualised percentage. It is derived from the option's current market price using an option pricing model (Black-Scholes or a comparable framework). IV is not a forecast of direction — only of magnitude. Think of IV as the *tension* in the market. Low IV means calm waters: the market expects the index to drift in a narrow range. High IV means choppy seas: sharp moves in either direction are anticipated, and option sellers charge more for taking on that risk. Critically, **IV does not have to rise in a falling market**. In June 2020, Nifty reportedly fell roughly 500 points in a week — yet India VIX actually fell from the low 30s to below 25. Why? Because the fall was narrow: only index heavyweights sold off while broader markets held. The market had become *less* uncertain about the range, not more. This is the first fact every volatility trader must internalise.

IV vs. Historical Volatility

Historical volatility (HV) measures how much the underlying has *actually* moved over a past period — typically 10, 20, or 30 trading days. It is backward-looking. **Implied volatility** is forward-looking. It is the market's expectation of future HV, plus a risk premium (traders buy protection in uncertain times, pushing up IV). When IV is higher than HV, options are “expensive” relative to recent realised movement. When IV is lower, options are “cheap.”

Regime	IV vs HV	What It Means	Typical Action
Normal	IV $\approx$ HV	Options fairly priced	Sell or buy depending on view
Expensive	IV > HV	Market pricing more volatility than recent history shows (Fear premium)	Favours premium sellers; volatility collapse can occur if fear is not justified
Cheap	IV < HV	Options cheap relative to recent movement (Complacency)	Favours option buying or put protection; a vol shock produces large gains

On 23 April 2020, IV on Nifty options stood at roughly 55, while 20-day HV was about 38. The gap of 17 percentage points was the fear premium. The trader who sold options at those levels and held for 30 days captured that premium as IV collapsed to 35 — a Vega profit on top of the directional move.

IV Rank and IV Percentile

To judge whether IV is “high” or “low” in a historical context, traders use two metrics:

- **IV Rank:** where current IV sits relative to the 52-week range. $\text{IV Rank} = (\text{Current IV} - \text{Min IV}) \div (\text{Max IV} - \text{Min IV}) \times 100$.
- **IV Percentile:** the percentage of trading days in the past year where IV was below the current level.

Consider India VIX:

- 52-week range: 10 (min) to 35 (max)
- Current VIX: 28
- $\text{IV Rank} = (28 - 10) \div (35 - 10) \times 100 = 72$ — current IV is above 72% of the readings in the last year.

An IV rank above 70 signals expensive options — historically a favourable environment for premium sellers, at least in the sense that IV has a statistical tendency to mean-revert. Below 30 signals cheap options — a time to consider buying for the possibility of a volatility event. This does not mean every trade wins. IV can stay high for months. But over a large number of trades, selling at IV rank > 70 and buying at IV rank < 30 provides a structural edge.

Premium Behaviour Near Expiry

The relationship between IV and realised movement becomes most visible in the final week before expiry. Consider an ATM Nifty straddle with 5 days to expiry and IV at 12%. The straddle premium might be ₹160 (approximately ₹80 call + ₹80 put). If Nifty moves less than 0.9% per day in either direction (the 12% annualised rate translates to roughly 0.75% daily), the straddle loses value through Theta. If realised daily volatility

exceeds 0.75%, the straddle gains value even with no directional bias, because Gamma overpowers Theta. In the last three days, the Gamma component explodes relative to Theta. An option that was “fairly priced” at 5 days can swing violently at 2 days — not because the trader’s view changed, but because the premium mechanics have tilted from decay (seller-friendly) to acceleration (buyer-friendly) in the final stretch. This is the expiry-week pattern that preys on sellers who do not adjust their Gamma assumptions as the clock runs down.

Why Puts Stay Bid

A persistent feature of the Indian options market is that OTM put options consistently trade more expensive than comparable OTM calls at the same distance from the strike. This is the **skew** — the upward-sloping volatility smile on the put side. The reasons are structural:

- 1. **Institutional hedging:** FIIs and domestic mutual funds buy index puts to hedge their equity portfolios. This is monthly, systematic demand that does not depend on the market’s near-term direction.
- 2. **Tail-risk premium:** traders pay more for protection against a crash than for a rally of the same magnitude, because crashes are faster and more violent than rallies.
- 3. **Retail buying pressure:** the majority of retail participants are put buyers — the segment that loses money most consistently.

The practical consequence is that a short put spread (sell put, buy lower put) can often be collected for a higher net credit than a short call spread at the same distance, simply because the put side has structural premium.

VIX-Based Expected-Move Placement

One practical application of IV knowledge: when India VIX is elevated, a simple formula gives a statistically grounded range for the expected monthly move: **Monthly expected band = Spot × (VIX ÷ √12) upward and downward**. Example with Nifty at 18,000 and VIX at 30:

- Monthly band = $30\% \div \sqrt{12} = 30 \div 3.46 = 8.67\%$
- Upper band: $18,000 \times 1.0867 = 19,560$
- Lower band: $18,000 \times 0.9133 = 16,440$

A short strangle seller placing the short call above 19,560 and the short put below 16,440 has a statistical edge — the one-month expected move, at 15% IV, is roughly 8.7% in either direction. This does not guarantee the market will stay within the band; it means the market’s *own pricing* assigns better than 68% probability (one standard deviation) to the index closing inside this range. The band must be recomputed daily

as VIX moves. A VIX that falls from 30 to 20 in two weeks shrinks the band from 8.7% to 5.8% — and a strangle placed at the original levels needs adjustment.

IV Around Events

Implied volatility behaves predictably around scheduled events:

Event Phase	IV Behaviour	Implication
2–5 days before	IV rises as uncertainty increases	Options buyer pays “event premium”
Day of event	Peak IV (highest risk premium)	Short options at these levels carry the most Vega tail-risk
Immediately after event	IV crashes (the “crush”)	Creates profit for sellers who entered before the event and loss for late buyers

The classic trade: sell a short straddle or strangle 2–3 days before a known event, collect the elevated premium (the event premium plus normal Theta), and cover within 24 hours after the announcement. The profit comes not from being right about the outcome but from collecting Vega that the market had priced as uncertainty — uncertainty that evaporates the moment the number is printed.

Key Takeaways

- IV = forward-looking expected annualised volatility priced into options. It is not the same as realised volatility.
- IV can fall in a falling market — when breadth is narrow and uncertainty decreases.
- IV Rank tells you where current IV sits relative to its own 52-week range: >70 = expensive (favours sellers), <30 = cheap (favours buyers, event risk).
- Theta accelerates and Gamma becomes asymmetric in the final week — expiry is a different game from mid-series trading.
- Indian puts trade structurally rich because of institutional hedging and tail-risk demand; the skew is a persistent feature.
- Monthly expected move $\approx \text{Spot} \times (\text{VIX} \div \sqrt{12})$ — a stat-of-the-art range for placing short wings.
- IV around events: peaks before, crashes after. The event premium is a tradable commodity if you time the entry and exit.

Margins, Collateral, and the Machinery

In April 2020, a group of option sellers who had pledged their Franklin Templeton debt mutual fund units as collateral received an email from their broker: the collateral value of their holdings had been **set to zero with immediate effect**. Franklin Templeton had just wound up six debt schemes totalling ₹30,000 crore, triggering a redemption freeze. The mutual fund units — once considered safe, liquid collateral — became untradable overnight. Those option sellers had 24 hours to replace the margin, cash out, or face forced liquidation of their positions. In practice, exchanges gave relief, but the message was delivered in capital letters: **collateral can evaporate**. This chapter is about the machinery that holds the market together — margin requirements, collateral mechanics, the daily cash-flow reality of options trading, and how SEBI's rules have evolved to push traders toward hedged, defined-risk structures.

The Three Margins

Every option seller (and every futures holder) must maintain margin with the exchange. The margin requirement has three components: **SPAN margin** (Standard Portfolio Analysis of Risk) is the core requirement. It uses a risk array that simulates the maximum likely loss of the portfolio across 16 different market scenarios — up moves, down moves, volatility changes of various magnitudes. For a single short ATM Nifty option with 30 days to expiry and IV at 15%, the SPAN margin might be approximately ₹65,000. **Exposure margin** is an additional buffer imposed by the exchange, roughly 5–7% of the contract value for index F&O and higher for stocks. For the same short Nifty option (contract value ~₹13.5 lakh), exposure margin adds roughly ₹6,750–₹9,450. **Additional/extreme loss margin** applies on expiry day — an extra 2–3% of notional value added temporarily to protect against end-of-series volatility. The total initial margin for a naked short ATM Nifty option is roughly ₹75,000–₹90,000 depending on volatility and days to expiry. This is the cash (or equivalent collateral) that must be in the account before the trade can be placed.

The Three Settlement Mechanisms

Futures and options differ drastically in how the margin is consumed by losses:

- **Futures MTM losses must be paid in CASH daily.** If the loss exceeds the available cash balance, the broker will demand funds or liquidate the position. Collateral cannot absorb futures MTM losses.
- **Option seller losses (MTM on the option value) can sit against collateral until the position is closed or expires.** The broker calculates the “booked” loss only when the trader manually squares up. As long as the position is open, the unrealised loss reduces the available collateral limit but does not force a cash call — unless the available margin falls below the maintenance margin.
- **Option buyer:** premium is paid once, at entry. No further margins. This is the most capital- efficient way to express a directional view — and also the most probabilistically expensive, as Chapter 9 noted.

Collateral: What Counts and at What Cost

Not all wealth can be used as margin. The NSE maintains an approved list of collateral securities with assigned haircuts — the percentage by which the market value is discounted before being counted as margin.

Collateral Type	Typical Haircut	Notes
Cash	0%	Full face value
Bank FD	0–5%	Must be linked to the trading account
Nifty BeES (Equity ETF)	~5%	Lowest haircut among equity products
Liquid BeES (Debt ETF)	~10%	Paradox: risk-free debt has higher haircut than equity
Mutual Funds (demat)	10–20%	Depends on fund type; higher for mid/small-cap
Bharat Bond ETF	~5%	PSU debt ETF, low haircut
Government Securities	~0–3%	Institutional only
Nifty 50 stocks	10–50%	Depends on liquidity and volatility. HDFC/Bajaj ~10%; small-caps can be 40%+
Mid/Small cap stocks	40–100%	Some small-caps have zero collateral value

The paradox of collateral is that the safest products sometimes carry higher haircuts. Liquid BeES, a debt ETF holding government securities, gets a 10% haircut while Nifty BeES, an equity ETF, gets 5%. This is because the exchange treats the equity ETF as a diversified index product with high liquidity for forced-sale scenarios, while the debt ETF with a lower trading volume is deemed harder to exit quickly in a crisis.

The 50% Cash Component Rule

In September 2021, SEBI introduced a structural change that reshaped the retail option market: **every F&O position must maintain at least 50% of the total margin as cash** (or cash equivalents such as FDs, Liquid BeES, Bharat Bond, or

government securities). Shares, mutual funds, and other non-cash collateral can cover only the remaining 50%. For a trader whose entire portfolio was in demat shares, this was a shock. Suddenly, a ₹10-lakh collateral comprising entirely blue-chip stocks could cover at most ₹10 lakh of option-selling margin — half of what it could cover before. The trader needed another ₹10 lakh of actual cash or cash equivalents to deploy the same capital. The result, as later data showed, was a significant reduction in retail option-writing volumes. SEBI’s stated intent was straightforward: cash margin provides a real cash buffer against shocks, not a notional one. Collateral loaded with cyclical shares that drop 20% in a crash provides no buffer when the exchange simultaneously tightens haircuts.

SEBI Margin Rule Evolution (2020–2026)

SEBI’s margin regime has tightened progressively:

Date	Change	Impact
June 2020	New SPAN + Exposure framework; hedged positions get ~70% lower margin	Drove traders toward spreads; cross-margined straddles benefited
Sep 2021	Peak Margin (50% cash-equivalent mandatory)	Cut effective retail selling capacity by half
Mar 2022	50% cash component extended to all expiry-day positions	Eliminated last cash-exempt structures
Nov 2022	Extreme Loss Margin (ELM) ~2% added on expiry days	Additional debit on weekly expiry positions
May 2024	F&O lot sizes revised upwards (Nifty 25→75, Bank Nifty 15→25...)	Smaller-cap traders priced out of index F&O; average contract value ~₹12 lakh
Oct 2024	Weekly expiry cap: one expiry per exchange per week	Reduced zero-decay trading opportunities
Jul 2025 (proposed)	Additional Intraday Volatility Margin (AIVM) on stock options: ~3%	Further raised stock-option writing cost
Jan 2026	Maximum holding limit for far-month OTM options raised? Not yet final	Under consultation

The cumulative effect of these changes has been to squeeze the retail premium seller. A position that required ₹80,000 margin in 2020 might require ₹2 lakh in 2026 — and half of that must be cash. The trader who adapts is the one who learns **margin netting**.

Margin Netting: The Arithmetic

Consider a short Nifty put spread: sell 17,500 put, buy 17,000 put, same expiry, Nifty at 18,000.

Position	Naked Margin	Spread Margin
Sell 17,500 put	~₹80,000	—
Buy 17,000 put	Premium paid (no margin)	—
Combined (500 pt spread)	—	~₹12,000–₹15,000

The margin for the spread is approximately the width of the spread (500 points × lot size 75 = ₹37,500) plus the net premium. But because the short leg is hedged by the long leg — the maximum loss is defined by the spread width — the SPAN model recognises this and collapses the margin to roughly 30–40% of the width. The actual margin may be ₹12,000– ₹15,000, compared to ₹80,000 for the naked put. The principle: **every short leg should be justified by a corresponding long leg that defines the risk**. The exchange rewards you for doing this. For a short straddle (sell call + sell put at same strike), the cross-margining benefit is smaller but real. The two legs offset partially in the risk array: a rally that hurts the call helps the put, and vice versa. A short ATM straddle at Nifty 18,000 might have a combined margin of ~₹1.05 lakh — only ~₹15,000 more than the single leg’s margin — because broadly speaking, the exchange recognises that the two legs offset risk.

What Happens If You Do Not Close

An option seller who lets an ITM short option expire without having the required cash or shares faces **forced settlement**. For index options (European, cash-settled), the difference between the strike and the expiry VWAP is automatically debited — the loss is unavoidable. There is no negotiation about “closing at a better price” after the fact. For stock options (American, physically settled), the consequences are more serious. If you sold a put assigned during expiry evening, you must have the cash to buy the shares. If you do not, the broker arranges a close-out auction — selling the newly acquired shares at market price the next trading day, usually at a worse price, with the resulting difference (plus charges) debited from your account. Failure to maintain margin during the contract’s life prompts a **margin call**: the broker gives a fixed time (typically 24 hours) to deposit additional funds. If the deadline is missed, the broker has the right to liquidate positions — starting with the largest exposure. The liquidation price is at market, not at a negotiated level.

The Machinery in Practice

The margin system is not a punishment. It is the reason there has been no counterparty default in the Indian F&O market since the clearing corporation was established. Every margin change from SEBI, every haircut revision, every cash-component mandate has been designed not to make life difficult for traders but to keep the central counterparty solvent through events like the Franklin Templeton

collapse, the COVID crash, and the August 2024 yen-carry unwind. The trader who treats margin as a constraint to navigate, not a problem to ignore, builds a career. The trader who chases the cheapest-margin broker without understanding what changes in the event of a margin call does not.

Key Takeaways

- Margin = SPAN (risk-array exposure) + Exposure (buffer) + Extreme Loss (expiry-only) — total typically ₹75K–₹90K for a single naked ATM index option.
- Futures MTM losses must be paid in cash daily. Option-seller losses sit against collateral until squaring up.
- SEBI's 50% cash-equivalent rule (effective Nov 2021) means half of every F&O margin must be cash or cash-like — shares and MFs cannot cover the full amount.
- Hedged spreads reduce margin by up to 80% compared to naked positions. The exchange structurally rewards defined-risk structures.
- Collateral types have different haircuts: Nifty BeES (5%), Liquid BeES (10%), MFs (10–20%), individual stocks (10–100%). Know your broker's list before pledging.
- "Cash" is not optional. Collateral can be zeroed overnight (Franklin Templeton, April 2020) — maintain a real cash buffer.
- Failure to maintain margin triggers forced liquidation. There is no grace period after settlement.

PART IV

THE STRATEGY LIBRARY

The Seller's Edge — Short Straddles and Strangles

Disclaimer: Figures in this chapter are illustrative recollections from trading experience, not audited results. Nothing herein constitutes investment advice.

The Anatomy of a Short Straddle

A short straddle is simultaneously selling a call and a put at the same strike price, same expiry. The seller receives a net premium and profits if the underlying stays within a range bounded by the strike plus or minus that premium. In its purest form it is a bet on low volatility — but as any options trader learns, it is not a simple bet. The strategy works because option premiums embed market expectations. When those expectations are excessive — when the market prices more movement than actually materialises — the seller collects the gap. Over enough repetitions, this probabilistic edge forms the backbone of a systematic option-selling approach. The mechanics are straightforward. If Nifty trades at 10,000 and the 10,000 straddle is priced at 200, the seller keeps the full 200 if Nifty closes exactly at 10,000 on expiry. The upper breakeven is 10,200; the lower is 9,800. Beyond those points, losses mount at one point per point of movement on either side. In index terms that is a relatively narrow band — roughly 2% — and the strategy pays the seller only when the actual move is smaller than what the market priced.

When Short Straddles Win

The environment matters enormously. In April 2020, with India VIX above 80 and Nifty recovering from its COVID crash, a short straddle at 8,000 on the June 2020 series collected more than 1,600 points of premium — roughly 20% of the index value. A trader who sold that straddle would have earned returns of roughly 70% on capital in a matter of weeks as the VIX collapsed from 85 to near 40. That month produced an extraordinary ₹66 lakh profit on roughly ₹95 lakh capital deployed. Dhanraj recounts this as a windfall — one that required the conviction to sell when fear was highest, and the discipline to close the positions when the Fib retracement target hit. The real edge in a short straddle is not the premium itself but the volatility regime. When VIX

is elevated, the market is pricing more movement than usual. If you believe the fear is overdone — that the actual movement will be smaller than the VIX suggests — you sell. The VIX collapse from its peak to normal levels compounds the premium decay in your favour.

When Short Straddles Lose

The failure mode is equally instructive. In June 2020, an unhedged short straddle was sold on HDFC Bank at the 1,000 strike (June series). The call was sold at ₹49, the put at ₹39 — a combined ₹87 per share for two lots (1,000 shares total). HDFC Bank was volatile throughout the month, swinging in a wide range, yet the combined straddle premium never closed above the entry price despite the stock closing above 1,035 on June 25. The trade survived and delivered roughly ₹50,000 of profit — but only because the premium stayed contained. In its lessons lies a warning: an unhedged short straddle holding through a 3–4% stock rally with intraday swings of 800–1,000 Bank Nifty points survived purely because of luck in option- premium behaviour. The next such trade might not.

The Deep-ITM Straddle with a Protective Put

A more robust design uses a far-month put as disaster insurance while selling a deep-ITM straddle in the near month. The logic: the deep-ITM straddle collects large premium because it has high intrinsic value; the far-month protective put costs comparable money but caps the crash loss. When the trade is entered on net credit — the near-month premium exceeds the far-month protection — the seller has a free hedge. In August 2021, this structure was sold on Nifty. The September 17,000 straddle was priced at roughly ₹689 combined. The December 17,000 put cost ₹678. Net credit: ₹11 per share — roughly ₹550 per lot on margin of about ₹1 lakh. Over one month, the combined premium of near-month legs decayed from ₹1,174 to ₹572 while the far put lost only ₹90. The net result was roughly ₹72 per share — about 3.6% on margin in a month, or roughly 43% annualised. The adjustment workflow matters more than the entry. Dhanraj notes: “If you are walking home it takes ten minutes; if a dog chases you, three minutes — adjustments are where the profit resides.” The structure enters on a mild directional view and survives on active repositioning of the short legs as the market moves.

Strangle Variants and VIX-Based Placement

A short strangle — selling an out-of-the-money call above spot and an out-of-the-money put below — widens the breakeven band at the cost of lower premium. During the COVID crash of April 2020, VIX at 60 implied a one-month expected move of roughly 17% ($VIX \div \sqrt{12}$). A seller placing short strikes beyond that band — puts

below 6,500 and calls above 9,500 when spot was around 8,000 — had a statistical cushion against being overrun. That band narrowed as VIX fell; the rule demands daily recomputation. The limitation: a strangle's premium is smaller than a straddle's for the same expiry, and the wider band offers no guarantee against a violent move. In March 2020, strangle sellers who deployed all their margin discovered that the violent rally forced them to buy back losing short puts at inflated premiums and re-sell closer strikes under duress — the classic “roll under stress” trap.

Selling into High Volatility

The highest-probability short-straddle entry is when VIX is elevated and the market is directionally uncertain — after a crash, before a known event, or during a consolidation phase within a wide range. A month can be violently volatile intraday yet flat close-to-close. In May 2020, Nifty had three weekly expiries across four weeks, all closing within the 9,100–9,200 zone despite daily swings of 200–300 points. A short straddle sold at 9,150 collected premium against a band that, in close-to-close terms, never moved. The discipline: sell a distance. The most dangerous short straddle is the one sold at the money the day before expiry — the six-fold loss on a cheap expiry-day call sale in June 2020, detailed in Chapter 18, is the canonical warning. The degenerate risk of low-premium, short-dated options is that a sudden vol spike multiplies the loss before theta can save you.

Key Takeaways

- A short straddle profits from the gap between priced volatility and realised volatility, not from being “right about direction.”
- The best entries are high-VIX regimes with directional consolidation; the worst are last-minute expiry sales of cheap options.
- The deep-ITM straddle with far-month protective put converts a naked short into a net-credit, capped-risk structure.
- Adjustments — rolling the losing short leg closer, re-striking after a trend shift — create more edge than the original entry.
- Never deploy full margin in a strangle; spare cash is the buffer that lets you reposition without buying back the worst leg at the worst price.

Controlled Direction — Spreads and Ratio Spreads

A directional view can be expressed through outright options, futures, or stock. But the trader who wants to define risk, reduce cost, and still capture a trend has a better tool: the spread. A spread pairs a bought option with a sold option at a different strike, same expiry. The bought leg defines the maximum loss; the sold leg finances it. The result is a position with known boundaries — and one that often costs only the friction of execution.

The Vertical Spread: Bull Call, Bear Put

The simplest directional spread is a vertical. To bet on an upward move, buy an at-the-money call and sell a higher-strike call — a bull call spread. The bought call captures the upside; the sold call limits it. The cost is the premium difference, and the maximum profit is the strike width minus that cost. To bet downward, buy an at-the-money put and sell a lower-strike put — a bear put spread. A worked example from earnings season: before Infosys results, a trader expecting a modest move built an iron fly — a short straddle at the 650 strike with protective wings at 720 (call) and 580 (put), financed by selling double quantity of farther strikes at 750 and 550. The structure cost nothing from pocket: the far wings paid for the near wings. Maximum profit was roughly ₹3.58 lakh (about 15% on margin) if Infosys closed at 650 on expiry, with protection at 710 to the upside and 590 to the downside. This is the iron fly's advantage: it converts a naked straddle into a defined-risk position without sacrificing the premium sell. The trade is entered the day before results and exited once the event resolves. Holding further requires a stop-loss; the earnings gap on either side of the wings still carries unlimited tail risk through the financing legs.

The Ratio Spread: Trading Premium for Width

A vertical spread uses equal quantities on both legs. A ratio spread uses unequal quantities. The most common form is the 1:2 call ratio — buying one lower-strike call and selling two higher-strike calls. If the underlying rises to the average strike, the profit is maximised; if it rises above the sold strikes, losses accelerate. Before the

June 2020 Nifty rally reached resistance near the 200-day moving average and the 50% retracement of the COVID crash, a trader built a 1:3:2 call ratio on the August 2020 series. The structure: buy 1× 10,500 call at ₹360, sell 3× 11,000 call at roughly ₹145, and buy 2× 11,500 call at roughly ₹48. Net credit: roughly ₹1,900 per lot. Margin was about ₹65,000 effective, with max profit of roughly ₹37,000 at Nifty 11,000. Upper breakeven was 11,253; above 11,500 the defined max loss of roughly ₹37,000 kicked in. The position monetised a specific view: the rally had run hard into overhead resistance, and while it might reach 11,000, it would probably not break 11,500. The ratio structure paid the seller on that view, and if wrong, the extra 11,500 calls capped the loss. The same cannot be said of a naked short call at 11,000 — which would have unlimited risk above that level and margin that would climb with the market.

Financing a Bullish View

What if you are bullish but do not want to pay premium? A zero-cost or near-zero-cost ratio can be constructed by selling twice the quantity at a higher strike than the one you buy. If the stock stays below the sold strike, you keep the full credit. If it rises into the zone between the two strikes, the bought leg gains while the sold leg decays — a double effect that produces the best risk-reward ratio. For the ICICI Bank earnings before results in May 2020, a trader bought 1 lot of the 350 call at roughly ₹2,440 and sold 2 lots of the 380 call at roughly ₹1,190 each. The net cost was roughly ₹40–50 paise per share — practically free. The maximum loss was capped at roughly ₹825 per share, and the maximum profit zone covered the range from 350 to 380. The stock's one-month high was 392 and resistance sat at 390–400. The position was a bet that the stock would not break above 380 on results. If it gapped above 410, the risk turned unlimited on the doubled short leg. That is the critical trade-off in every ratio: what happens if the view is wrong in the tail? A 1:2 call ratio above its upper breakeven carries twice the short exposure. If the underlying doubles in a quarter — which stocks occasionally do — a ratio sold at modest strikes generates losses that grow faster than the hedge can absorb. In practice, a ratio must be adjusted or closed before the tail risk materialises. Dhanraj's own ICICI ratio was adjusted within hours of a results miss — the full firefighting sequence is in Chapter 18. The adjustment transformed a broken thesis into a small win.

The Margin Advantage

Because a spread pairs a bought and a sold leg, margin is drastically lower than a naked short. For a 200-point spread — sell 10,000 call, buy 10,200 call — the margin under the June 2020 SEBI peak-margin framework was roughly ₹25,000–32,000 compared to ₹80,000–90,000 for the naked call. The protection is 200 points away on the tail, which removes the residual risk and earns the maximum margin benefit: roughly

70% reduction. This structural incentive — a margin system that rewards hedging — is why Dhanraj advocates selling only through spreads: “Options trading is not about which strike you sell — it is about risk management, margin management and position sizing.”

The Ratio Balanced

A ratio spread balances three constraints: the directional view, the premium structure, and the margin envelope. When all three line up, the trade offers a return on margin that would take weeks to earn from a vertical spread. But the ratio lures traders into over-sizing: four lots of a 200-point spread re-create the same 800-point exposure as one naked short, with less margin consumed. The protection illusion is the ratio’s hidden risk.

Key Takeaways

- Vertical spreads (bull call, bear put) define risk and reduce cost but cap profit; best for binary directional views near resistance or support.
- Ratio spreads (1:2, 1:3) monetise a “not above X” view with net credit or near-zero cost, but carry accelerating tail loss if wrong.
- The iron fly turns a short straddle into a defined-risk structure by adding wings financed with farther strikes.
- A broken ratio can be rescued by selling a further OTM leg to convert the debit to credit — the firefighting adjustment matters more than the entry.
- Margin relief from spreads should not seduce into position-size inflation: four spreads of 200-point width still risk 800 points of market movement.
- Enter ratio spreads only with a concrete upper bound you can monitor; set an invalidation level and exit when it trades through.

Time Is the Trade — Calendar Spreads

A vertical spread profits from direction. A ratio spread profits from a capped range. But a calendar spread profits from something else entirely: the passage of time itself. The calendar spread — sometimes called a time spread or horizontal spread — sells a short-dated option and buys a longer-dated option at the same strike. The seller profits from time decay working faster on the short leg than on the long leg. It is the most subtle of the option-selling structures, and the one that least depends on direction.

The Mechanics of Theta

Option time value decays nonlinearly. Near expiry, the decay accelerates sharply — the last week of an option's life typically destroys more premium than the preceding three weeks combined. By selling the near-month leg and buying the far-month leg at the same strike, a calendar spread captures this acceleration. The short leg decays faster than the long leg. As long as the underlying stays near the strike, the spread widens and the position profits. If the underlying moves sharply, both legs can lose value — but the short leg loses more because it has less time left. At expiry, if the underlying sits exactly at the strike, the short leg expires worthless (full premium profit) while the long leg retains its remaining time value. That is the ideal outcome.

ITM Put Calendar in Low VIX

The most instructive example comes from July 2021, when India VIX fell to 11.70 — a multi-year low. Dhanraj had been warning that low VIX was the most dangerous regime for option sellers: in the 2013 taper tantrum, a flat Nifty close combined with a sudden VIX spike had destroyed roughly a crore of premium in a single day from short strangles. The solution: an ITM put calendar. Instead of selling a naked put, sell the current-month 16,000 put option and buy the same strike, far-month (December) put. With spot around 16,500, the 16,000 put is in-the-money. The near-month leg decays at premium that is rich with intrinsic-plus-time, while the far-month leg holds its value. In the back-office records, the July 16,000 put fell from ₹350 to ₹150 (a gain of ₹200 per share), while the December 16,000 put fell only from ₹580 to ₹490 (a loss of ₹90). Net: roughly ₹110 per share, or ₹5,000 per lot — roughly 10% return on ₹50,000 margin in three weeks. The skeleton: sell 1,250 shares' quantity of the short leg, buy

750 of the long leg. The ratio was intentionally partial — Dhanraj kept a net short on the trade. This is not a perfect hedge; it is a directionally biased position where the far-month leg acts as a brake on a crash, not a full offset. “In low VIX,” he explained, “always pair buys with sells so a volatility spike cushions both sides. But you do not have to hedge fully — you hedge enough to survive.”

Calendar Spread Margin Advantage

Under the June 2020 SEBI margin framework, an ITM put calendar on Nifty cost less than ₹30,000 in margin — roughly one-third of the naked short equivalent and half of a vertical spread. The margin system treats the calendar as a hedged position because the far-month long leg covers the short leg’s tail risk — not in the same expiry, but in the same strike. The span margin calculation recognises the offset, even across expiries. This margin efficiency makes calendars attractive for large capital deployment. Where a naked short straddle on a 9,500 strike would consume ₹1.0–1.3 lakh of margin in the June 2020 framework, an ITM put calendar on the same strike consumed less than ₹30,000. The trader who sells a calendar does not get the same premium income as a straddle seller — but uses one-third the margin to do it.

Reverse Calendar for Event Trades

A calendar can be reversed: buy the near-month leg and sell the far-month leg. This is typically used ahead of binary events — budgets, elections, earnings — when the near month has elevated implied volatility that will crash once the event passes. The trader buys the expensive near-month leg (capturing the IV crush if the event resolves quietly) and sells the cheaper far-month leg (which has less event premium built in). The near-month leg is expected to gain from the volatility collapse while the far-month leg loses some premium but at a slower rate. For the Union Budget of February 2025, the India VIX had spiked from roughly 9.2 to above 15 — a 65% rally — with the budget three weeks away. Short-dated at-the-money straddles were priced at roughly 900 points, while the same strike one month further out traded nearer 500. A reverse calendar — buy the near-month straddle, sell the far-month straddle — captures the IV contraction after the budget at the cost of paying for the near time decay. If the budget delivers a moderate move (200–300 points, which was a typical post-budget range), the near-month straddle loses both IV and time value while the far-month straddle’s poison is still weeks away. The net result can be a loss. Dhanraj’s warning: “The premium is built for the budget. After the budget, the IV will collapse. But if the market doesn’t make the big move, the long straddle buyer loses both ways.” A better event structure is the calendar with a defined risk: buy the near-month out-of-the-money option on the side you expect and sell a farther OTM option in the far month. This keeps the event tail without paying for both wings.

Key Takeaways

- A calendar spread profits from time-decay differential: the short leg (near-month) decays faster than the long leg (far-month) at the same strike.
- Best regime for standard calendars: low VIX with the underlying consolidating near the chosen strike; ITM put calendars are ideal for mild bearish drift.
- Margin is dramatically lower than naked shorts because the system treats it as hedged — roughly one-third of a vertical spread's margin.
- Reverse calendars (buy near, sell far) work only when IV is event-priced and you expect a clean resolution; most budget/earnings calendar sellers lose because the near-month theta eats the IV gain.
- Partial hedging is acceptable: a calendar does not need 1:1 leg ratios; the far-month leg is a brake, not an airbag.
- Calendars are illiquid in far-month strikes for individual stocks — run them on indices only.

Butterflies and Condors

The butterfly takes the ratio spread and adds a defined-risk tail. Where a 1:2 call ratio has limited loss on the downside but accelerates into unlimited loss on the upside past the second sold strike, a butterfly buys a farther strike to cap that tail. The result is a position with defined profit and defined loss — narrow profit zone, but a known maximum cost.

The Standard Call Butterfly

A call butterfly is constructed with three strikes: buy one lower-strike call, sell two middle-strike calls, buy one higher-strike call. All legs are the same expiry. The quantity pattern is 1-2-1, but it can be extended to 1-2-2-2-1 or other symmetrical patterns. If Nifty trades at 25,000 and you expect consolidation, you might buy one 24,800 call, sell two 25,000 calls, and buy one 25,200 call. The net debit is the cost of the outer wings minus the premium from the sold calls. If Nifty closes at 25,000 — exactly the middle strike — the sold calls expire worthless and the bought calls are worth their intrinsic value: the 24,800 call is worth 200, the 25,200 call is worth zero. The profit is the 200-point gain on the 24,800 call minus the net cost of the spread. If Nifty closes at 24,800, all calls expire worthless and the trader loses the full net debit. The same loss occurs if Nifty closes at 25,200. Beyond 25,200, the 1:2:1 symmetry caps the loss at the net debit — the extra 25,200 call offsets the now-ITM sold calls. The butterfly's profit zone is narrow — roughly the distance between the middle two strikes, less the cost — but the loss is defined and the premium outlay is small. It is the strategy for a trader who knows when the market will not move.

The Condor

A condor extends the profit zone by using four strikes: buy one lowest, sell one lower-middle, sell one upper-middle, buy one highest. The quantity pattern is 1:1:1:1. The profit zone is wider than a butterfly's because the distance between the sold strikes — two separate wings — gives two flat sections instead of a single narrow peak. For Nifty at 25,000, a condor might buy the 24,800 call, sell the 24,900 call, sell the 25,100 call, and buy the 25,200 call. The net cost is even smaller than the butterfly because the sold wings are closer together, but the maximum profit is also lower.

The trade-off: the condor profits across a 200-point band versus the butterfly's 100-point peak.

The Iron Butterfly

An iron butterfly replaces the long calls in a regular butterfly with long puts on the other side. The construction: sell an at-the-money straddle (the body), and buy a protective put below and a protective call above (the wings). The Infosys structure from Chapter 14 is the iron butterfly's worked example — sell the 650 straddle, buy the 720 call and the 580 put, and finance the wings by selling double quantity of 750 calls and 550 puts — with the defined- risk payoff detailed there. The iron butterfly is the cleanest structure for entry before a binary event because it pays the seller on no movement, even though IV is high. Dhanraj used it because “this is the second strategy — a limited risk strategy.” The financing legs — the double- quantity far OTM options — make it net-credit, meaning the trader collects premium at entry rather than paying.

The Double Butterfly

When the direction is truly unknown and the range is wide, a double butterfly — selling both a call butterfly at one strike and a put butterfly at a lower strike — can be used. The two butterflies share the same expiry. If the underlying settles between the two body strikes, both butterflies pay. If it breaks out violently in one direction, one butterfly reaches its maximum loss while the other butterflies gain. The risk is bounded because each butterfly is defined. Dhanraj applied this logic to a Bitcoin strategy in December 2025. The cryptocurrency had traded roughly between \$80,000 and \$92,000 after a rally, and the upper end of the range suggested a call butterfly: buy a 100,000 call, sell two each of the 105,000, 110,000 and 115,000 calls, and buy five 126,000 calls. The butterfly-style construction equalised buys and sells such that risk stayed limited. The margin was roughly \$360–373 per lot — small enough to treat Bitcoin options as satellite pocket-money exposure, not the core portfolio. The Bitcoin butterfly illustrates the principle across any market: “Upper end of a range — use a call butterfly; lower end — use a put butterfly; neutral — double butterfly. Equalize the buys and sells so that risk stays limited.”

Key Takeaways

- A call butterfly (1-2-1) profits on narrow consolidation; maximum profit at the middle strike, loss capped to the net debit.
- A condor (1-1-1-1) widens the profit zone at the cost of lower maximum profit — best for wide, bounded ranges.

- An iron butterfly pairs a short straddle with protective wings, often entered for a net credit — the cleanest pre-event structure.
- A double butterfly covers both sides of a range; defined loss on each wing.
- Butterflies in crypto assets use the same construction logic and offer high IV premium with small capital outlay.
- The trade-off: narrow profit zone means precision in strike selection matters more than for any other structure. A butterfly one strike off can turn a winning view into a losing trade.

Portfolio Protection — Hedges That Actually Work

“If you want to be successful in the stock market,” Dhanraj says, “you need to have a hedge.” The statement is not a platitude. As the margin math in Chapters 14 and 15 showed, the June 2020 SEBI framework itself rewards hedging — a hedged position commanded a fraction of a naked short’s margin. The question is not whether to hedge, but how.

What a Hedge Is Not

The most common hedge in retail trading — buying a far out-of-the-money put alongside the position — is often not a hedge at all. A put bought at a strike 2,000 points below spot on an index that moves 500 points in a year will lose value every day to theta and die worthless. Dhanraj’s test: if the hedge leg loses money when the main position wins, it is an insurance premium, not a waste; but if it loses money even when the main position loses, it was never a hedge. A real hedge has three properties: (1) it gains when the main position loses; (2) the gain correlates with the loss magnitude; (3) the cost is bounded and known at entry.

The BeES + Protective Put

The simplest portfolio-level hedge is the one built for an investor, not a trader. Buy Nifty BeES (an exchange-traded fund tracking the Nifty 50) in a quantity equivalent to one Nifty futures lot — 75 units of BeES, since one lot size is 75, and each BeES unit is roughly 1/100 of one Nifty share. In August 2024, with Nifty around 24,600, that would cost roughly ₹20 lakh. Now buy a long-dated 24,000 put option, roughly 18 months away, priced at about ₹950. To avoid paying that premium from pocket, sell a far OTM call at 28,000, which also trades around ₹950. The net cash outlay: zero from pocket. The structure: you own the index, you are protected below 24,000 by the put, and you have sold a call far above the current level that pays for the protection. If Nifty falls 10%, the BeES lose roughly ₹2 lakh, but the put option gains roughly the same amount — the portfolio is flat. If Nifty rallies 10%, the BeES gain ₹2 lakh, the put loses its premium (the insurance cost), but the short call caps the upside only

above 28,000 — a 15% rally from entry. Dhanraj's numbers for this structure: "Nifty history shows a drawdown greater than 50% only once — Lehman 2008. COVID 2020 was -40%, 2004 was -30%. Recovery within one to two years was 100% or more." The worst-case loss on this structure is roughly 1.5% of total portfolio capital, paid as the insurance premium.

Cash-Secured Put as Entry Strategy

A hedge can also be the position itself. Selling a cash-secured put — selling a put at a strike where you are happy to own the stock, keeping full cash ready for delivery — combines a buy order with an income stream. In April 2020, Bajaj Finance put options at the 1,800 strike sold for ₹100 each, and two lots collected ₹50,000. The trader who sold them was willing to own Bajaj Finance at an effective price of ₹1,700 — the strike minus the premium collected. If the stock never fell to 1,800, the premium was pure income. "If you are prepared to take delivery and the price does not fall below the strike," Dhanraj explains, "every month you can be making money." The catch: the cash must sit uninvested, available for delivery. The return is the premium divided by the strike value. In early 2020, that was often 3–5% per month, annualising to 36–60% — but only if you actually wanted the stock at that price.

Hedging a Long Position with Short Calls

An equity investor holding shares can sell out-of-the-money calls against the holding each month. The premium collected is income. If the stock rallies through the strike, the shares are called away at the strike price — which, if the call was sold OTM, is above the current price — and the investor exits at a target, having collected premium along the way. Dhanraj demonstrated this on a Reliance long position in June 2020 — he bought the futures at roughly ₹1,422, sold a 1,460 call, then converted to a straddle and adjusted through several iterations — and the position went from a ₹35,000–40,000 unhedged directional profit to ₹1,59,186 after management, a sequence detailed in Chapter 18. "If you keep looking at the investment every day," he says of the approach, "the investment will not grow. Hedging skill converts a small directional profit into something much larger — the edge is in management, not prediction."

The Futures-Plus-Collateral Carry Trade

For large capital deployed longer term, Dhanraj teaches a hybrid structure: buy index futures; separately park the cash-equivalent in debt instruments (Bharat Bond, Liquid BeES, or bank FD); pledge the debt as collateral for the futures margin. The interest earned on the debt exceeds the cost-of-carry premium paid on the futures roll. The net result: a bullish position that earns a carry surplus of roughly ₹10,000–20,000 per year on a ₹7.5 lakh notional, plus the hedge benefit from selling a call each month.

In the June 2020 example, Reliance futures carried roughly ₹5 per share per month in premium (about ₹30,000 per year on a full lot), while the same amount invested in Bharat Bond earned about ₹50,000 at 7–7.5% — a net carry savings. Additionally, hedging a short call against the futures required only incremental margin of roughly ₹50,000 versus ₹1.75 lakh for a cash-market holder. “The mistake is not with the matchstick — the mistake is with you,” Dhanraj says about leverage. “Leverage is not gambling. Misuse is.”

The Margin-Collateral Paradox

India’s collateral system operates on a paradox. Liquid BeES — a debt instrument holding government securities, as close to cash as a marketable instrument gets — has a haircut of roughly 10% when pledged for margin. Nifty BeES — an equity ETF, the riskier asset — has a haircut of roughly 5%. The regulator assigns higher risk to the safer product because its price is pinned near ₹1,000, making it less liquid in a crisis — an institutional memory of the Franklin Templeton debt-fund freeze. The trader who pledges collateral must know the haircut table for each security, because the margin needed for a trade depends heavily on what is in the pledge portfolio. Cross-margining — the ability to offset long and short positions from the same exchange — makes a short straddle cost little more than its single costlier leg. Under the new SEBI framework, a short straddle at Nifty 9,500 in July 2020 consumed roughly ₹1.05 lakh of margin, roughly the same as the 9,500 call leg alone. The put leg was largely free, because the exchange recognised that one leg must win and the other lose. That is portfolio margin logic — and India had just arrived there.

Key Takeaways

- A hedge that does not pay when the main position loses is not a hedge — test every hedge against the scenario that scares you.
- The BeES + protective put + short call collar gives defined-drawdown portfolio protection for zero net premium cost.
- Cash-secured puts are buy orders that pay you to wait; use them at prices you are genuinely willing to own.
- Covered calls monetise drift; the call must be sold OTM at a level you are happy to sell the holding.
- Futures-plus-collateral carry structure produces a net carry surplus when debt rates exceed futures premium — effectively free leverage.
- Margin netting and cross-margining reduce hedge costs dramatically; portfolio margin logic means a hedged position can cost less than the sum of its legs.

Firefighting — Adjustments and Rescue

Every option trader has had a position turn against them within hours of entry. The difference between a trader who survives and one who blows up is not the entry — it is what happens next. Dhanraj calls this firefighting: the moment-by-moment adjustment workflow that keeps a losing position from becoming a catastrophic one, and occasionally turns it into a winner. “The edge is not in the entry,” he said after reviewing a series of adjustments on a Reliance position. “The edge is in the adjustment workflow. Most of the profit arrived during firefighting.”

The Slow Poison and the Quick Poison

The first rule of firefighting is knowing when not to fight. “Stop-loss is non-negotiable,” Dhanraj says. “If you put a stop loss, it is like slow poison. If you do not put a stop loss, it is like quick poison.” The analogy works: a stop-loss hurts slowly — small, constant losses that erode capital — but it keeps you alive to trade tomorrow. No stop-loss is quick poison: one blowup erases years of profit in hours. There are two questions to ask before adjusting rather than closing: do you have additional capital? Do you have additional skill? If the answer to either is no, the adjustment is a gamble, not a rescue.

The ICICI Bank Firefighting Example

The most instructive example comes from the ICICI Bank call ratio in May 2020. The structure: long 350 call, short 2× 380 call — a 1:2 call ratio entered before earnings, expecting the stock to stay below 380. The thesis broke within hours: results disappointed, the stock sold off. The unadjusted ratio was headed for its maximum loss of roughly ₹3,000 per lot. Dhanraj’s adjustment: sell a further OTM call at the 400 strike, collecting ₹3.65. The new position had three short legs (two at 380, one at 400) against one long at 350 — a net credit. The stock’s continued fall meant the 400 call lost value faster than the 380 calls gained. The position went from a planned ₹3,000 loss to a net ₹2,000 profit per lot. The mechanics: the adjustment converted a debit structure (buying premium at 350, selling at 380 for net debit) into a credit structure (selling three calls against one bought call). The new 400 call was far enough from the stock

price that even if the stock recovered, it would take a 5% rally to threaten it. And the trader was now getting paid to wait.

The Strangle Roll in a Violent Rally

Firefighting is not limited to earnings trades. In April 2020, the market had rallied roughly 10% from its lows in a matter of days. Short strangle sellers who had written puts far below spot and calls far above found the rally compressing their put premiums — but the calls, many sold near 9,000, were now at risk. The correct adjustment: buy back the distressed put leg (releasing margin that had been locked against the sold put), and simultaneously sell a new put closer to the current spot. The roll captured the premium from the new, higher-strike put and released margin that could absorb the call-side loss. “Always remember,” Dhanraj says. “When markets move violently, do not expect option premiums to behave in the normal course. Sellers on the losing side are forced to square up, and that creates premium distortion.”

The Error Trade That Required Thirty Corrections

On the Reliance futures position during the June 2020 rally from 1,460 to 1,784, Dhanraj executed an error: instead of selling a put as intended, he sold a call. The error forced a doubling of the corrective legs — he had to sell the correct put, then the original (wrong) call had to be managed alongside it. Over the series, the position went through roughly thirty separate trades — rolling calls up the ladder, straddle conversion, adjusting each leg as the stock moved. The finished profit from the combined position was ₹1,59,186 versus roughly ₹35,000–40,000 the unhedged future would have delivered. The lesson from the error: verify every leg at entry. One mis-keyed quantity or strike doubles the margin strain and multiplies the adjustment work. The structural lesson: a hedged futures position, adjusted through ladders and straddle conversions, can outperform the directional equivalent because the options overlay monetises volatility that the underlying does not.

When to Quit

Firefighting has a limit. Dhanraj’s June 2020 monthly review showed a month that lost ₹1.2 lakh on a ₹95 lakh capital base — the first losing month of the year. Two trades caused the loss: an SBI options structure and an expiry-day sale of deeply OTM 10,000 calls at ₹4 that were stopped out at ₹23, losing ₹2.82 lakh. “Publish losses as loudly as wins,” he said. “Those two trades turned a winning month into a small loss.” The expiry-day call sale illustrates a specific failure mode. Selling a ₹4 call on the day of expiry: the premium is trivial, the probability of profit is high, and the market normally grinds the position into zero within hours. But one order flow spike — a buyer who needs to cover a short, a dealer executing a large position, a fat-finger event

— can drive the premium from ₹4 to ₹23 in minutes, a six-fold loss. The position has no time left to recover. Theta cannot save you when the expiration is hours away. Selling cheap tail options on expiry day is not leverage — it is gambling. The firefighting protocol for such a position: do not enter it at all.

The Put Ladder

A less dramatic but equally important adjustment is the strike ladder — spreading risk across multiple strikes and expiries so no single tail event destroys the portfolio. In April 2020, Dhanraj sold puts at seven different strikes (6,500 through 8,500) across three expiries (weekly, May, June). The strike diversification meant that no single level — even a crash back to 7,000 — would wipe out more than a fraction of the total margin deployed. And the expiry diversification gave the position more time to recover if the market fell: the weekly puts expired first, freeing margin for the May and June strikes. As Chapter 17 showed, success needs both edge and hedge — one without the other fails.

Key Takeaways

- The first decision in every losing position is whether you have the capital and the skill to adjust. If the answer to either is no, take the stop-loss.
- A debit-to-credit conversion — selling a further OTM option to flip a net debit into a net credit — turns a losing ratio spread into a winning one without adding directional risk.
- Rolling a distressed short leg closer to spot (after buying back the original leg) captures fresh premium and releases margin — but only works if the margin is not fully deployed.
- Expiry-day sales of deep OTM options, even at tiny premiums, carry degenerate tail risk: one spike can multiply the loss before theta can save you.
- Spread risk across strikes and expiries; a ladder absorbs a level break as a single-strike loss, not a portfolio blowup.
- Publish losses as loudly as wins — the trader who does not review losses will repeat the same firefighting failure.

PART V

TRADING THE EVENTS

The Event Playbook

Note: Figures in this chapter are illustrative recollections from trading experience and are not independently audited. Nothing herein constitutes investment advice. Every trader learns the same painful lesson sooner or later: a market that cruises comfortably for weeks can turn into a maelstrom in minutes when a scheduled event fires. As Chapter 20 describes, the 2024 election counting day and the 2023 state-election results produced violent moves in opposite directions for the same instrument — the Nifty 50. Events are the market’s heartbeat. They are also where most traders bleed out.

The Known Calendar

A large part of event trading is simply knowing what is coming. The Indian market’s annual event calendar is remarkably predictable:

Category	Examples	Frequency	Typical Impact
Budget	Union budget (Feb)	1 per year	1–5% index swing
Elections	Lok Sabha (5-year), state (rolling)	1–6 per year	2–17% swing
Global macro	Fed rate decisions, US CPI, ECB	Monthly	0.5–2% overnight
Domestic macro	RBI policy, IIP, CPI	Monthly/Quarterly	0.5–3%
Corporate earnings	TCS, Infosys, HDFC Bank, Reliance	Quarterly	Stock-specific: 3–15%
Expiry cluster	Monthly/weekly F&O expiry	Every Thursday/Friday	Intraday 0.5–2%

The Fed meeting and the Union Budget are the two events that consistently move markets before the announcement — because traders position on expectation. The actual announcement often moves less than the anticipation. “Markets worry about the lead indicator, not the lag indicator,” as one experienced trader put it.

Implied Volatility: The Event Premium

Before any binary event, implied volatility (IV) rises. Option premiums inflate — sometimes to absurd levels — because demand for protection and speculation both

increase ahead of uncertainty. Consider a budget-week short straddle on the Nifty. On a normal week with India VIX at 14, the at-the-money straddle might trade around 350–400 points. The same straddle the day before the budget, with VIX at 25, trades for 700–900 points. That liquidity premium is the market pricing uncertainty. After the event — regardless of direction — IV collapses. Premiums deflate by 30–50 per cent within 24 hours. This has a direct consequence for position sizing: an event straddle sold at IV 25 yields double the premium of a normal- week straddle, but carries the risk of a move that would normally be a two-sigma event. The reward is real; the risk is realer.

The Pre-Event Checklist

Experienced traders follow a short, ruthless checklist before every binary event:

- **1. Do not carry overnight size.** An event gap of 300–500 points in the Nifty can destroy a position that looked comfortable at the previous close. If the thesis depends on the event going your way, reduce before the announcement.
- **2. Define the loss before the event.** The best structures for event trades are defined-risk: event straddles (buying both sides), ratio spreads, or iron condors where the maximum loss is known and the margin call cannot exceed a calculable number.
- **3. Exit after the event.** The IV crush that follows any resolved event is merciless to premium sellers who carry positions into the next session. Take the event profit or loss; do not convert the trade into a directional hold.
- **4. Respect the gap.** Gap-up and gap-down days are the most dangerous for option sellers. When the market opens 200 points away from your strike, the premium adjusts instantly to the new spot, and the margin required may double before you can react.

Event Structures That Work

A classic event neutral strategy is the **event straddle** — buying both a call and a put at the same strike before the event, expecting the move to exceed the premium paid. As the yen-carry unwind of August 2024 (covered in Chapter 21) demonstrated, a Nifty event straddle bought before the Nikkei's crash would have profited from the gap-down and volatility surge. In most cases, however, event straddles lose money because the premium paid is already high, and the realised move turns out smaller than the implied move. The buyer pays for uncertainty, and uncertainty is always expensive. A more reliable approach is the **defined-risk premium sale** — selling a credit spread or an iron condor far enough from current levels (typically 2–3 strike widths beyond the expected move range) that the probability of being touched is low, collecting the event-inflated premium, and closing before the event resolves. The

IV collapse after the event pays the spread even if the market does not move at all. Consider a practical example: before the June 2024 general election results, a trader sold the 23,500–24,000 put spread on the Nifty (buy 23,500 PE, sell 24,000 PE) collecting ~120 points in premium. The India VIX was above 30, elevating all premiums. The maximum loss was 500 points minus the 120 collected — 380 points — and the day after the election crash, IV collapsed from 30+ to below 18. The put spread was safe because the Nifty closed near 22,500, well below the 23,500 lower strike, but because the crash was a single shock without follow-through, the put premium decayed faster than the index could fall further. The spread was closed the next week at near-maximum profit. The trade worked not because the direction was predicted, but because the defined-risk structure and the IV crush combined to make time and volatility the trader's allies. For directional conviction traders, the **ratio spread** is the precision tool. Ahead of earnings, a call ratio (buying 1 near-the-money call and selling 2 further OTM calls) can be structured for near-zero cost. In July 2020, one such trade on ICICI Bank involved buying the 350 CE at roughly ₹2,440 and selling 2 lots of the 380 CE at roughly ₹1,190 each — a near-zero debit. The thesis was that the stock, trading near its one-month high of 392, would struggle to breach the 390–400 resistance. The maximum loss was capped at roughly ₹825 per lot, and the risk only became open-ended above 410. If the stock had gapped through 410, the 2-lot short position would have doubled the exposure. The trade profited because the stock stalled at 380 after the results.

The Single Most Important Rule

Look back at every major event day covered in this book — the 2020 budget crash, the 2024 election crash, the post-election rally that followed, the COVID crash, the Ukraine gap, the yen-carry unwind. In every case, the market's reaction was the opposite of what the consensus expected, or at least an order of magnitude different. An experienced trader captured it in a single line in April 2020: "When 90 per cent expect a fall, the fall is already priced." The event trade is a trade against the crowd. If everyone is positioned for a crash, crash protection is already in the price, and the real money is in the relief rally. "Markets can take good news, markets can take bad news, but markets just cannot take uncertainty," the same trader observed. When an event resolves uncertainty, the market exhales. That exhalation — not the direction of the outcome — is often the larger trade. A closely related principle is the lead-indicator framework. During the deepest part of the COVID crash in April 2020, when retail investors were overwhelmingly bearish and unemployment data was setting new records, the market was rallying. Why? Because the market prices the lead indicator — the next three to six months — not the lag indicator of current conditions. By April 2020, the market had already priced the COVID shutdown in March. What was left was the reopening. The event trade is always about what comes after the event, not the event itself. This is why staying light before an event is not cowardice

— it is intellectual honesty. Nobody knows how an election result or a budget line or a war casualty count will land. But everyone knows that when it does land, the market will move faster than anyone can react. Position for the aftermath, not for the announcement.

Key Takeaways

- Every binary event inflates IV by 30–100 per cent; the IV crush after resolution rewards sellers who position defensively.
- Defined-risk structures (spreads, condors, ratio spreads) are safer than naked shorts into events.
- Never carry oversized overnight positions into a scheduled binary event — the gap can destroy any thesis.
- Consensus positioning before an event is almost always wrong; the move that surprises the crowd is usually the bigger one.
- Exit after the event resolves; convert to a directional position only with a clear, independent thesis.

Budgets and Elections — Case Files

Note: Figures in this chapter are illustrative recollections from trading experience and are not independently audited. Nothing herein constitutes investment advice. No pair of events has moved Indian markets more violently and consistently than the Union Budget and the general election. Over the eight years this book covers, the budget and election calendar produced at least a dozen sessions where the Nifty moved by more than 3 per cent in a single day — and on 4 June 2024, moved nearly 9 per cent. These are the case files that matter.

The Election Shock of 2004 — And Why It Still Haunts Traders

On 17 May 2004, the day after the unexpected United Progressive Alliance victory in the Lok Sabha election, the BSE Sensex crashed 11.1 per cent — its steepest single-day fall in twelve years. Over two sessions (17 and 18 May), the Nifty fell roughly 18 per cent. The consensus had priced a BJP victory on the back of the “India Shining” campaign; when the coalition unexpectedly won, institutions scrambled to rebalance. The total two-day decline was about 17–19 per cent. This event carved the pattern: election results in India are a binary event with asymmetric consequences. Markets always price the status quo. They are never prepared for a surprise.

2009: The Mirror Image

On 18 May 2009, the first trading session after the 16 May election result that returned the UPA with a stronger mandate, the Nifty gained 17.3 per cent — the largest one-day rally in Indian market history. The Sensex rose 2,110 points. Trading was halted by the upper circuit within minutes of opening. The move was the exact mirror of 2004, confirming that the asymmetric swing in elections works both ways.

2014 and 2019: The BJP Wave

On 16 May 2014, after the NDA’s decisive victory, the Nifty opened with a gap of approximately 800 points and surged another 300 points intraday — a combined move of roughly 11 per cent. The volatility index had spiked above 30 in the preceding weeks and collapsed the day after. On 31 May 2019, the first trading session after Nirmala

Sitharaman's appointment as Finance Minister — one day after the Narendra Modi government was sworn in for a second term — the market crashed. Around 11:30 AM, the Nifty fell more than 3 per cent within minutes and the Bank Nifty dropped nearly 1,000 points. Within two hours, the indices had fully recovered. The swing was not about the election result itself — that was already priced from the May 2019 counting day — but about the specific portfolio assignment. It was the largest intraday reversal of a policy event in the decade.

2024: The 9 Per Cent Intraday Crash

On 4 June 2024, on the counting day for the Lok Sabha election, the Nifty fell approximately 8.5 per cent intraday to a low near 21,281 and closed roughly 6 per cent lower as the BJP- led NDA appeared to fall short of a majority. That same evening, Chandrababu Naidu of the Telugu Desam Party and Nitish Kumar of the Janata Dal (United) confirmed their support for the NDA, providing the numbers to form the government. The index recovered from that June-4 low by approximately 2,300 points in the following weeks, ultimately scaling new record highs. The crash-and-recovery cycle spanned less than two months. The lesson: domestic institutions, flush with retail fund inflows, absorbed the FII selling that the political uncertainty triggered. In 2004, there were no domestic institutions with the firepower to counter foreign selling. By 2024, the DII cushion was structural.

State Elections: The Preview Act

State elections preceding a general election have repeatedly served as a preview of the national mood. In November 2018, the BJP lost five state elections. FIIs began selling Indian equities from 21 November 2018 onward, fearing a hung parliament in the 2019 general election. The sale continued until February 2019 — approximately ₹30,000 crore in foreign outflows, the heaviest selling since January 2008. Then came February 2019: Indian fighter jets struck inside Pakistani territory at Balakot. The geopolitical event changed the political narrative. FIIs concluded the BJP would win the May 2019 election and reversed to buying from March onward. The market rallied through the election. In two months, the Nifty rose from the post- Balakot trough to the election-day high — a swing of more than 15 per cent driven entirely by a political sentiment flip that a single event catalysed. The same cycle repeated in 2023. In November-December 2023, the BJP won all three major state elections (Rajasthan, Madhya Pradesh, Chhattisgarh). The opinion polls had suggested a tighter race — Rajasthan was called 50/50, and Chhattisgarh was expected to go to the Congress — but the final result gave the BJP a three-fourths majority in Chhattisgarh and comfortable wins in the other two states. The market rallied roughly 3,000 Nifty points in the following two months — a 15 per cent rally — combining with the US Federal

Reserve's December 2023 dovish pivot that signalled the end of rate hikes. Together, the two catalysts pushed the Nifty from roughly 20,900 in November 2023 to beyond 22,500 by early 2024. The parallel between 2018–19 and 2023–24 is nearly exact: state election upset → FII selling → geopolitical or policy event flips sentiment → general-election rally. Traders who recognise this cycle get a leading indicator that stock-picking alone cannot provide. In 2025, the Bihar state election added another data point. After the November 2025 election, the winning coalition's comfortable majority triggered a short-covering rally that erased five days of losses in a single session — the Nifty surged from a swing low near 23,263 back through the week's opening level in one day. The same mechanics driven by the same pattern: politics first, market second.

Budgets: The Annual Shock and the Tax-Cut Miracle

Union Budgets produce both the worst and best single-session moves. On the first trading day after the 2020 Union Budget (3 February 2020), the Sensex fell 988 points and the Nifty slid below 11,700 — roughly 2.2 per cent — driven by disappointment that no additional corporate or personal tax relief was announced, compounded by the rapidly spreading coronavirus. It was one of the largest budget-adjacent falls in a decade. The 2022 budget presented a different test. On 1 February 2022, the market opened flat on budget day, gave up intraday gains, and closed marginally lower — a muted response that stood in contrast to the violent budget sessions of previous years. The reason: the government had pre-announced several major initiatives in the preceding weeks, and the budget itself contained no dramatic tax changes. The lesson: when the budget is trailed by multiple advance announcements, the day itself becomes a non-event. The contrast with the 2019 corporate tax cut is instructive. On 20 September 2019, a Friday, the government slashed the corporate tax rate from 30 per cent to 22 per cent (25.17 per cent effective) for existing companies and announced that new manufacturing companies would pay only 15 per cent. The Bank Nifty recorded its largest single-day gain ever — roughly 8 per cent — and the Nifty surged. The market was rescued from near-panic territory where FIIs had been selling relentlessly since the July 2019 budget, which had increased the surcharge on foreign portfolio investors. One week matters. One line in a budget document matters. The difference between a crash and a boon is often a single policy paragraph.

The Pattern

Election and budget cycle reactions in India follow a consistent logic:

- **Pre-event consensus is almost always wrong.** If every channel and broker expects a crash, the crash is already priced. The real move comes from the surprise.

- **FII positioning drives the swing, but DII absorption limits the downside.** The 2024 election crash was 9 per cent; in 2004 it was 18 per cent. The difference is the rise of domestic institutional buying power.
- **State elections matter as much as general elections for timing.** The best trade of 2023 was buying after the December state-election results, not waiting for the general election.
- **Every crash has recovered within two months.** The June-2024 low was recovered by August; the March-2020 COVID low took longer but never retested. Seasonal pattern: markets rise through election years, hesitate in pre-election uncertainty, and break out after the result.

Key Takeaways

- Election results in India produce asymmetric swings: 2004 (-18% two-day), 2009 (+17% one-day), 2024 (-8.5% intraday, +15% in 8 weeks after).
- Budget volatility concentrates in two sessions: the pre-budget anticipation and the post-budget reaction.
- State election results (Nov-Dec 2023, Nov-Dec 2018) reliably prefigure general-election flows.
- FII positioning in the months before elections is the most reliable leading indicator of the cycle's direction.
- Every single budget- or election-driven crash covered here was followed by a complete recovery within 2–12 months.

Wars, Crashes and Black Swans

Note: Figures in this chapter are illustrative recollections from trading experience and are not independently audited. Nothing herein constitutes investment advice. On 23 March 2020, India’s stock market recorded its worst single session in history. The Sensex closed 3,934 points lower — a loss of 12.9 per cent — and the Nifty fell 1,110 points to 7,511. By the end of that week, the index had fallen roughly 39 per cent from its January peak of 12,430. The cause was not a war or a financial crisis but a virus — one that had no known treatment, no vaccine, and no timeline. The COVID crash was the deepest, but it was not the only crash. Over the eight years covered in this book, at least half a dozen separate events produced moves of 5 per cent or more in the Nifty within a single week. Each was a black swan — unexpected, violent, and followed by a recovery that the panic-driven crowd had not anticipated.

Wars: The Historical Impact Table

India-Pakistan conflicts have a strikingly consistent market history. Over the last three decades, the pattern repeats with minimal variation:

Conflict	Date	Nifty Impact	Duration of Decline	Recovery Time
Kargil War	May–Jul 1999	~5%	~3 weeks	~2 months
Parliament attack	Dec 2001	~4%	~2 weeks	~1 month
Mumbai terror attacks	Nov 2008	~4%	~2 weeks	~1 month
Pulwama / Balakot airstrike	Feb 2019	~4%	~1 week	~2 weeks
Russia-Ukraine invasion	Feb 2022	~10% (global, India ~5%)	~6 weeks	~12 weeks
India-Pakistan conflict (Operation Sindoor)	7–10 May 2025	~4–5%	~4 days	~2 weeks

The pattern defies the alarmist narrative: India-Pakistan conflicts produce an average Nifty decline of about 4–5 per cent, lasting two to four weeks, and recover within one to three months. Only when a second factor coincides — the Lehman collapse and the

Mumbai attacks in 2008, or the dot-com bubble and Kargil in 1999 — does the decline deepen. During the 2025 India-Pakistan war, which began on 7 May 2025 (Operation Sindoor), the Nifty fell roughly 4–5 per cent and volatility index surged. A ceasefire was declared on 10 May 2025, a Saturday. On the first trading session that followed — Monday, 12 May 2025 — the Nifty and Sensex both gained about 4 per cent, the best single-day rally in four years, adding approximately 1,100 Nifty points. The war ended with a net market gain over its lifespan.

The Russia-Ukraine Shock

The invasion of Ukraine in February 2022 was a different animal. Unlike India-Pakistan conflicts, which are geographically contained and economically bounded, the Russia-Ukraine war disrupted global energy, metals, and grain supply chains. India was a net importer of crude, edible oil, and fertiliser; the shock arrived through higher import costs, not border security. The Nifty fell from around 17,400 on 29 April 2022 — the first day of the May series — to roughly 16,200 by 9 May, a straight cut of 1,200 points in five or six trading sessions. Daily losses of 200–250 points became routine. The India VIX surged above 30. The index briefly touched 15,735 on 12 May 2022 — approximately 50 points above the March-2022 war low of 15,671. From there, it rebounded to 18,200 by year-end. The Russia-Ukraine episode confirmed a different pattern: when a war disrupts global supply chains rather than domestic security, the recovery takes longer — roughly three to six months — and is more dependent on monetary policy (the Fed’s rate-hiking cycle) than on the conflict itself. Later, in November 2024, a new twist on the same conflict emerged. When Ukraine fired US-made ATACMS missiles into Russian territory and Putin responded by updating Russia’s nuclear doctrine, the Indian market experienced its sharpest sell-off in that window on 21 November 2024, with the Sensex falling 1,190 points and the Nifty closing below 24,000. The episode demonstrated that geopolitical escalation can be verbal as well as kinetic — and that markets react more violently to a change in nuclear rhetoric than to actual battlefield developments.

The 2024 Yen-Carry Unwind

On 5 August 2024, the Nikkei 225 crashed 12.4 per cent — its worst session since the 1987 Black Monday crash. The trigger was not a war but a simple arithmetic mismatch: the Bank of Japan raised rates on 31 July 2024 while the US Federal Reserve was signalling imminent cuts. The yen-strengthening that followed unwound the massive yen-carry trade — investors who had borrowed yen at near-zero rates to buy US and global equities now faced margin calls and forced liquidation. The global sell-off cascaded through Asian markets. India’s Sensex fell 2,686 points intraday and the Nifty breached 24,000 before closing roughly 2.7 per cent lower. Investors lost approx-

imately ₹15 lakh crore in a single session. The yen-carry unwind was a mechanical, not emotional, rout. It was not driven by fear but by leverage. The Nikkei's 12.4 per cent fall was almost entirely attributable to forced unwinding of speculative positions. The lesson: when a widely used trade reverses, the speed of the unwind is determined by the amount of leverage involved, not by the underlying fundamentals. By mid-August, the Nifty had recovered those losses.

The Iran War of 2026

In 2026, a new template for war-driven market behaviour emerged. The United States and Israel launched military operations against Iran from late February 2026, and Iran responded with missile and drone attacks against UAE facilities and ships in the Strait of Hormuz. The Strait was effectively closed for several weeks, sending crude oil prices from pre-war levels near \$70 per barrel to spike above \$120. The Indian market's reaction was instructive: the Nifty fell roughly 5 per cent in the first week, then settled into a consolidation band near 24,000–24,600 for several weeks. Unlike the Russia-Ukraine war, where supply-chain disruption cascaded across multiple commodities, the Iran conflict was more contained — the primary channel was oil prices, which India could absorb through a combination of strategic reserves and alternate suppliers. The ceasefire in April 2026 brought crude back toward \$70 and the Nifty recovered its losses within two weeks. The critical difference: when a war disrupts a single, hedgeable input (oil), the market reprices in days. When it disrupts supply chains, financial plumbing, or multiple commodities at once, the repricing takes months.

Positive Black Swans

Not every black swan is a crash. As Chapter 20 details, the September 2019 corporate tax cut triggered a single-session surge — a positive black swan driven by the same mechanics of surprise, leverage, and forced rebalancing that drive crashes, but in the opposite direction. The trader's principle for both kinds of black swans is the same: no system can predict them, so no system should bet against them. Defined-risk structures that limit drawdown to a calculable fraction of capital are the only way to survive long enough to participate in the recovery.

The Crash Paradox

Examine every crash in this book — the COVID collapse of 2020, the Ukraine lows of March 2022, the yen-carry unwind of August 2024, the election-day crash of June 2024, the war panic of May 2025. Every single one of those lows was a buying opportunity when viewed six months later. The Nifty that touched 7,511 in March 2020 was trading above 10,000 within two months, above 15,000 within two years, and above

26,000 by 2026. “A bull market is born out of pessimism, grows out of skepticism, matures out of optimism and dies out of euphoria.” Those four phases — pessimism, skepticism, optimism, euphoria — are a compass for the black swan. When pessimism is at its peak and every news headline screams crash, that is when the next bull market is being born. In March 2020, the India VIX touched 85 — a level never seen before or since. Within months, it had collapsed below 40, and the option sellers who had placed their strikes beyond the VIX-derived expected move made windfall profits as the market recovered. The VIX at 85 was the highest fear the market could express. It was also the best contrarian signal.

Key Takeaways

- India-Pakistan conflicts produce a consistent 4–5 per cent Nifty decline with full recovery within 1–3 months.
- Global supply-chain disruptions (Russia-Ukraine 2022) last longer but are bounded by monetary policy, not the conflict itself.
- Leverage-driven crashes (yen-carry unwind Aug 2024) are the fastest and most violent because they trigger forced unwinding across geographies, but they are also the shortest-lived.
- Positive black swans (Sep 2019 corporate tax cut) behave identically to crashes — the surprise drives a violent adjustment — but in the opposite direction.
- Every crash covered in this chapter was completely recovered within 2–12 months; the VIX at its all-time high (85 in March 2020) was the market’s strongest buy signal.
- Define your maximum loss before any event; surprises always happen.

PART VI

**A MARKET CHRONICLE, 2018–
2026**

2018–2020 — Tariff Tantrums, a Crash, and a Miracle

On 23 March 2020, the Nifty closed at 7,610. The index had fallen roughly 39% from its January peak of about 12,430 in just over two months. It was the fastest bear market in Indian history — faster than 2008, faster than 1992. Offices were shuttered, trains had stopped running, and the entire country was under a lockdown whose end no one could predict. A veteran trader who had started on the Bombay Stock Exchange floor in the 1990s told me he was shutting his terminal for the first time since 2001. He had seen the Harshad Mehta crash, the dot-com bust, and the 2008 crisis. There were no buyers. There was only fear. (*Figures are illustrative recollections, not audited results; nothing is investment advice.*) Yet within twelve months, the Nifty would reclaim all its losses and trade above 15,000. Within four years, it would triple from that March low. This is the story of how that happened — and what it taught us about markets, crises, and the difference between price and value.

The Pre-COVID Landscape: 2018–2019

Before the pandemic, the Indian market was already going through a slow-motion crisis of confidence. The year 2018 had begun with a jolt: the February 2018 Union Budget reintroduced a 10% long-term capital gains tax on equity gains above ₹1 lakh, ending a 14-year tax holiday. The market corrected sharply. But the deeper problem was a loss of faith among the very participants who had fuelled the post-2008 bull run — foreign institutional investors. From October 2018, FIIs began a record selling spree. They pulled money out of Indian equities for seven consecutive months, selling roughly ₹90,000 crore between October 2018 and April 2019. The reasons were global and local at once: rising US interest rates made emerging markets less attractive, the trade war between the US and China created global uncertainty, and India's own corporate sector was showing stress. The IL&FS crisis broke in September 2018 when the infrastructure financing firm defaulted on its bonds, triggering a panic that cascaded through the shadow-banking sector. DHFL, another housing finance company, saw its bonds collapse, and the panic spread mechanically: one bond's trouble dragged the entire sector down with it, not because of any fundamental link but because of

pure contagion mechanics. It was a classic case of the market pricing a diamond when optimistic and a pebble when pessimistic. The asset was the same; the price had nothing to do with the asset. Crude oil added to the misery. In October 2018, Brent crude touched \$86 a barrel, and the rupee slid to a then-record low of about 74 to the dollar. India, which imports roughly 80% of its oil, felt the twin squeeze of a weak currency and expensive fuel. The Nifty, which had been trading around 11,600 in August 2018, fell to about 10,300 by October. The selloff was global — the Dow had its own problems, falling about 10% from its September record to its February 2018 trough, triggered by the inflation fear that had sparked the “Volmageddon” spike in the CBOE VIX. The recovery from this selloff came through a different channel entirely. In August 2019, the government rolled back the enhanced surcharge on foreign portfolio investors that the July budget had imposed — the “no tax on FPIs” U-turn. Then on 20 September 2019, a Friday, the Finance Minister slashed the corporate tax rate from 30% to 22% (25.17% effective) for existing companies. Bank Nifty responded with its biggest single-day gain ever — roughly 8%. The Nifty rallied sharply from about 10,900 to above 12,000 within two weeks. It was a reminder that policy, when deployed decisively, could override sentiment.

The COVID Crash: March 2020

The first trading session after the Union Budget on 1 February 2020 had already seen the Nifty slide below 11,700 — driven not by the budget proposals but by the first wave of coronavirus fear spreading from China. What came next was unprecedented in modern market history. By early March, it was clear that COVID-19 was not a contained epidemic but a global pandemic. On 23 March 2020, the Sensex logged its biggest single-session loss in history — 3,934 points, down nearly 13%. The Nifty fell 1,110 points in a single session. Over the course of the crash, from the January 2020 peak to the 23 March low, the Nifty lost about 39% of its value. The drawdown was almost exactly the same magnitude as the 2008 global financial crisis, but compressed into weeks instead of months. The VIX — the India VIX — exploded to 80–85, levels never seen before or since. I remember watching the screen in those days and feeling that the normal rules of trading had been suspended. The option chain was a carnival of mispricing: puts that had no business being expensive were priced for catastrophe, and calls that should have reflected any recovery were practically giving away lottery tickets. One of the most important lessons I learned during those weeks was about the nature of the VIX itself. Many traders believe that when the market falls, the VIX must rise. This is not true. The VIX measures the expected 30-day movement in the Nifty. It is a perception of future volatility, not a speedometer of today’s fall. On days when the decline was narrow — driven by a few heavyweights while the broader market showed positive breadth — the VIX actually fell. The market can fall without panicking when the fall is selective and the breadth is healthy. With the VIX at 60,

the expected monthly move calculation was simple: VIX divided by the square root of 12, which equals about 17.3%. If the Nifty spot was around 8,000, the expected band for the next month was roughly 6,500 on the downside to 9,500 on the upside. Short strikes placed beyond that band — say, puts below 6,500 and calls above 9,500 — would collect premium while sitting outside the one-standard-deviation range. It was not a wall, but it was a working framework for strike selection.

The V-Shape Recovery

The government's first nationwide lockdown was announced on 24 March 2020, a Tuesday evening, for 21 days. The market had already priced the worst of it. When the Prime Minister announced a further 19-day extension on 14 April, the SGX Nifty traded about 200 points above the India close. The news was bad, but the outcome was known — and markets can absorb good news or bad news, but they cannot absorb uncertainty. Once the lockdown extension was a certainty, it was already in the price. The recovery began immediately. From the 7,511 low on 24 March, the Nifty rallied to 9,000 within three weeks, then 10,200 by early June. The India VIX collapsed from 85 to around 40 in the same period. This combination — a collapsing VIX plus a clear upward view — is where option sellers make their most outsized returns. It was not repeatable monthly, but in those weeks, the windfall was real. To understand the scale of this VIX collapse: selling a strangle or a put ladder across multiple strikes and expiries during this window produced returns that would be impossible in normal markets. The May 2020 8,000 straddle, with a premium of around 1,600 for 37 trading days, implied a roughly 20% expected range. As the VIX fell, the premiums on those positions collapsed toward intrinsic value. A June 9,000 put sold at 500 was closed at 180. A May 6,500 put sold at 210 was closed at 80. The laddered approach — spreading risk across strikes from 6,500 to 9,000 and across weekly, May, and June expiries — reduced the single-strike concentration risk that had destroyed many traders who had bet everything on one level. The recovery had two engines. First, the global central banks had unleashed unprecedented monetary stimulus. The US Federal Reserve cut rates to zero and announced unlimited quantitative easing. The RBI followed with rate cuts, liquidity infusion, and a loan moratorium. When the entire world faces the same problem, central banks act in concert, and their actions carry more force than any individual market participant's view. Second, the Indian market's structure had changed. FIIs who had sold ₹4,000 crore in two sessions after the Atmanirbhar package disappointed turned into daily buyers by June. Domestic institutional investors (DIIs) — mutual funds and insurance companies — had been net buyers throughout the crash, absorbing the foreign selling. The market had found a local bid that had been absent in 2008, 2004, and earlier crashes.

The Peak-Margin Revolution

On 1 August 2020, SEBI's new peak-margin framework took effect. Upfront margin was now required even to sell shares that were already held in the demat account, because the exchange could not distinguish between an intraday sell and a delivery sell. The margin requirements varied by stock volatility: Reliance required roughly 22% margin, SBI about 35%, and Vodafone Idea about 77.5% — meaning a trader could leverage only 1.3 times capital on a high-volatility stock. More significantly, SEBI phased out intraday leverage over a calendar that ran from December 2020 through August 2021. Brokers, who had offered 10–100 times intraday leverage, were gradually restricted to roughly 3x, then 1x, then 0.25x, and finally none. The peak-margin rule required accounts to fund the worst intraday MTM excursion, not just the closing position. A violent intraday move that reversed by the close could still trigger a margin penalty. The effect was to end the era of leveraged intraday trading. For option sellers who carried overnight positions, the impact was smaller — they were already paying margin — but for day-traders and option buyers who relied on broker leverage, the change was existential. The number of active intraday traders fell sharply through 2021.

The ADR Window and the STT Economics

The recovery months produced a distinct pattern that taught me the value of reading the overnight tape. On 10 August 2020, ICICI Bank raised ₹15,000 crore through a qualified institutional placement. The issue was oversubscribed roughly 4x — drawing ₹62,000 crore in bids — and the ADR rose about 4% overnight on the New York exchange. The next morning, Bank Nifty opened strong, and the put options that had looked appealing the night before were sold into strength. ADRs — Indian shares traded on US exchanges — were a reliable next-day read-through for most large caps because the same global holders repriced the Indian line at the open. But the ratios varied: one HDFC Bank ADR equalled three shares, ICICI two, Tata Motors four, Vedanta five. Getting the conversion wrong meant getting the signal wrong. It was also in mid-2020 that the economics of the trading business itself got scrutinised. The mathematics of time decay — that a one-week option loses roughly 20% of its value on day one but nearly 100% on expiry day — made expiry-day selling the most efficient harvest of theta. The STT was charged on the seller at ₹5,000 per crore of premium on options and ₹2,500 per crore on futures; for a busy seller the tax was a cost of doing business, not a decision factor. What mattered more was the return on margin: an index option that produced 6–7% on margin, versus 4% for a stock option that moved twice as much, changed the game entirely.

The No-System Lesson

April 2020 was also a month of intellectual humility for anyone who believed in trading systems. The market's V-shaped recovery had fooled every technician who had called for a retest of the lows. Two case studies from earlier periods illustrated why no single system works. The first was the RBI's May 2018 decision to open an FII investment window in HDFC Bank. Foreign funds could buy in cash and short futures simultaneously — a classic arbitrage — but retail chart-followers who bought the breakout in HDFC Bank shares got trapped when the cash-futures arb crushed the upside. The second was the 2011 flash crash, where a broker's basket-order error crashed the Nifty roughly 15% intraday, but futures barely moved 3–4%. Anyone trading based on price action alone was wiped out by a mechanical error that had nothing to do with supply and demand. There was also the market microstructure lesson of the flash spikes. On 21 May 2020, the 8,950 put — a strike far away from the spot of roughly 9,100 — spiked from ₹0.50 to about ₹20 in minutes, probably a fat-finger market buy in a shallow order book. Resting limit orders far from the spot could get filled at absurd prices during such dislocations. Traders who had placed far-OTM sell orders as premium traps discovered that a flash spike could turn a trap into a disaster. The rule: square off immediately; such dislocations vanish in seconds and cannot be systematically captured.

The Negative WTI Episode

April 2020 brought an event that most market participants had never imagined possible: oil futures trading at negative prices. On 20 April 2020, the May 2020 West Texas Intermediate crude contract fell to minus US\$37 a barrel. The reason was not a collapse in demand — though demand had indeed collapsed — but a structural quirk of the futures market. Contracts marked for physical delivery with storage facilities completely full forced holders to pay buyers to take the oil off their hands. The next-month contract, June WTI, continued trading at normal positive levels around US\$20. For Indian traders, the WTI episode was a warning about the dangers of holding any contract near expiry when physical delivery mechanics apply. The NSE's stock futures never went negative, but the principle — know the delivery mechanics before holding a position — applied to every instrument. Index options, as I argued around that time, were superior to stock options for precisely this reason: indices cannot crash 50–60% in a day the way stocks like DHFL (-65%) or Infibeam (-70%) had done. Index margins were half of stock margins for similar contract size, far-strike liquidity was deep, there was no physical delivery, and panic exits were always available. The return on margin was what mattered, not how many percent the underlying moved.

The Vaccine High and Gold Spike

By June 2020, the Nifty had recovered to 10,200, and a new narrative was taking hold. The crash had been technical — a liquidity event more than a solvency event — and the market was re-pricing the world for a post-COVID recovery. On 5 June 2020, US May payrolls came in at +2.5 million jobs versus the expected –8 million, sending the Nasdaq to an all-time high. The Nifty rallied from 9,000 to 10,200 in seven sessions as FIIs turned into daily buyers. The rally was not linear. Euphoric gap-ups — Nifty +200, Bank Nifty +500 on one morning — fizzled into Doji closes as heavyweights were sold from highs. The lesson was the same one that markets teach repeatedly: a bull market dies of euphoria. Fade the open, respect the close. Gold, meanwhile, had its own historic moment. The metal had risen from around \$1,200 an ounce in early 2020 to breach its old all-time high of \$1,900 and then surge past \$2,000 in August 2020, touching \$2,075. The logic was textbook: a global crisis forces central banks to slash rates, near-zero deposit rates make yieldless gold attractive, and the crisis itself drives fear-based buying. Gold's three modern spikes — 1980 (Iran revolution and oil crisis), 2008 (Lehman collapse), and 2020 (COVID) — all shared the same signature: a systemic global crisis followed by collapsing interest rates. But gold crashed 6% in a single day, days after Russia's COVID-19 vaccine announcement in August 2020, from its all-time high. It was a reminder that the same mechanism that drives gold up — crisis — can reverse it when the crisis recedes. The gold spike of 2011 was followed by a one-day 10% crash and a slide to \$1,070 over the following years. The \$2,075 high would not be revisited until the next systemic crisis.

The Lesson of 2018–2020

The period from 2018 to 2020 was a complete market cycle compressed into two years: pessimism, crisis, capitulation, recovery, and optimism. The FII selling of 2018–19 was the pessimism phase. The COVID crash was the capitulation. The V-shaped recovery was the transition from pessimism to skepticism to optimism. For traders, the critical insight is this: a bull market is born out of pessimism, grows on skepticism, matures on optimism, and dies on euphoria. In March 2020, the market was at the pessimism-to-skepticism inflection point. The consensus was overwhelmingly bearish. When 99% expect a fall, the fall is already priced. Markets do not listen to consensus; they climb walls of worry. The 15000-before-7500 argument that I made in July 2020 was controversial. Technical analysts were calling for a retest of the COVID low based on the depth of the initial crash and the speed of the recovery. But history argued otherwise: after the October 2008 Lehman low of 2,252, the Nifty doubled within a year, and that low was never retested. The COVID panic candle's high was 11,400. Once crossed, the odds favoured 15,000 arriving before 7,500. The logic was simple: post-crash lows of true panic candles are historically not retested once the recovery candle's high is crossed. As I wrote at the end of that period: the right time

to invest is when you have surplus cash. The right time to exit is when you need the money. Everything else is noise.

Key Takeaways

- **Crashes compress into weeks, not months:** The 2020 COVID crash was 39% in two months, comparable to 2008 but vastly faster. Bear markets in the modern era accelerate because of algorithmic trading, passive outflows, and margin cascades.
- **The VIX is a perception, not a gauge:** It measures expected 30-day movement, not whether today's fall is scary. A narrow decline with good breadth can see the VIX fall even on a red day. Use $VIX / \sqrt{12}$ to estimate the monthly expected band for strike placement.
- **Capitulation marks the bottom:** When the worst possible news is already priced and selling exhausts itself, the market finds a floor. The 23 March 2020 low was never revisited.
- **Policy responses matter more than the crisis:** The coordinated global monetary and fiscal response to COVID was unprecedented in speed and scale. Traders who ignored this and traded only the virus curve missed the recovery.
- **Gold spikes with systemic crises, then collapses when the crisis recedes:** Gold's all-time highs are made during global emergencies and can take years to revisit. The COVID gold high of \$2,075 held as a ceiling for years.
- **Consensus trades fail:** When 90% of participants expect a fall, the fall is already priced. The market moves on surprise, not confirmation. The heavy put buying at high premiums in March 2020 was the losing trade of the year.
- **No single system works:** Technical analysis is one input, not the system. Look at news, flows, regulation, and market structure together. The RBI's 2018 HDFC Bank window and the 2011 flash crash showed that chart patterns alone can trap the unwary.

2021–2022 — Liquidity Boom, Inflation Bust

On 12 April 2021, the Nifty fell 524 points in a single session — the second biggest single-day fall of the year at the time. The trigger was the second wave of COVID-19 sweeping through India with ferocity nobody had anticipated. Maharashtra’s case surge had broken into the news over the weekend, and the Monday open was a bloodbath. The Nifty closed at 14,310, down from its February high of about 15,245. The Delta variant was rewriting the pandemic playbook. But the Nifty did not crash to new lows. It fell about 1,100–1,300 points from the February high to the April low, then found its footing and resumed climbing. The second wave was medically worse than the first — cases peaked at over 4.1 lakh per day — but the market’s reaction was roughly one-third the magnitude of the March 2020 collapse. The second wave was a health crisis, not a liquidity crisis. The banking system was stable, the government had fiscal room, and the scars of the lockdown crash had taught investors that selling into panic was more dangerous than buying. By September 2021, the Nifty had crossed 17,000. The liquidity that central banks had pumped into the global system in 2020 was still sloshing through markets. The IPO market was on fire. New retail investors had entered the market in record numbers during the lockdown, and they were trading — F&O volumes exploded. It felt like a new era. It was not. The real story of 2021–2022 is about what happens when liquidity meets inflation, and how the party always ends when the punch bowl is removed.

The Retail Boom

The COVID lockdowns had created a captive audience. With physical travel restricted, entertainment options limited, and savings rates rising because there was nothing to spend on, millions of Indians discovered the stock market. New demat account openings surged from about 2–3 lakh per month pre-COVID to over 30 lakh per month in 2021. The total number of demat accounts crossed the 7-crore mark during this period. This retail wave was different from earlier booms. These were not day-traders in the traditional sense — they were option buyers, betting on direction with small capital and high leverage. The options market, particularly weekly expiries,

became a casino. The NSE introduced weekly expiry on Bank Nifty in addition to the long-standing Thursday expiry, and later on Nifty, making it possible to gamble on direction five days a week. The volumes were staggering: index options turnover went from a few lakh crore per month to over ₹4 lakh crore by late 2021. But as one market veteran observed, when running a casino is more profitable, why do people choose to be gamblers? The house (option sellers) collected the premiums week after week, while the speculators (option buyers) paid for the entertainment in the form of time decay, volatility crush, and the occasional gap move that cleaned out both sides. The NSE's own data would later confirm that 9 out of 10 individual F&O traders lost money, with average losses of about ₹50,000 per participant. The tax treatment of F&O income added to the complexity. Unlike cash-market trades, where short-term gains are taxed at 15% and long-term gains at 10% above ₹1 lakh, F&O profits are treated as business income, taxed at the individual's slab rate. A trader earning ₹25 lakh in F&O profit could face a tax rate of nearly 39% (including surcharge and cess). The flip side was full expense deductibility — brokerage, internet costs, office rent, and even salaries for assistants could be set off against F&O income. But the tax shock at year-end caught many new traders by surprise.

The Reliance Thesis and Stock-Picking Realities

Through 2020 and into 2021, one stock dominated portfolio conversations: Reliance Industries. The company had transformed from a commodity business — refining and petrochemicals — into a telecom and retail powerhouse. The thesis was straightforward: commodity businesses trade at a PE of 10–11, but telecom and retail command multiples of 40–150. As the revenue mix shifted, the PE should re-rate. By May 2020, the stock had rallied from its COVID low of around ₹1,000 to about ₹1,400. By August 2020, it was at ₹2,000. A pure cash-market hold from entry to August would have returned about ₹6 lakh on two lots. But a dynamic hedging strategy — long futures combined with a rolling ladder of short calls — produced roughly ₹21–22 lakh across two accounts. The difference was not stock-picking; it was option monetisation. This case study illustrated a broader point about stock selection. I had argued earlier that expert stock-picking barely beats chance. The data supported this: in the Wall Street Journal's decade-long dartboard contest, professional stock-pickers beat the dartboard 61% of the time, but they beat the Dow Jones index only 51% of the time — barely better than a coin flip. If hundreds of technical methods coexist in the market, most of them cannot work. The edge is not in the indicator; it is in the combination of instrument selection, position sizing, and risk management.

The Crash-Call Counterargument

As the market recovered through mid-2020 and into 2021, the bearish consensus was vocal. Technical analysts called for a crash — a retest of the 7,511 COVID low. But, as Chapter 22 showed, panic-candle lows are rarely retested once the recovery candle's high is crossed. The counters to the crash call were simple arithmetic. The Nifty PE of 16 in May 2020 sat in the historical accumulation zone (15–16 was the buy zone; 28–30 was the distribution zone). The dividend-yield screen said the market was skeptical, not euphoric. And the justifiable PE for equities had expanded because risk-free rates had collapsed — with fixed deposits doubling in 18 years at 4% rates, a 3x premium over FD implied a PE far above the historic 28 top. The crash call was consensus, and consensus is usually wrong.

The FII–DII Tug of War

While retail traders were flooding into options, foreign institutional investors were doing the opposite. After a brief period of buying in late 2020 and early 2021, FIIs turned into heavy sellers from October 2021 onwards. The cumulative FII selling in 2022 alone would exceed ₹2 lakh crore — a record that dwarfed even the 2018–19 selloff. The selling was driven by a single global factor: the Federal Reserve was preparing to raise interest rates. For FIIs, the calculus was simple. When the US risk-free rate rises, emerging market equities become less attractive. The money flows back home. It is not personal; it is arithmetic. The difference this time was that domestic institutional investors — mutual funds, insurance companies, and pension funds — had the depth to absorb the selling. DIIs bought roughly as much as FIIs sold in 2022, creating a tug-of-war that kept the market from collapsing despite the relentless foreign outflow. This was a structural change from earlier cycles. In 2008, when FIIs sold, there was nobody big enough on the other side to catch the falling knife. By 2022, India's own savings pool — channeled through monthly SIPs that were running at ₹12,000–14,000 crore per month — provided a natural bid. The lesson was subtle but powerful: the market's character had changed. Foreign flows no longer dictated the direction of the entire market because domestic flows were large enough to compete.

The LIC IPO and the Omicron Episode

May 2022 brought the largest IPO in Indian history — the Life Insurance Corporation of India — which opened for subscription on 4 May and closed on 9 May. The issue was priced at ₹949 per share, valuing the company at roughly ₹6 lakh crore. The IPO was subscribed only about 3x overall — a tepid response by Indian standards — and listed at a discount of roughly 8% on 17 May, closing at ₹872. The LIC IPO was a market event in itself. The government had structured the issue to attract retail investors, with a 5% discount for policyholders and a 10% discount for employees. But the macro environment was hostile: the May 2022 selloff was in full swing, FIIs were

selling everything, and the Fed's 50bp hike had just landed. The listing discount was a reminder that even the most anticipated IPO can fail in the wrong market conditions. Earlier, in November 2021, the Omicron variant had triggered a global selloff. On 26 November 2021, the Dow fell 905 points — its worst single-session drop of 2021 — as the new variant raised fears of renewed lockdowns. The Nifty fell about 2.5% that week. The selloff was sharp but short-lived; by December, markets had recovered as it became clear that Omicron was more transmissible but less severe than Delta. The lesson was that variant-driven selloffs were diminishing in magnitude — each new variant had less impact than the previous one, because the market learned that lockdowns were politically and economically unsustainable.

A Worked Example: Pair Trading in the Divergence

One strategy that stood out during this period was pair trading — long one instrument, short another — to isolate relative strength. In August 2020, as Nifty outperformed Bank Nifty week after week, a simple pair could profit from the divergence without caring about market direction. The construction was simple: long one lot of Nifty futures, short one lot of Bank Nifty futures (lot sizes were 25 each at the time). Over one week, the Nifty leg might show a small loss of ₹4,725 while the Bank Nifty leg showed a profit of ₹12,775 — net positive. Over two weeks, the net crossed ₹12,000. Over one month, the position was positive in every window tested. The logic was sectoral: Nifty was being lifted by Reliance, HDFC Bank, and IT stocks, while Bank Nifty was dragged by PSU banks that faced asset-quality concerns and lower margins. The pair captured that divergence without making a directional bet on the overall market. It was a market-neutral structure: you profited from the spread between two instruments, not from whether the market went up or down. Gaps and crashes largely cancelled out. The strategy worked until the correlation normalised — which it always does.

The Ukraine Shock and Commodity Crisis

On 24 February 2022, Russia invaded Ukraine. The world woke up to a land war in Europe for the first time in decades. The Russian MOEX stock market fell roughly 9% in a single session before trading was halted. The ruble collapsed roughly 50% against the dollar on its February 28 open after Western nations imposed sanctions that included the exclusion of Russian banks from SWIFT. For Indian markets, the primary transmission mechanism was oil. Russia is one of the world's largest oil producers, and war-driven supply fears pushed Brent crude from about \$90 a barrel in January 2022 to a peak of \$139 in March. For an oil-importing nation like India, this was a direct tax on the economy. Every \$10 rise in crude increases India's import bill by roughly \$15–18 billion and worsens the trade deficit, the current account deficit, and

the fiscal math on fuel subsidies. The metal sector was hit by a different policy shock. On 21–22 May 2022, the Finance Ministry imposed export duties of 15% on most steel products and up to 50% on iron ore and pellets to cool domestic prices. On Monday 23 May, the metal sector crashed 10–15%. JSW Steel fell from around ₹631 on the Friday to close at ₹548 on Monday — a 13.2% single-session drop. The intraday low reached ₹538, a decline of 14.7% from the previous close. The Nifty fell from about 17,500 in late January to around 15,800 by early March — roughly 10% — before recovering on peace talks. But the recovery was short-lived. The deeper problem was not the war; it was inflation.

The Fed's 50bp Hike and the May 2022 Mayhem

By May 2022, the Federal Reserve had made its position clear: inflation was the enemy, and rate hikes were the weapon. On 4 May 2022, the Fed raised rates by 50 basis points — the biggest single hike since 2000 — and signalled more to come. For Indian markets, this was a body blow. FIIs accelerated their selling. The Nifty fell from about 17,400 at the end of April to roughly 15,735 intraday by 12 May — a cut of about 1,200 points in five to six sessions. On 9 May 2022, the Dow Jones fell 653 points in a single session, and the Nasdaq was already in a bear market, down roughly 27% from its November 2021 peak. The selloff was broad and indiscriminate. Only energy and a few defensive sectors held up. At the bottom of this selloff, the Nifty was back to levels it had first crossed three years earlier in early 2021. All the gains from the COVID recovery rally had been given back. It was the kind of drawdown that tests every trader's conviction. One of the most instructive moments came when the government announced an export tax on petrol, diesel, and aviation turbine fuel on 30 June 2022, along with a windfall tax on crude producers. Reliance Industries, which had just broken out to new highs, crashed roughly 8% the next day. The stock fell from about ₹2,400 to around ₹2,200 in a single session. For anyone holding unhedged long positions, it was a reminder that political risk can overrule any chart pattern.

CPI 8.6% and the Great Inflation Peak

On 10 June 2022, the US Bureau of Labor Statistics reported that the Consumer Price Index had risen 8.6% year-on-year in May — a 40-year high, and above the 8.3% that economists had expected. The Dow fell 880 points that day and another 900 points the following Monday. The S&P 500 fell 2.9% on 10 June and 3.9% on 13 June, entering a bear market for the first time since March 2020. India VIX, which had been hovering around 20–25 during the first half of 2022, spiked back above 30. Option premiums exploded. It was the kind of environment where short puts that had seemed safe at the start of the month could become terrifyingly close to being assigned by the end of the week. The inflation data changed the narrative. Until then, many market participants

— the author included — had believed that the supply-chain disruptions from COVID and the war would resolve themselves, bringing inflation down naturally. The 8.6% print killed that hope. The Fed would have to keep raising rates, and the market would have to price a higher-for-longer rate environment. India's own inflation was less severe — retail inflation peaked at about 7.8% in April 2022 — but the global transmission was inescapable. The RBI raised the repo rate from 4% to 5.9% across multiple hikes between May and September 2022. The era of cheap money was over.

The HDFC-HDFC Bank Merger and Market Structure

On 4 April 2022, HDFC and HDFC Bank announced a merger that would create a financial services behemoth. HDFC shares rallied roughly 10% on the announcement. The merger, effective 1 July 2023, would reshape the weight distribution in the Nifty. One stock — the merged entity — would command roughly 11–12% of the index, making it the single most important determinant of Nifty returns. For option sellers, this meant that directional exposure to the index was, in part, a bet on one company. The days of diversified index exposure through Nifty were being challenged by concentration at the top.

The Meta Crash and the Changing Tech Landscape

On 3 February 2022, Meta (Facebook) reported its Q4 2021 earnings after the close. The result was a disaster: the company missed revenue estimates, guided lower, and cited Apple's privacy changes as a headwind. The stock fell 26.4% in a single session — the largest one-day market-cap loss in US history at the time, erasing over US\$230 billion. For Indian markets, the Meta crash was a warning about the tech sector's fragility. Indian IT stocks — Infosys, TCS, HCL Tech, Wipro — had been among the best performers of the COVID era, riding the wave of digital transformation. But the Meta crash signalled that the digital advertising boom was slowing, and the IT spending cycle would eventually turn. The warning was early: Indian IT stocks would continue to rally through 2022 before correcting in 2023 as the global tech cycle turned.

The Lesson of 2021–2022

The 2021–2022 cycle taught a brutal lesson about the relationship between liquidity and asset prices. The retail boom of 2021 was not driven by earnings upgrades or economic recovery. It was driven by the simple fact that there was nowhere else to put money. Fixed deposits were paying 3–4%. Real estate was illiquid. Gold had had its run. The stock market was the only game in town. When the Fed started raising rates, the music stopped. The retail boom became a retail reckoning. The deeper lesson, however, was structural. The DII bid had arrived as a permanent force. India's markets

were no longer hostage to FII whims. The SIP machine — collecting ₹12,000–14,000 crore every month — was a formidable buyer of last resort. It did not prevent the 2022 drawdown, but it limited its depth and accelerated the recovery. The other lesson was about the asymmetry of financial advice. I had argued that the stock market is only for two kinds of people: those who can pick the stock that performs, or those who know when to get in and out. For everyone else, the Nifty's top-50 average return from 1994 to 2020 did not double investments in six years — it underperformed risk-free debt instruments that did. Index survivorship bias inflates returns: failing companies are ejected, so you average only the winners. That is not a repeatable strategy; it is a selection artefact.

Key Takeaways

- **FIIs sell when the Fed hikes, DIIs buy the dip:** The FII–DII tug-of-war became the defining dynamic of 2022. India's domestic savings pool was large enough to absorb record foreign selling. In 2008, no such bid existed.
- **Inflation kills liquidity-driven rallies:** The retail boom of 2021 was built on easy money. When rates rose, the participants who had been buying options with borrowed capital were the first to be flushed out. SEBI's data later showed 9 of 10 individual F&O traders lost money.
- **Commodity shocks are a tax on importers:** Every major commodity spike — crude, coal, edible oil — directly impacts India's trade deficit and currency, creating a second-order drag on equities. The May 2022 metal export duty showed policy can override valuation.
- **Rate hikes work with a lag:** The May 2022 selloff was the initial panic. The actual pain — lower corporate margins, slower earnings growth — showed up in H2 2022 and 2023.
- **The second wave was a health crisis, not a market crisis:** The market's reaction to the Delta wave was one-third the magnitude of the COVID crash because the banking system was sound. Distinguish between liquidity crises and health crises.
- **Option buying in a rising-VIX environment is a losing game for most participants:** Premiums are high, volatility eats positions, and time decay accelerates when the market does not cooperate. The house always wins over a large enough sample.
- **Stock-picking barely beats the index:** The WSJ dartboard contest showed professionals beat the market only 51% of the time. Index survivorship bias further exaggerates reported returns. Use index instruments for core exposure.

2023–2024 — The Bull Run and Its First Crack

On 3 December 2023, the results of three major state elections — Rajasthan, Madhya Pradesh, and Chhattisgarh — confirmed a clean sweep for the BJP. The Sensex rallied over 1,000 points the next day. The Nifty, which had been trading around 19,000 in early November, had already moved up on the expectation of this outcome. Now it accelerated. By 20 December, the Nifty had hit a new record high above 21,000. It then fell 500 points from its intraday high on that very session — a classic “buy the rumour, sell the news” pattern that had caught many late entrants. But the dip was temporary. By 16 January 2024, the index was trading above 22,000 for the first time. The rally from the October 2023 low of about 18,800 to the January 2024 high of over 22,000 was roughly 3,000 points — about 17% — in three months. The triggers were clear: the state election results removed political uncertainty about the 2024 general election, and the Federal Reserve’s December 2023 signal that rate cuts were coming in 2024 added fuel to the fire. What followed over the next nine months was one of the most remarkable bull runs in Indian market history — and its equally remarkable reversal.

The January 2024 Shock

Not every dip in the melt-up was bought. On 17 January 2024, HDFC Bank reported its December-quarter results — a modest miss on margins plus an unexpected slowdown in deposit growth. The stock fell over 8.5% that day, its worst down day since the COVID crash, and investors lost roughly ₹1 lakh crore of market value in a single session. Because HDFC Bank carried an outsized weight in both the Nifty and Bank Nifty following its merger with HDFC, the stock’s collapse dragged the entire index. The Nifty logged its worst day since June 2022. The lesson was about concentration risk inside an index. When one stock commands 11–12% of the benchmark’s weight, a single earnings event can move the whole market. The diversification promise of index investing — which held when the largest constituent was 5–6% — was weakened by consolidation. Option sellers who had treated the Nifty as a broad basket of diversified risk were effectively running a concentrated position in one bank.

The Low-VIX Melt-Up

By April 2024, the India VIX had fallen to levels that veteran traders had never seen. The VIX was hovering around 11–12, levels that practically guaranteed that option buyers would lose week after week. When the VIX is that low, daily ranges shrink, premiums are cheap, but the compression is relentless — a slow grind that favours sellers and destroys directional speculators. The low-volatility melt-up was driven by three forces. First, domestic liquidity was at an all-time high. Monthly SIP inflows had crossed ₹16,000 crore. DIIs were buying every dip, and there was always a bid. Second, the global environment was cooperative — the US economy was showing resilience without reigniting inflation, and the Artificial Intelligence narrative was driving a global tech rally. Nvidia briefly joined the US\$1 trillion valuation club on 30 May 2023, and the Nasdaq's strength lifted Indian IT stocks by association. Third, the political stability narrative was intact. The general election in April–May 2024 was expected to return the ruling coalition comfortably.

A Worked Example: Options in the Low-VIX Era

To understand what the low-VIX environment meant for option traders, consider the numbers from February 2023 — a preview of the regime that would define 2024. The India VIX closed at 12.75 on 10 February 2023, below 13 for the first time in years. The Nifty was trading around 17,800, with a monthly range of roughly 17,255 to 18,135. The weekly 17,800 straddle was trading at around ₹200 premium. For a seller of that straddle, the math was straightforward: collect ₹200 per lot (a lot of 25 units at that time, making gross premium ₹5,000 per lot), risk the entire margin of roughly ₹60,000–70,000, and hope that the week's range stayed within a band that rendered both sides worthless. The probability of profit was high — weekly ranges had been shrinking — but the risk-reward ratio was poor: a single gap beyond the breakeven could lose several times the premium collected. The strategy that worked better in this regime was the distance-based short strangle — selling puts and calls far enough from the spot that the probability of touching either side was statistically low. With the VIX at 12, the expected monthly move was roughly $12/\sqrt{12} = 3.46\%$. For a Nifty at 22,000, that meant an expected band of roughly 21,240 to 22,760. Selling strikes outside that band — say, the 21,000 put and the 23,000 call — would collect small but consistent premiums while sitting in a zone that the statistics said would not be breached. The trade-off was that the premium was thin — perhaps ₹50–60 per side — and the margin per lot was still large. It was a volume game, not a high- return game.

The December 2023 Rally

November and December 2023 were extraordinary. The Nifty rallied roughly 3,000 points from its October low of 18,857 to its December high of 21,779 — a 15.5% move in

about two months. The triggers were layered: the BJP's victory in three state elections (3 December 2023) removed the political uncertainty that had been weighing on the market since September; the Federal Reserve's dovish pivot on 13 December 2023 — signalling that rate cuts were coming in 2024 — added a global liquidity tailwind; and the domestic SIP machine was running at full throttle, with inflows crossing ₹16,000 crore per month. The rally was broad. Mid-cap and small-cap indices outperformed, with the BSE Midcap index returning nearly 60% over the calendar year. The Nifty itself was up about 20% in 2023 — a remarkable year for an index that had been trading sideways for most of the first half.

The Banking Crisis of March 2023

In March 2023, the US banking system experienced its most severe crisis since 2008. Silicon Valley Bank failed on 10 March — the second largest bank failure in US history — followed by Signature Bank on 12 March. First Republic Bank fell 60% on 13 March despite a US\$30 billion rescue package from major US banks. The crisis was driven by a classic asset-liability mismatch: the banks had bought long-duration US Treasuries when rates were low, and the rapid rate hikes of 2022 had crushed the market value of those bonds. Credit Suisse, the Swiss banking giant, was the next domino. On 15 March 2023, its shares fell about 24% after the Saudi National Bank said it could not provide further regulatory support. The European banking index fell 6–7%. The Swiss authorities engineered a rescue merger with UBS over the weekend. For Indian markets, the US banking crisis was a shock but not a contagion. Indian banks had minimal exposure to US regional banks and no asset-liability mismatch of the kind that had destroyed SVB. The Nifty fell about 2–3% in the week of the SVB failure but recovered within days. The lesson was that not every global crisis transmits to India — the transmission depends on whether the crisis affects India's fundamentals or just global sentiment. The banking crisis was a US-specific event, and the market's quick recovery reflected that. But the speed of the rally carried risks. On 20 December 2023, the Nifty hit a record high in the morning session and then crashed 500 points from that level by the close. The trigger was not a specific news event but a sudden realisation that valuations had run ahead of earnings. The index was trading at roughly 22 times one-year forward earnings — above the long-term average of about 18–19, though not bubble territory by tech-bubble standards. The VIX, which had been low throughout the rally, remained low, so put protection was cheap. But nobody buys protection when the market is hitting record highs. The sector-level story was even more dramatic. Mid-cap and small-cap indices were up 60–80% from their 2023 lows. The BSE Midcap index crossed record after record. Every fund house launched a mid-cap or small-cap scheme. The narrative was that domestic consumption, formalisation of the economy, and corporate tax cuts from 2019 would create a decade of earnings growth. It was a compelling story, and the market priced it aggressively.

4 June 2024: The Election Shock

On 4 June 2024, the counting day for the Lok Sabha elections, the market received the biggest intraday shock of the year. The BJP-led NDA coalition, which had been expected to win a commanding majority, looked short of a majority in early counting trends. The Nifty fell about 8.5% intraday, touching a low near 21,281. The Sensex fell roughly 6% before recovering in the final hour. The panic was textbook. Markets abhor uncertainty, and for a few hours on that Tuesday, India's political future was uncertain. The consensus trade — “NDA wins with a strong majority” — had failed, and everyone who had positioned for it had to unwind simultaneously. The result was a waterfall decline. But the market did not break. That night, TDP's Chandrababu Naidu and JDU's Nitish Kumar pledged support to form the NDA government. The uncertainty was resolved within twelve hours. The next morning, the market opened with a gap-up and began recovering. Over the following months, the Nifty scaled record highs 32 times in 2024, eventually reaching an all-time high near 26,277 in late September. The lesson of 4 June was the same lesson that every crash teaches: the market recovers faster than the panic suggests. As I had noted four years earlier, in the depths of the COVID crash, “Markets can take good news, markets can take bad news, but markets just cannot take the uncertainty.” Once the uncertainty was resolved — even if the outcome was not what the market had expected — the recovery began immediately. The election result also had a secondary effect on volatility. On 23 July 2024, the India VIX fell 17.4% in a single session, then another 7.8% the next day — a cumulative collapse of roughly 25% in two days. The VIX went from about 15.4 to 11.8. For option sellers who had been collecting elevated premiums during the election period, this was a windfall. For option buyers who had paid high premiums for protection, it was a total loss.

The July 2024 Budget Warning

The July 2024 Union Budget, presented on 23 July, should have been a warning for market participants. It raised the long-term capital gains tax on listed equities from 10% to 12.5%, the short-term gains tax from 15% to 20%, and removed the indexation benefit for real estate. It also increased the securities transaction tax on futures and options. The market wobbled but did not crash — the liquidity was too strong. But the message was clear: the regulator and the government believed the F&O casino had gone too far. The budget's capital-gains tax changes were the first step. The October 2024 SEBI framework — lot-size increases, weekly- expiry rationalisation, expiry-day margin surcharge — would be the second. The party was being shut down systematically.

August 2024: The Yen-Carry Unwind

The first crack in the global facade came in early August 2024. The trigger was not Indian. It was Japanese. On 31 July 2024, the Bank of Japan raised interest rates by 15 basis points — a small move by most standards, but a momentous one for Japan, which had been stuck at zero or negative rates for years. Combined with weak US July jobs data released on 2 August, the rate hike triggered a massive unwinding of the yen carry trade — the practice of borrowing yen at near-zero rates and investing in higher-yielding assets elsewhere. On 5 August 2024, Japan's Nikkei 225 fell 12.4% — its worst single-day decline since the 1987 Black Monday crash. The selloff cascaded through global markets. The Dow fell over 1,000 points. The Nasdaq composite fell roughly 13% from its July record. India was not spared: the Nifty fell about 2.7% that day, breaching 24,000 intraday, while the Sensex fell over 2,600 points. Investors lost roughly ₹15 lakh crore in a single session. The trigger was not “strong inflation data” — it was the weak jobs report combined with the BOJ rate hike, which together unravelled the largest leveraged trade in global markets. The yen carry trade had been built over years, with hedge funds and institutional investors borrowing trillions of yen at near-zero rates to buy US stocks, emerging market bonds, and other high-yielding assets. When the BOJ raised rates, the trade reversed in a cascade that hit every market simultaneously. For Indian traders, the August 5 crash was a reminder that no market is an island. A rate hike in Japan, transmitted through a currency trade that most retail participants had never heard of, could trigger a ₹15 lakh crore loss in a single session.

The September–October 2024 Top

The Nifty reached its all-time high of about 26,277 on 27 September 2024. It would not see those levels again for the next year. What followed was a classic top formation. The index traded in a narrowing range through October, with each rally failing at lower highs. The FII selling resumed with force: after being buyers in July and August, foreign investors turned sellers in September and accelerated through October and November. The trigger was the same as always — rising US yields made emerging markets less attractive. The US 10-year Treasury yield, which had been around 3.8% in September, pushed toward 4.3–4.5% by October. Money flowed out of India and back to the US. On 1 October 2024, Iran attacked Israel, and crude oil surged over 5%. The Nifty fell sharply — the Sensex shed 1,300–1,700 points over the next two sessions. The Iran-Israel escalation of October 2024 was the sharpest geopolitical shock for Indian markets since the Russia-Ukraine invasion of 2022. India VIX, which had been hovering around 12, spiked back to 18–20. Option premiums that had been compressed by months of low volatility suddenly expanded. For traders who had been selling options in the low-VIX environment, the October spike was a reminder that volatility is always mean-reverting — it just takes its time. Then on 18 December 2024, the Federal Reserve cut rates by 25 basis points but signalled that only two cuts were coming in 2025 — the “hawkish cut” that sent the Dow down 1,123 points and

the Nasdaq down 3.56%. India's market, already weak, slid further. The Nifty fell to about 23,800, testing the support levels that had held since mid-2024. By the end of 2024, the Nifty was trading around 23,800, roughly 2,500 points below the September peak. The bull market had not ended — the index was still up 8–10% for the calendar year — but the euphoria had clearly broken. The Hindenburg Research report on the Adani Group, published in January 2023, had already reshaped the risk perception of the group's stocks. Adani Enterprises had fallen from roughly ₹3,000 to about ₹1,017 by February 2023, with repeated lower circuits. NSE placed Adani Enterprises, Adani Ports, and Ambuja Cement under additional surveillance. The episode cast a long shadow over the group, though the stocks gradually recovered into 2024.

The Lesson of 2023–2024

The 2023–2024 cycle was a masterclass in how bull markets end. They do not end with a crash, usually. They end with a subtle shift in leadership, a quiet decline in breadth, and a growing sense that the easy money has been made. The rally from October 2023 to September 2024 was driven by liquidity — domestic savings — and narrative — political stability, global rate cuts, AI euphoria. When the liquidity was still there but the narrative cracked (election shock, yen-carry unwind, hawkish Fed), the market did not collapse, but it stopped going up. The sideways drift was the market's way of telling participants that the easy days were over.

The Pahalgam Attack Prelude

A separate geopolitical event in April 2025 — weeks after this period formally ends but connected to the same risk cycle — was the Pahalgam terror attack of 22 April 2025. The attack killed 26 civilians and raised the spectre of military retaliation. Markets fell about 500 points intraday on the first session after the news, though the close was contained. The event itself was a war-fear episode that escalated into Operation Sindoor in May 2025, but its roots lay in the deteriorating security situation that the market had been underpricing since the end of 2024. The other lesson was about global interdependence. The yen-carry unwind of August 2024 was a reminder that India's market, for all its domestic bid strength, is not decoupled from global flows. A rate hike in Japan, or a jobs report in the US, can still trigger a ₹15 lakh crore single-day loss. The domestic bid can absorb foreign selling over time, but not in a single session.

Key Takeaways

- **Low VIX melt-ups are deceptive:** A VIX of 11–12 makes option selling easy, but it also means the market is complacent. Complacency precedes corrections.

- **Election shocks are usually bought:** The 4 June 2024 crash was recovered within months. Political uncertainty that resolves within hours is a buying opportunity, not a reason to panic.
- **The yen carry trade is a global risk factor:** A rate hike in Japan can trigger a cascade that reaches Indian markets. Pay attention to global monetary policy, not just the RBI.
- **DII buying supports, but does not prevent, corrections:** The domestic bid limited the depth of the 2024 correction but did not stop the index from falling 2,500 points from its peak.
- **SEBI's F&O tightening was a warning:** The July 2024 budget raised STT and capital gains taxes on F&O. The October 2024 SEBI framework (lot-size increases, weekly-expiry rationalisation, expiry-day margins) was the next step. The regulator was telling the market to cool the speculation.
- **Bull markets die of euphoria, not bad news:** The September 2024 top did not require a bearish trigger. It simply ran out of buyers at higher levels. When everyone is already in, there is no one left to buy.
- **Geopolitical risk remains front-loaded:** The Iran-Israel escalation of October 2024 and the August 2024 yen-carry crash both showed that external events can override domestic fundamentals in a single session.

2025–2026 — Tariffs, Jane Street, and the New

Regime

On 13 June 2025, the Nifty closed at 24,718. A Nifty 23,000 put option expiring in four sessions was trading at roughly ₹5–6. A strike 1,700 points below the spot, with only four trading days to expiry — the premium reflected the market’s absolute conviction that nothing catastrophic would happen. That conviction had been building for months. After the September 2024 top and the 2024 year-end correction, the market had found a new equilibrium around 24,000–25,000. The India VIX had settled back into the 14–18 range. Option sellers were collecting easy premiums on wide strangles. The great bull market, while no longer euphoric, was humming along. But the world outside the trading terminal was changing faster than the VIX was pricing. The US had a new administration with a tariff policy that upended seventy years of global trade architecture. India’s regulator was engaged in the most aggressive restructuring of the derivatives market since its inception. A global conflict in the Strait of Hormuz threatened oil supplies. And the rupee was sliding toward 92 to the US dollar. This chapter covers the two years that transformed Indian markets from a retail-driven casino into a more regulated and globally integrated ecosystem — with all the pain that transformation entailed.

The Tariff Wars

On 2 April 2025, the US administration announced what it called “Liberation Day” tariffs — a sweeping set of reciprocal levies that took the world by surprise. India faced a baseline tariff of 26%, a figure that escalated through the year as negotiations stalled and deadlines came and went. The S&P 500, which had been trading around 5,600 before the announcement, fell into correction territory, dropping toward 5,000 over the following weeks. Indian markets sold off in sympathy, but the real impact was slower and more structural: every deadline extension and escalation created a new cycle of uncertainty. On 1 August 2025, the US tariff deadline for India arrived without a deal. The Nifty fell about 3% in August, breaking below 25,000. China was the main

target of the tariff war, and the escalation was breathtaking. By April 2025, tariffs on selected Chinese goods had reached 245% on selected electronics categories, with an effective baseline of roughly 145% including fentanyl-related surcharges. The US also imposed a 25% tariff on Canada and Mexico (later suspended, then reinstated), and a 10% global tariff that expanded to 15% under a never-used emergency trade law after the Supreme Court struck down the original enabling authority. For India, the tariff story had a tragicomic quality. Every few weeks, a new deadline, a new exemption, a new threat. The market developed a Pavlovian response: any headline about a US–India trade deal triggered a rally, and any sign of escalation triggered a selloff. The uncertainty was the point — and for traders, the uncertainty was the opportunity.

The DeepSeek Shock and the AI Selloff

On 27 January 2025, a Chinese AI startup called DeepSeek announced a low-cost model that could match the performance of frontier models at a fraction of the computing cost. The market interpreted this as a threat to the entire AI infrastructure build-out that had driven the US tech rally for two years. Nvidia lost roughly US\$589–600 billion in market value — the largest single-day market-cap loss in history. Semiconductor stocks plunged globally. For Indian markets, the DeepSeek selloff was a reminder that the AI narrative could cut both ways. Indian IT stocks, which had risen on the expectation that US tech spending would fuel demand for outsourcing, initially fell on the news. But the selloff was short-lived. The Indian IT sector's dependence on AI infrastructure was indirect — they served the clients who were building AI, not the AI builders themselves. The recovery in IT stocks through 2025 was driven more by the rupee's depreciation (which boosted their rupee earnings) than by the AI narrative.

The Moody's Downgrade

On 16 May 2025, Moody's downgraded the United States' credit rating from Aaa to Aa1 — the last of the three major agencies to strip the US of its top rating, following S&P's 2011 downgrade and Fitch's 2023 downgrade. The Dow fell about 200 points in after-hours trading on the news, and bond yields rose. For Indian markets, the downgrade had a paradoxical effect. A weaker US credit rating made US Treasuries marginally less attractive, which in theory should have pushed capital toward emerging markets. But in practice, the downgrade reinforced the narrative of global instability, which pushed capital toward the US dollar as a safe haven rather than away from it. The rupee weakened further, and the Nifty fell about 1% over the following sessions. The lesson was that credit ratings, however significant, were secondary to the dominant force of the dollar's safe-haven demand. The tariff war also reshaped sector dynamics. IT stocks, which earned a significant portion of revenue

in US dollars, benefited from the rupee's depreciation but faced the risk of reduced demand if a tariff-induced global recession materialised. Pharma stocks faced the threat of increased generic-drug tariffs. Textiles and auto ancillaries, which had hoped to gain from the China- plus-one strategy, found that tariffs applied to all countries, not just China.

The Jane Street Case

On 3 July 2025, SEBI issued an interim order that sent shockwaves through the derivatives market. Jane Street, a global quantitative trading firm, was barred from the Indian securities market and ordered to disgorge illegal gains of ₹4,843 crore — roughly US\$566 million — for manipulating Nifty and Bank Nifty index derivatives. The scale was staggering. SEBI's investigation found that Jane Street had deployed estimated positions of ₹45,000–50,000 crore per day in index options, using a strategy that involved over 1.4 lakh contracts in some positions. The firm was accused of manipulating the settlement price of index derivatives by building large positions in the cash market during the closing auction window — a technique known as “index manipulation” or “banging the close.” The case exposed a dark corner of the derivatives market that most retail participants had never considered. Index options are cash-settled based on the closing price of the underlying index. If a large player can influence that closing price — even by a few basis points — the payoff on thousands of option contracts can swing by crores of rupees. Jane Street's trading data showed patterns consistent with exactly this kind of manipulation at expiry. The ban did not immediately disrupt market functioning — Jane Street's business was institutional, not retail-facing — but it changed the conversation about index integrity. SEBI's message was clear: the market would not tolerate algorithmic manipulation of settlement prices, no matter how sophisticated the player. Jane Street would later deposit US\$567 million to lift the ban in August 2026, but the case set a precedent. For the first time, a global quant fund had been publicly held to account in India's markets. The combined profits that the firm had earned from its India strategy — estimated at over US\$1 billion by some reports — highlighted the asymmetry of the playing field. When a single firm can deploy ₹45,000 crore a day in a market where the average retail trader trades with ₹50,000, the game is not a level one.

The SEBI F&O Tightening

The Jane Street case was part of a broader regulatory offensive. SEBI had been tightening F&O rules in stages since October 2024, when its board meeting introduced a six-point framework to curb retail speculation. The measures included lot-size increases (the Nifty option lot size was raised from 25 to 75, effective 20 November 2024, tripling the entry capital required), weekly expiry rationalisation (each exchange

was limited to one weekly expiry product — NSE chose Nifty, BSE chose Sensex — ending the five-days-a-week casino), expiry-day margin surcharge (an additional 2% extreme-loss margin was imposed on expiry-day index option positions, removing the calendar-spread benefit for intraday positions on Thursdays), and upfront margin requirements on options buying in certain cases. The impact was immediate and brutal by market standards. From a peak of roughly ₹4 lakh crore in monthly premium turnover in October 2024, index options volumes crashed by over 50% through 2025–26. The number of active retail F&O traders fell by about 18–20% within months. The options casino was closing. Then came the STT hike. Effective 1 April 2026, the securities transaction tax on options was raised by up to 150%. The cost of trading a single weekly Nifty strangle practically doubled. For retail option writers earning basis points per day, the tax hike made many strategies uneconomical. Volumes fell further. The SEBI tightening had a paradoxical effect: it reduced retail participation but increased the sophistication of the remaining participants. The weak hands — the traders who had been buying weekly out-of-the-money options on borrowed money — were flushed out. The remaining participants were institutions, high-net-worth individuals, and professional traders who understood position sizing, margin management, and theta decay. The market was becoming healthier, but also harder.

The Rupee Slide and the New Exchange Rate Regime

While these structural changes were reshaping the derivatives market, macro pressures were building. The rupee, which had traded around 83 to the US dollar in September 2024, weakened steadily through 2025 and into 2026. By January 2026, the rupee had hit a record low of 92 per US dollar. The depreciation was about 6% in twelve months — a slow bleed rather than a crash, but painful for importers, for foreign-currency borrowers, and for anyone watching their purchasing power erode. The causes were multiple: a strong US dollar driven by elevated US interest rates, a widening trade deficit as oil prices stayed elevated, and the steady outflows of foreign capital. India's foreign exchange reserves, which had been built up to over US\$600 billion during the pandemic years, were drawn down to support the currency. The RBI intervened at key levels — around 90, then 91, then 92 — but the trend was clear. The rupee was finding a new equilibrium in a world of strong dollar and global uncertainty. The rupee's slide had a direct market impact. Stocks with large foreign-currency earnings — IT services, pharma — benefited from the translation gain when they repatriated profits. A company like TCS or Infosys, earning 60–70% of revenue in dollars, automatically reported higher rupee profits when the currency weakened. IT stocks, which had been battered through 2024 and early 2025, found a floor on this rupee tailwind. But the broader market felt the weight of continuous FII selling, driven by the currency risk. Every time the rupee broke through a new low, FIIs sold more equities to pre-empt further currency losses. In March 2026, FIIs sold a

record ₹1.14 lakh crore of Indian equities in a single month — the largest monthly outflow in history — driven by the US-Iran war and the rupee's persistent weakness. The 500% tariff threat on countries buying Russian oil, announced in January 2026, added another layer of risk. India had become one of the largest buyers of discounted Russian crude after the Ukraine war, and the threat of secondary sanctions — or tariffs — on Russian oil imports created uncertainty for the external sector. The bill was later trimmed to a 100% tariff, but the message was clear: India's foreign policy choices had economic consequences.

The India–Pakistan Conflict and Market Resilience

The India–Pakistan conflict of May 2025 added a geopolitical risk premium that the market had not priced for years. Operation Sindoor, launched on 7 May 2025, saw India strike targets across the border in response to the Pahalgam terror attack of 22 April. The market's reaction was instructive. Pakistan's KSE-100 index fell roughly 3,559 points (about 3%) on 7 May and a further 5.5–7% on 8 May, triggering trading halts. India's Nifty fell only about 1–1.5%, with the Sensex losing roughly 880 points on 8 May. The asymmetry reflected the difference in market depth: India had a domestic bid that Pakistan's market lacked. The ceasefire, effective 10 May 2025 (a Saturday), was followed by a sharp rally on Monday 12 May. The Nifty gained about 4% — roughly 1,100 points — its best single-day rally in four years. The rally was simultaneously supported by a US-China trade deal and short covering. The Nifty closed at 24,925 that day, within striking distance of its all-time high.

The GST 2.0 Reform

Amid the global noise, India executed one of the most significant domestic economic reforms in years. On 15 August 2025, the Prime Minister announced from the Red Fort that the Goods and Services Tax system would be restructured into a two-rate regime — 5% and 18% — effectively abandoning the 28% slab under which most goods had been taxed. The 12% slab was merged into 5%, and a new 40% rate was created for luxury and demerit goods. The GST Council formalised the changes on 3–5 September 2025, and the new rates took effect on 22 September 2025. The Finance Ministry estimated that the reform would inject roughly ₹2 lakh crore into the economy through lower prices and increased compliance. Car prices were cut immediately, and consumer goods companies reported higher volumes. For the market, the GST reform was a positive structural catalyst. Consumer-facing stocks rallied. Auto stocks, which had been hit by multiple rounds of tax increases, found relief. The broader market, which had been trading sideways through much of 2025, rallied about 6% in October as the GST cuts fed into earnings expectations.

The Record IPO Week

October 2025 brought a record IPO week that underscored the market's depth. Seven issues — including Tata Capital and LG Electronics India — opened for subscription in the same week, collectively raising over ₹30,000 crore. The issues were oversubscribed 5–10x, absorbing roughly ₹1.5–3.5 lakh crore of liquidity from the market. For traders, the IPO wave was a double-edged sword. The large subscription amounts drained liquidity from the secondary market — money that went into IPO applications was money that was not available to buy existing stocks. The Nifty traded sideways during the IPO week, and some sectors saw selling pressure as participants liquidated positions to fund IPO applications. But the oversubscription itself was a signal of confidence: retail and institutional investors were willing to lock up capital for days or weeks to get allocation in new issues. But the optimism was tempered by the reality that the reform, while significant, could not override the global headwinds of tariffs, a strong dollar, and geopolitical conflict.

The F&O Participation Decline and New Market Structure

By mid-2026, the combined impact of SEBI's tightening, the STT hike, and the Jane Street enforcement was visible in the data. Index options premium turnover had fallen from roughly ₹4 lakh crore per month in October 2024 to under ₹2 lakh crore by early 2026. Active F&O trader accounts had declined by 18–20%. The weekly expiry, which had been the main event for retail speculators, was now a single Nifty expiry per week rather than a multi-exchange daily carnival. The Closing Auction Session (CAS) introduced on 3 August 2026 was the final piece of the puzzle. Under the new framework, the closing price of F&O-enabled stocks was determined through a random freeze auction between 3:28 and 3:30 PM, replacing the previous last-30-minute VWAP-based close. F&O trading was extended to 3:40 PM. The intent was to prevent the kind of settlement-price manipulation that had been the basis of the Jane Street case. The effect was to add one more layer of complexity to the trading ecosystem. The era of easy option selling — collect premium, wait for expiry, repeat — was over. The market was becoming a more difficult place for the casual participant. For the serious trader, the rules were clearer, the leverage was lower, and the edge was harder to find.

The Bank Nifty Restructuring

In October 2025, SEBI approved a restructuring of the Bank Nifty index: the constituent count was raised from 12 to 14 stocks, and weight caps were imposed on the largest constituents. HDFC Bank, which had commanded roughly 30–35% of the index following the merger, was required to reduce its weightage. The move was designed to broaden representation and reduce the concentration risk that the

index had carried since the HDFC-HDFC Bank merger. For traders who traded Bank Nifty options, the restructuring changed the behaviour of the index. A Bank Nifty that was less dependent on one stock would be less volatile in response to single-stock events — but it would also track the broader banking sector more faithfully. The adjustment process, as index funds and ETFs rebalanced their portfolios, created temporary dislocations that active traders could exploit.

The New Regime

The 2025–2026 period was not a crash. The Nifty consolidated in a rough range of 23,800– 26,000 through most of this period, with some excursions below and above. But the nature of the market changed fundamentally. Three structural shifts defined the new environment. First, the derivatives market was transformed from a retail-driven casino into an institutional- grade ecosystem. Lot sizes, margins, taxes, and surveillance had all increased. The regulatory message was unambiguous: speculation at scale would be restricted; manipulation would be punished. Second, India’s market became more globally integrated than ever before. Tariff wars, currency wars, and regional conflicts in the Middle East and South Asia all transmitted directly to Indian equity prices. The domestic bid remained strong — SIP flows crossed ₹20,000 crore per month — but it could no longer insulate the market from external shocks. Third, the FII-DII dynamic settled into a new equilibrium. FIIs sold consistently from late 2024 through 2026, driven by the strong dollar and the tariff uncertainty. DIIs absorbed the selling. The market did not crash, but it also did not rally. It traded sideways — the most painful regime for participants on both sides. As one veteran trader observed during this period: “There is no support in a downtrend, no resistance in an uptrend.” In a sideways market, both are false. The support and resistance are the range itself, and the only strategy that works is one that respects both boundaries.

Key Takeaways

- **Tariff uncertainty is a regime, not an event:** The US tariff war from April 2025 created a multi-year environment of periodic escalation and negotiation. Markets priced each headline as it came. Strategic positioning required scenario planning, not single-bet conviction.
- **SEBI’s F&O restructuring was historic:** From lot-size increases to expiry-day margins to the STT hike of 2026, the regulatory response to the retail options boom was coordinated, phased, and effective. The era of high-frequency, low-cost option speculation ended.
- **The Jane Street case redefined market integrity:** A ₹4,843 crore disgorgement order sent a message that index manipulation would be detected and punished. The CAS mechanism introduced in August 2026 was the structural remedy.

- **The rupee's slide was a slow-bleed crisis:** From 83 to 92 per US dollar over 18 months, the rupee's depreciation compounded the returns of exporters but hurt importers, the fiscal math, and FII sentiment. The record FII outflow of ₹1.14 lakh crore in March 2026 was linked directly to currency depreciation.
- **Geopolitical risk returned with asymmetric impact:** The India–Pakistan conflict (May 2025) showed that India's market could absorb war-related shocks with minimal damage (Nifty −1.5%), while Pakistan's market crashed double digits. The US–Iran war of early 2026 was a more serious threat because of oil transmission.
- **The GST 2.0 reform was a domestic bright spot:** The simplification of India's indirect tax system into two main rates (5% and 18%) was a long-term positive that consumer-facing sectors priced in. The Finance Ministry's ₹2 lakh crore injection estimate was a genuine stimulus.
- **F&O participation decline reshaped the market:** With volumes halved and active trader counts down 18–20%, the liquidity environment for option strategies changed permanently. Strategies that relied on overpriced retail premiums — particularly short OTM strangles — became less profitable. The market adjusted. So did the serious traders.
- **India's market structure matured:** The shift from FII-driven to DII-driven pricing, from retail-driven F&O to institutional-grade derivatives, and from domestic isolation to global integration, all completed during 2025–2026. The market that emerged was less volatile, more resilient, and harder to beat.

PART VII

PREDATORS & PROTECTORS

How Retail Gets Cheated

The figures and anecdotes in this chapter are illustrative recollections drawn from years of market experience. They are not audited results and are not intended as investment advice. The Indian stock market has a retail-participation problem: it attracts too many people who are not really investors or traders at all. They are gambling. And where there is gambling, there are predators. Over years of watching the market from up close, patterns of fraud and deception emerge so clearly that they become almost predictable. This chapter catalogues the most common traps — not as an expose of any single bad actor, but as a survival manual.

The Opposite-Account P&L Scam

One of the most insidious frauds is also one of the simplest. A social-media influencer posts daily screenshots showing thousands of rupees in option-selling profits. The account statement looks real: broker logo, trade details, net P&L in bright green. What the viewer does not see is the second account — opened with the same broker, running the exact opposite positions. The influencer collects premium from both sides in one account to fund the show, while the mirror account quietly absorbs the losses. Net across both accounts: zero, or worse. But only the winning side is ever screenshot, shared, and advertised.

“They show a portfolio where they made a profit, but they never show the portfolio where they made an equal loss.”

The detection triad is simple. When a claimed return is unreasonable — say, ₹50,000 turned into ₹30 lakh in six months — and the influencer’s lifestyle (car, watch, travel) does not match the expected capital compounding, and no capital growth is visible over time, the probability of an opposite-account setup is near certain. Regulators have asked prominent influencers to stop posting public P&L statements after identifying this pattern. The advice is straightforward: never follow anyone who posts individual trade profits as proof of skill.

The Trainer’s Tuition Loop

A second pattern exploits the same psychology through a different channel. A trainer charges ₹50,000 or more for a two-day workshop, promising proprietary systems that generate consistent returns. The workshop content is real — it is drawn from legitimate option-selling strategies that do work in certain market regimes. But the trainer never discloses the single fact that matters: no system works in every regime. The strategies that look brilliant during a low-VIX bull market get destroyed when volatility spikes or the trend reverses.

“Nobody can make unreasonable returns in the stock market. If someone could, why would they be taking your ₹50,000?”

The economics are perverse but obvious. A trainer who can reliably compound capital has every incentive to manage that capital at scale, not to spend weekends in hotel conference rooms. The training business itself becomes the profit engine — the actual trading P&L may be a loss leader. The Ministry of Corporate Affairs filing system offers a cheap check: for ₹100, anyone can look up a trainer’s registered company, see its declared revenues, profit margins, and whether the training income dwarfs the trading income in their books.

The Paired-Account Subscription Tip

A variant popular on Telegram and WhatsApp: a “master trader” charges ₹4,000 per month for intraday calls. Subscribers receive a buy alert at 9:45 AM; thirty minutes later, the stock has moved 2% and the profit screenshot is posted. What the subscriber does not see is that the call is distributed to a thousand people across fifty brokers, and the master trader’s own account entered the position fifteen minutes *before* the broadcast. By the time the followers act, the master has already exited into their buying — a textbook front-running operation. When the calls inevitably lose (as intraday momentum tips do, over enough trials), the master simply posts the next day’s winner and ignores the losses. Subscribers who try to replicate the results find themselves down 30% in a month while the master’s “verified P&L” shows a steady climb. The verification itself is the product of another set of accounts.

IPO Valuation Games

Public offerings are marketed as opportunities, but many are structured to benefit the selling shareholders and underwriters rather than the buyers. The Hyundai Motor India IPO (October 2024, India’s largest at that time at ₹27,870 crore) is a textbook case. The issue priced at a P/ E of approximately 26 times earnings, while the parent Hyundai Motor Company traded at 5–6 times in Korea. The valuation gap was justified by “India growth premium” — but that premium is exactly the mechanism

by which retail capital is transferred to existing holders. The shares listed at a 1.32% discount to the issue price.

“They do not come here to give you money. They come with an offer document that has been crafted over months by the best legal and banking minds in the country — to take your money.”

Retail investors who apply for every IPO based on listing-gain momentum are systematically buying into overpriced paper. The safe play is to evaluate each issue against its sector peers, ignore the grey-market premium (which can be manufactured), and only participate when the valuation leaves room for the buyer, not just the seller.

Hidden Broker Charges

Brokers compete on brokerage rates — zero brokerage for delivery, ₹15 per lot for F&O — while making money on charges they do not advertise. The list includes: call-and-trade fees (₹50–100 per order), account maintenance fees (₹300–750 per quarter), debit-equity transfer charges, stamp duty on contract notes (slab-based, not percentage), SEBI turnover fees (₹1 per crore), exchange transaction charges, GST on brokerage (18%), and — most invisible — the margin-funding interest spread. A trader paying these charges on an active account can see 30–40% of their annual gross profit consumed by “non-brokerage” costs. A tip-runner paying ₹4,000 a month with monthly turnover of ₹15 lakh may be spending more in charges than they will ever make from calls.

Charge	Typical per trade	Annualized (active trader, 250 trades)
STT (futures)	0.02% of turnover	Variable
STT (options sale)	0.1% of premium	Variable
	(detailed STT history in Chapter 28)	
Exchange transaction charge	₹2–3 per lakh	~₹25,000–30,000
GST on brokerage	18% of brokerage	Variable
SEBI turnover fee	₹1 per crore	~₹500 per ₹5 crore turnover
Account maintenance	₹300/quarter	₹1,200
Total non-brokerage		Often exceeds brokerage itself

The first rule of retail protection is to treat every intermediary with informed skepticism. The broker is not your partner; the trainer does not share your incentive; the influencer’s P&L is a product, not a record. The Ministry of Corporate Affairs check, the unreasonable-return triad, and the simple arithmetic of charges versus expected returns are the only protections that work consistently.

Key Takeaways

- **The opposite-account scam:** if a P&L screenshot seems too good, assume the trader is only showing one side of a paired strategy.
- **The unreasonable-return triad:** abnormal returns + no lifestyle change + no capital growth = fraud. Always.
- **Trainer economics:** anyone who can trade profitably at scale does not need your ₹50,000 for a workshop. Check MCA filings.
- **IPO math:** compare the issue P/E to the promoter's own stock. If India premium is the only justification, the retail buyer is the exit.
- **Hidden charges:** add up every non-brokerage fee in your contract note. If it exceeds 10% of your annual trading P&L, you are trading for the broker, not yourself.
- **The subscription trap:** if the call arrived on Telegram before the price moved, your entry is the exit liquidity for the tip-giver.

The Regulator's Dilemma

No regulator in the world has a harder job than the Securities and Exchange Board of India (SEBI) in the post-2020 era. On one hand, the explosion in retail F&O trading — encouraged by zero-brokerage platforms, pandemic-era liquidity, and the sheer convenience of betting on index moves through a mobile phone — has turned options into a national pastime. On the other hand, every piece of data SEBI publishes confirms the same grim statistic: the vast majority of retail participants lose money, often catastrophically. The regulator must protect these participants without killing the derivatives market that provides liquidity, price discovery, and hedging for the institutions that make the real economy function. This chapter traces the arc of that dilemma from 2020 to 2026.

The Study That Changed Everything

SEBI's 2023 study on F&O trading laid the problem bare. Across the financial year ended March 2023, **89% of individual F&O traders lost money**. The study was updated for FY2024 with an even sharper result: **93% of individual traders lost money, and only 1% made more than ₹1 lakh in net profit per annum**. Worse, the bottom 3.5% of traders lost an average of ₹28 lakh per year. These were not market-makers, hedgers, or institutions — they were retail individuals, mostly trading in their own names, many of them students, salaried professionals, and small business owners.

“Nine out of ten people always lose money — professional traders are not those nine. That is the difference.”

The report created a political storm. Media headlines called options trading a “national addiction.” The finance ministry directed SEBI to act. But the data also had a problem: it could not distinguish between pure speculators, hedgers (who may lose premium on protective puts while their cash portfolio gains), and traders using options as part of a diversified strategy that includes cash-market positions. A trader who buys a ₹5,000 put to protect a ₹10 lakh equity portfolio and lets it expire worthless appears in the “100% loss” column, but their real portfolio is protected. Nonetheless, the headline numbers were too stark to ignore, and SEBI prepared a comprehensive response.

The October 2024 Framework

At its board meeting on 30 September 2024, SEBI approved a six-point framework to curb speculative retail F&O activity. The measures, phased from 20 November 2024, included:

- **1. One weekly expiry per exchange.** Previously, Monday was Midcap Select, Tuesday was FinNifty, Wednesday was Bank Nifty, Thursday was Nifty, and Friday was Sensex — five expiries across the week. The new rule limited each exchange to one weekly expiry, compressing the event-based speculation cycle.
- **2. Increased lot sizes.** Nifty options lot size was raised from 25 to 75 effective 20 November 2024, tripling the capital required to enter a single-lot position. A trader who previously needed ₹2,500 for a far-OTM call now needed ₹7,500. The intent: push the smallest speculators out of the market. The effect: traders who stayed shifted to even farther-out-of-the-money strikes to keep absolute premium affordable, which further reduced their probability of profit.
- **3. Additional expiry-day margin (2% extreme-loss margin).** Option sellers on expiry day faced an additional margin charge that eliminated the calendar-spread benefit for intraday positions on expiry Thursdays. This specifically targeted the short-straddle strategy — by far the most popular retail option-selling approach — which relied on thin margins to deploy large quantities of contracts.
- **4. Upfront premium collection.** Brokers were required to collect option premiums from buyers upfront, eliminating the practice of funding option purchases with margin from other positions.

The market's immediate reaction was a sharp drop in volumes. Index-options premium turnover, which had peaked at roughly ₹4 lakh crore per month, dropped by more than half within six months. Active retail F&O trader counts fell by approximately 18–20%. The cooling was dramatic, and SEBI had achieved its stated goal.

The Jane Street Episode

No single case better illustrates the regulator's dilemma than the Jane Street matter. In mid-2025, SEBI barred Jane Street — one of the world's largest quantitative trading firms — from Indian markets and ordered it to disgorge an amount reported at ₹4,843 crore (approximately \$566 million) for index manipulation through large, concentrated derivatives positions on expiry days. The scale of the operation was staggering: SEBI's order described positions that deployed tens of thousands of crores in notional exposure to move index settlement prices.

“When a big player manipulates expiry, the entire market's settlement is distorted. Retail short-straddle sellers who sold at-the-money options to

capture theta get crushed because the settlement point was engineered, not discovered.”

Jane Street later deposited approximately \$567 million — a figure widely reported at the time — to secure an order that allowed it to resume Indian operations, while disputing the findings. The case revealed a structural vulnerability in India's expiry mechanism: if a single entity could concentrate enough volume in the final hour — and especially in the newly introduced closing auction session (CAS, effective August 2026) — the manipulation risk shifted from the VWAP-window to the random-freeze auction. SEBI's response was to tighten position limits further and introduce the CAS random close, reportedly designed to make settlement-price manipulation computationally impossible. Whether the measure will be effective remains an open question.

The Lot-Size Puzzle

SEBI's lot-size policy has an internal contradiction. The regulator wants every index-derivative contract to be valued between ₹5 lakh and ₹10 lakh — enough to limit casual speculation but not so high as to exclude serious retail participants. Yet by raising Nifty lot size from 25 to 75 in 2024, a single-lot entry now costs roughly ₹20–24 lakh in notional exposure and about ₹1.2–1.5 lakh in margin for a basic short straddle. That price point excludes a significant portion of the very retail participants SEBI is trying to protect. The December 2025 revision reportedly acknowledged this: Nifty lot size was cut from 75 to 65 (effective 30 December 2025), and Bank Nifty from 35 to 30. The concession was marginal: a 13% reduction, far from the 67% increase that preceded it. The effect on trader participation was muted.

The Evolution of India VIX and the Regime Change

One unintended consequence of the regulatory tightening was a structural shift in options pricing. India VIX, which had traded below 15 for much of 2023 and early 2024 — a regime that made option selling attractive and option buying a losing proposition — started to behave differently as the new rules took effect. Fewer retail participants on the sell side meant less premium supply, which meant higher implied volatility for equivalent strikes. By 2025–2026, India VIX was trading in the 18–22 range even during periods of market calm — a full 5–7 points above where it would have been under the old participation regime. The very thing SEBI was trying to prevent — retail losses on the buy side — became more likely as premiums widened. This is the regulator's perpetual bind. Every measure that protects traders from themselves also makes the market less efficient, less liquid, or more expensive for those who remain. The correct response is not to condemn SEBI but to understand the rules as they evolve and design positions that survive each new constraint.

Key Takeaways

- **The empirical case for regulation:** SEBI's own data (89–93% retail losses, bottom 3.5% losing ₹28L/year) made regulatory action politically necessary and substantively justified.
- **The October 2024 framework** cut volumes by >50% but pushed remaining speculators to riskier strikes — a known behavioral response.
- **The Jane Street case** exposed expiry-day manipulation at institutional scale; CAS (closing auction session, random close, August 2026) is SEBI's answer, but its effectiveness is unproven.
- **India VIX structurally re-rated** 5–7 points higher post-2024 as premium suppliers left the market, making option buying permanently more expensive.
- **Trade the rules, not against them:** the intelligent retail trader now hedges as a matter of regulatory cost-efficiency, not optional discipline.

Taxes: The Trader's Real Opponent

Ask any full-time F&O trader what their biggest annual cost is, and most will say brokerage. They are wrong. For an active trader, the largest single expense category over a full cycle is almost always taxation — not income tax on profits, but the transaction taxes, stamp duties, and compliance costs that are due whether the trader makes money or loses it. This chapter explains the tax framework as it applies to Indian traders and investors, focusing on the unique distortions it creates in trading behaviour.

F&O Income Is Business Income — A Double-Edged Sword

For the tax authorities, F&O trading income is unequivocally *business income*, not speculative income. This distinction matters enormously for two reasons. First, business income is taxed at the applicable slab rate — for a high-earning trader, the top marginal rate of approximately 42% (including surcharge and cess). Second, as business income, it qualifies for full deduction of expenses: internet, office rent, salaries, depreciation on hardware, professional fees for auditors, and even the cost of a trading terminal. A trader earning ₹50 lakh in F&O profits with ₹10 lakh in legitimate expenses pays tax on ₹40 lakh, not ₹50 lakh.

“Go and make profit first, then come to me — that is every auditor’s answer.”

The speculative-versus-business distinction is not just academic. Intraday equity trading (covering positions before the same day’s close) is classified as *speculative business income* — losses in this category can only be set off against speculative business profits, not against regular business income. F&O trading, by contrast, is classified as *non-speculative business income* (since delivery is not expected within the same day, even if the trader typically squares off intraday). This means F&O losses can be set off against any other non-speculative business income, and unabsorbed losses can be carried forward for up to eight years. The trap that catches most traders is the *turnover threshold* for compulsory audit. Under Section 44AB of the Income Tax Act, any assessee whose total turnover in F&O exceeds ₹10 crore (raised from ₹5 crore for digital-transaction cases in the 2023–24 Budget) must get their books audited by a

chartered accountant. A trader with ₹9.9 crore in turnover in a year — even if they end the year with a net loss — does not need an audit. A trader with ₹10.1 crore in turnover — even if they made ₹50 lakh in profit — must file an audited report, which can cost ₹30,000–75,000 in audit fees and creates a permanent tax-audit record. This threshold shapes trading behaviour more than any trading strategy does: many large retail traders deliberately cap their turnover to stay below the audit line.

Presumptive Taxation (Section 44AD)

For small F&O traders, Section 44AD (presumptive taxation scheme) offers a simplified route. Under this scheme, the trader declares 6% of gross turnover as *deemed profit* (8% for non-digital payments), and no separate books of accounts or audit is required. A trader with ₹2 crore in gross F&O turnover would, under the presumptive scheme, declare ₹12 lakh as business income (6%) and pay tax on that amount at the slab rate — regardless of whether their actual profit was ₹20 lakh or ₹2 lakh. The presumptive scheme is available only for individuals, HUFs, and partnership firms (not LLPs or companies), and only if the total turnover does not exceed ₹3 crore (₹2 crore before FY2022–23). It is a blunt instrument: a trader whose actual profit is 2% of turnover (₹4 lakh on ₹2 crore turnover) would pay tax on ₹12 lakh under presumptive — more than on their actual profit. But a trader whose actual profit is 20% of turnover (₹40 lakh on ₹2 crore) would pay tax on only ₹12 lakh, a significant saving. The scheme is designed for simplicity, not neutrality.

Security Transaction Tax: The Trader’s Silent Drain

The Security Transaction Tax (STT) is levied at the point of every taxable securities transaction in India. For F&O traders, the rate has steadily increased over the past decade. In the July 2024 Budget, STT on options was raised from 0.0625% to 0.1% of the premium (on the sell side), and on futures from 0.0125% to 0.02% of the turnover. A further increase — up to 150% on the 2024 baseline — was announced effective 1 April 2026, making India’s STT one of the highest transaction cost regimes for derivatives trading globally.

Year	Event	STT change	Cumulative impact
2014	Base rate set	Options 0.05%, Futures 0.01%	—
2018	First hike	Options 0.0625%	+25%
2020	Second hike	Futures 0.0125%	+25% from 2014
2024	Third hike	Options 0.1%, Futures 0.02%	+60% from 2018

Year	Event	STT change	Cumulative impact
2018–2024	Total	—	~8× increase in absolute STT on a typical option contract
2026	Fourth hike (announced)	+150% on 2024 baseline	Projected multiplicative

For an active options seller turning over ₹10 crore in premium (notional), the annual STT bill at the 2024 rate is approximately ₹1 lakh. At the 2026 rate, it rises to ₹2.5 lakh — before brokerage, exchange fees, or GST. A trader whose net profit is ₹5 lakh on that turnover faces an effective taxation rate (transaction costs only, not income tax) of 50% of gross profit.

Cryptocurrency: The 30% Regime

The Finance Act 2022 introduced a dedicated tax regime for virtual digital assets (VDAs) — India's legal classification for cryptocurrencies and NFTs. The treatment is deliberately punitive: a flat **30% tax on gains** from any VDA transfer, with **no deduction for expenses** (other than the cost of acquisition), no basic-exemption threshold, and **no loss set-off** — losses from one VDA transaction cannot be offset against gains from another, let alone against other income. Additionally, a **1% Tax Deducted at Source (TDS)** applies on every transfer exceeding ₹50,000 (₹10,000 for specified persons) in a financial year.

“If you trade crypto daily, you will pay 365 days of TDS in a year. The government has made crypto a ‘hold and pray’ asset class.”

The effect is to make any frequent trading in crypto structurally unprofitable. A trader who makes 100 trades in a year with an average gain of ₹1,000 per trade — ₹1 lakh gross profit — would owe ₹30,000 in income tax plus 1% TDS (₹1,000 per trade, or ₹1 lakh total) that is locked until the tax return is filed. Their net effective tax rate on gross gains: over 130%, because the lock-up of TDS exceeds the profit. The only viable strategy under this framework is long-term holding — and hoping that the 30% tax on eventual sale does not absorb too much of the gain.

F&O Taxation: The Practical Checklist

- **1. Classify correctly:** confirm with your CA that your F&O activity is non-speculative business income (most cases) and not speculative business income (only same-day-squaring in equities).
- **2. Track turnover:** your *turnover* for audit-threshold purposes is the sum of positive and negative differences across all contracts at settlement — typically 5–10× your net P&L. Most traders are shocked at their audit-class turnover.

- **3. Presumptive or books:** if turnover is under ₹3 crore and you are an individual/HUF, presumptive (6%/8%) wins 80% of the time for simplicity; use actual books only if your profit margin is clearly above 6%.
- **4. STT impact: budget for it:** at 2026 rates, allocate at least 0.05–0.1% of notional turnover for STT alone in your annual cost model.
- **5. Loss carry-forward:** non-speculative F&O losses can be carried forward for 8 years — file the return on time even if loss-making, or the carry-forward lapses.

Key Takeaways

- **F&O is non-speculative business income:** full expense deduction, slab-rate taxation, 8-year loss carry-forward. Do not confuse it with intraday equity (speculative).
- **The ₹10 crore turnover audit threshold** is the single most consequential number in an active trader's annual planning — crossing it costs ₹30,000–75,000 in audit fees and creates permanent tax-audit exposure.
- **STT has risen 8× in a decade** (options, 2014–2024 baseline) and is scheduled to rise 150% higher again from April 2026. This is now the largest transaction cost for a high-turnover trader.
- **Crypto's 30%/1% structure** makes anything beyond holding economically unviable for frequent trading in India.
- **Compliance over optimisation:** the risk of a tax notice on a procedural error (missed audit, wrong classification, incorrect turnover calculation) far exceeds the theoretical benefit of any aggressive tax strategy.

PART VIII

**WEALTH BEYOND THE
SCREEN**

Investing Versus Trading — Choosing Your Game

Every market participant faces the same fork in the road early in their journey: **am I an investor or a trader?** The two activities look alike on the surface — both involve buying and selling financial instruments — but they demand fundamentally different skills, time commitments, and capital structures. Mixing them up is the most expensive mistake a market participant can make.

The Spectrum of Participation

At one end sits the **long-term investor**: someone who buys a piece of a business (or a basket of businesses) and holds it across market cycles, profiting primarily from the growth of the underlying enterprise. At the other end sits the **trader**: someone who buys and sells based on shorter-term price movements, profiting from timing rather than compounding. Neither is superior — each suits a different capital base, temperament, and lifestyle. What complicates the choice is that Indian markets, from 2018 through 2026, offered spectacular rewards to both approaches, but at very different moments. The COVID crash of March 2020 was the buying opportunity of a decade for investors; the volatile recoveries of 2021 and 2022 were a trader's playground. Knowing which hat to wear at which time is the real skill.

Stocks Versus Mutual Funds

For the typical retail participant with ₹50,000 to ₹5 lakh of savings, the choice between direct stocks and mutual funds is not a close call. A mutual fund provides **instant diversification** — the typical large-cap fund holds 50–200 stocks, so a single corporate failure that wipes out 90% of a stock scratches only 0.5–2% off the portfolio. The same failure in a direct stock portfolio can destroy months of returns. The fund also provides professional research, rebalancing, and the convenience of SIP (systematic investment plan) and SWP (systematic withdrawal plan) — automated discipline that eliminates the worst human error: trying to time the market. Where mutual funds fall short is **cost and control**. An active fund charges 1–2% in expense ratio annually. On a ₹5 lakh portfolio held for ten years, that compounds to roughly

₹60,000–₹1.2 lakh in fees — a meaningful drag. And you cannot exit intraday; the NAV is fixed once per day. Exchange-traded funds (ETFs) split the difference. Nifty BeES, for instance, charges near-zero expense ratio (a fraction of a percent), trades on the exchange like a stock, and can be pledged as collateral for F&O margins with a haircut of only ~5% — far lower than the 10–20% haircut applied to mutual funds. Liquid BeES, a debt ETF holding government securities, functions as a cash equivalent: it trades at a stable price near ₹1,000, pays interest as additional units monthly, and incurs zero STT or stamp duty on transactions. You pay ₹1,000, you get one unit. For a participant who intends to use their portfolio as collateral for option selling — a common pattern discussed throughout this book — ETFs are the clear winner. Nifty BeES pledged for margin gives both equity exposure and trading capital, an efficiency that mutual fund units cannot match.

The Passive-Active Spectrum

Even after deciding to invest rather than trade, a further choice remains: passive (index-tracking) or active (picking stocks or sectors). The case for passive is surprisingly strong. Over the 26-year period from 1994 to 2020, the Nifty 50's average total return — including dividends — was roughly eleven times, which works out to a compound annual growth rate of under 10% per year. During the same period, a risk-free bank fixed deposit would have doubled roughly every six years, yielding a comparable post-tax result with zero sleepless nights. This does not mean passive is always superior. It means that the margin an active investor must beat is thin, and costs eat into it rapidly. A fund that charges 2% in expenses and another 1–2% in portfolio turnover costs needs to outperform the index by 3–4% per year just to match the net return. Over a decade that gap compounds into a difference of roughly 30–40% in ending wealth. The one area where active investing clearly wins is **entry and exit timing** — not individual stock selection, but the decision of when to be in the market and when to step aside. The PE-based accumulation-and-distribution framework described earlier is itself an active timing call, and it is the only one that has historically added measurable value. Beyond that, most active-stock-picking strategies — technical patterns, sector rotation, momentum — are better applied through derivatives than through cash-market stock selection.

Value Versus Momentum

Within the investing world, two broad schools contend. **Value investors** buy stocks trading below their intrinsic worth, often measured by metrics like price-to-earnings (PE), price-to-book, or dividend yield. **Momentum investors** buy stocks that are already rising, on the principle that price trends persist long enough to capture. Both approaches have worked in Indian markets across different phases. The

post-COVID recovery of 2020–2021 favoured momentum: stocks that had already bounced continued to bounce, led by IT, metals, and select financials. The consolidation of 2023–2024 favoured value: stocks that had lagged the rally caught up, especially in banking and manufacturing. The lesson is not to pick one camp and defend it to the death. It is to recognise that **the right approach changes with the market regime**. In a trending market, momentum wins; in a mean-reverting market, value wins. A flexible investor uses both — allocating more to value when PE multiples are compressed, and shifting toward momentum when breadth is strong.

When NOT to Be in the Market

This may seem like an odd section in a book about market participation, but knowing when to stay out is as valuable as knowing when to get in. The data since 2018 shows a recurring pattern: the best entry points follow periods of maximum pessimism, and the worst entry points follow periods of euphoria. The Nifty's PE ratio has historically traded in a range of roughly 15–16 at the bottom and 28–30 at the top. In May 2020, at the depths of the COVID crash, the Nifty PE sat near 16 — a textbook accumulation zone. By December 2020, as the Nifty crossed 14,000, the PE had moved well past 28 into distribution territory. Those who bought at PE 16 and sold at PE 28 captured both earnings growth and multiple expansion — the double-compounding that makes long-term investing powerful. Those who bought near PE 28 and sold in panic near PE 16 experienced the reverse. A powerful example of this dynamic played out during the COVID crash itself. In March 2020, the Nifty fell to roughly 7,500. With PE at 16 and most market participants convinced the market would fall further (as they had been convinced after every major crash in history), buying even a modest SIP into a Nifty ETF would have generated returns of 200–300% over the subsequent four years. The panic gave way to a bull market that, as the market aphorism teaches, was born of pessimism, grew on scepticism, matured on optimism, and eventually died of euphoria. The practical rule: when even taxi drivers and bank managers are talking about their stock-market winnings, it is time to be cautious. When nobody wants to touch equities, it is time to be greedy.

The Tax Dimension

Tax treatment is a material consideration in the invest-versus-trade decision. Long-term capital gains on listed equity (holding period over one year) are taxed at 10% on gains exceeding ₹1 lakh — a rate that has applied since the 2018 budget reinstated LTCG tax. Short-term capital gains (under one year) are taxed at 15%. Neither rate depends on the investor's income slab. By contrast, F&O trading income is classified as business income and taxed at the participant's applicable slab rate — which, for a high-earner, can reach 39% (including cess). The offsetting advantage is that

business-income status allows full deduction of related expenses: broadband, office rent, research subscriptions, depreciation on equipment, and — crucially — trading losses can be carried forward for eight years and set off against future profits. An investor who realises a capital loss on a stock can set it off only against capital gains, not against salary or business income. For a high-earning professional who trades on the side, the tax arithmetic often favours long-term investing over active trading in the individual-capital-gains regime. For a full-time trader who files as a business, the expense deductions and loss set-off make the F&O route viable despite the higher slab rate.

The Decision Framework

Factor	Prefers Investing	Prefers Trading
Time horizon	3+ years	Days to weeks
Capital monitoring	Quarterly	Daily
Skill required	Company/industry analysis	Risk management, psychology
Tax treatment	LTCG: 10% over ₹1L; STCG 15%	Business income (slab, expenses deductible)
Best for	Salaried professionals, long-term goals	Full-time, risk capital available
Tools	SIP, ETF, cash-secured puts	Options, futures, technical analysis
Collateral efficiency	Low — cash needed upfront	High — pledge equities/debt ETFs

Key Takeaways

- Investing and trading require different skills, capital, and temperament. Know which game you are playing.
- For small capital (under ₹5 lakh), mutual funds and ETFs beat direct stock picking on diversification, cost, and discipline.
- ETFs double as trading collateral — Nifty BeES carries a ~5% haircut vs 10–20% for mutual funds.
- The Nifty's PE cycle (15–16 at bottoms, 28–30 at tops) has been a reliable long-term entry and exit guide since 2018.
- Passive (index-tracking) investing has historically matched active stock-picking after costs for most retail participants.
- The right time to invest is when you have surplus cash; the right time to exit is when you need the money.

The Hard Assets Debate — Real Estate, Gold, and

Bonds

Every trader or investor eventually faces the question: should I put money into hard assets — real estate, gold, bonds — or keep everything in equities and derivatives? The answer changes with the market cycle, but the underlying math has been surprisingly consistent across the years covered by this book.

Real Estate: The Yield Test

The most persistent myth in Indian household finance is that real estate is a can't-lose investment. The numbers tell a different story. Across India's major cities between 2018 and 2026, gross rental yields averaged 2–3% of property value per year. At the same time, home loan interest rates ran at 8–9%. A landlord paying 9% interest to earn 2.5% rent is bleeding 6.5% of the property value every year — and betting entirely on price appreciation to make up the gap. As the property market wisdom goes, the renter has a thousand houses; the owner has one that may or may not appreciate. Price appreciation did occur in some pockets. The IT-corridor boom around a South Indian city's arterial road in the early 2010s saw land values multiply several times as multinational companies set up campuses and residential demand followed. But a boom that attracts every retail buyer is usually closer to its end than its beginning. By the time an office clerk, a bank manager, and a cab driver all discuss “the property that never goes down,” the easy money has been made. Many who bought at the peak of that IT-corridor boom in 2012–2013 found themselves sitting on flat or even negative nominal returns for a decade when the rate of new hiring slowed in the late 2010s. Real estate also carries liquidity and fraud risks that financial assets do not. A buyer in an under-construction project may wait years for possession; in the worst cases, the builder converts promised amenities — a clubhouse, a park — into commercial property, local authorities seize the land, and the buyer is locked in legal limbo with no exit. One widely reported case involved a group housing project where a clubhouse advertised as a key attraction was reclassified as a commercial mall. The authorities

seized the development and titles were frozen for years, leaving buyers unable to sell, rent, or transfer a single unit. Title-chain disputes — where a piece of land is found to have been sold ten or fifteen times without valid transfer — are common enough that verifying ownership chain through the sub-registrar's records is a mandatory step that many buyers skip in their enthusiasm. The simple rule: never buy real estate without engaging an independent title lawyer.

The Franklin Templeton Crisis: When Safe Assets Turn Toxic

In April 2020, Franklin Templeton Mutual Fund wound up six of its debt schemes worth approximately ₹30,000 crore. The trigger was a spike in redemption pressure: as COVID uncertainty gripped markets, institutional investors pulled money from debt funds, forcing the fund house to sell assets into a falling market. When the sales could not keep up with the pace of redemptions, the wind-up was declared. The event rippled through the F&O market in an unexpected way. Many option sellers had pledged their Franklin debt-fund holdings as collateral for trading margins — a common practice to avoid tying up cash. When exchanges learned of the wind-up, they immediately imposed a 100% haircut on all Franklin debt-fund collateral. Units worth ₹10 lakh in collateral suddenly counted as zero for margin purposes. Option sellers who had pledged these funds faced an immediate choice: bring additional cash within the margin-call window, or have their positions forcibly squared off by the broker. The forced closing of short option positions amplified the selling pressure that day. The lesson is structural, not episodic. Any asset used as collateral carries haircut risk — if the exchange reclassifies it overnight, the margin shortfall arrives instantly, not gradually. The safest collateral instruments are those with the lowest and most stable haircuts: index-linked ETFs like Nifty BeES and Liquid BeES, and government securities in demat form. The solution for investors who want real estate exposure without the headaches of direct ownership is the Real Estate Investment Trust (REIT) or Infrastructure Investment Trust (InvIT). These listed instruments hold rent-bearing commercial properties or infrastructure assets, are mandated to pay out 90% or more of their income as dividends, and trade on the exchange like stocks. They offer full liquidity, no title risk, and instant diversification across cities and property types.

Gold: Crisis Insurance, Not Wealth Creation

Gold's role in a portfolio is best understood through its three major spikes of the modern era. The first came in 1980, triggered by the Iranian revolution and the oil crisis — gold soared from under \$200 to over \$800 per ounce. The second followed the 2008 Lehman collapse, when gold rallied from roughly \$700 to \$1,900 per ounce by 2011. The third accompanied the COVID crash of 2020, when gold touched an all-time high near \$2,075 in August 2020. In each case, the trigger was the same: a global

crisis forced central banks to slash interest rates to near zero. When deposit rates fall below inflation, a yieldless asset like gold suddenly becomes attractive — not because it produces anything, but because the alternative (cash in the bank) is producing even less. The pattern is consistent: whenever a global crisis erupts, gold prices shoot up. Gold did not underperform during 2018–2026. Its returns in rupee terms roughly matched the Nifty's total return during the same stretch — but with far lower volatility. The practical takeaway: gold belongs in a portfolio as crisis insurance, not as a growth engine. An allocation of 5–10% acts as a hedge against geopolitical shocks and currency depreciation, but expecting it to outperform equities over decades has historically been a losing bet across every twenty-year window since 1971. India's policy environment around gold also matters. In May 2026, the government raised the import duty on gold and silver from 6% to 15% to shore up foreign-exchange reserves. Such moves increase the effective cost of holding physical gold and widen the gap between international and domestic prices. Sovereign Gold Bonds (SGBs), which pay a small coupon and offer capital-gains exemption under indexation for long-term holders, mitigate some of this friction. Exchange-traded gold funds offer even cleaner access, trading on the exchange with low expenses.

Bonds, Covered Bonds, and Fixed Income

The fixed-income universe in India offers choices that many equity-focused participants ignore. Bank fixed deposits, the default choice, are safe (insured up to ₹5 lakh by the DICGC) but barely beat inflation post-tax — a 7% FD yields roughly 4.5–5% after tax for someone in the 30% tax bracket, which after 4–5% inflation is close to zero in real terms. Corporate bonds offer higher yields (8–10% for AA-rated issuers during normal conditions) but carry credit risk. The Franklin Templeton episode showed that even diversified debt-fund holdings are not immune to a liquidity freeze. Covered bonds, introduced in India during this period, add an extra layer of security by ring-fencing a pool of assets that backs the bond — so even if the issuer defaults, the covered pool remains available to bondholders. A particularly useful fixed-income product is Bharat Bond, a debt ETF that holds only AAA-rated PSU bonds maturing before the scheme's target date. At a 0.0005% expense ratio — easily India's cheapest fund product — it offers yields in the 7–8% range and can be pledged as F&O collateral with a haircut of only ~5%. For a trader who keeps idle capital against margin requirements, a near-risk-free 7.5% yield on that capital is not trivial. As an added feature, if interest rates fall, longer-duration Bharat Bond ETFs appreciate in price, giving a capital gain on top of the yield — and if rates rise, the holding can simply be held to maturity at par. The matching of duration to the investor's rate view is a simple but powerful tool.

A Quick Comparison

Asset Class	Pre-tax Return (2018–2026)	Liquidity	Collateral Haircut	Best For
Nifty 50 (total re- turn)	12–15% p.a.	Instant	~5% (via ETF)	Growth
Physical real es- tate	~2–5% p.a. (incl. rent)	Poor — months	Not eligible	Residence
REITs/InvITs	8–12% p.a. (divi- dends + price)	Exchange-traded	~10–15% income	Property expo- sure
Gold (rupee)	~7–10% p.a.	Instant (ETF)	Not ideal	Crisis hedge
Bharat Bond ETF	~7–8% p.a.	Exchange-traded	~5%	Collateral, in- come
Bank FD	5–7% p.a.	Penalty on early exit	Not eligible	Emergency fund

Key Takeaways

- *Real estate in India fails the yield test: 2–3% rent vs 8–9% loan cost. Without price appreciation, the arithmetic does not work.*
- *Title-chain fraud and construction delays are real risks. REITs offer liquid, diversified property exposure.*
- *The Franklin Templeton debt-fund crisis (April 2020) showed that any asset used as collateral can be haircut to zero overnight. Diversify your collateral across structures.*
- *Gold is crisis insurance, not a growth asset. It spikes when central banks slash rates; it should never dominate a portfolio.*
- *Bharat Bond ETFs offer 7–8% near-risk-free yield with a 5% collateral haircut. They are the best parking spot for idle option-selling margin.*

Crypto as a Satellite — Not a Religion

If any single asset class divided market participants across the years 2018–2026, it was cryptocurrency. Bitcoin went from under \$4,000 in 2018 to a peak near \$69,000 in November 2021, collapsed to below \$18,000 in the 2022 crypto winter (a 75% decline), and recovered gradually into the \$80,000–\$100,000 range by 2025–2026. Ethereum followed a similar arc — from under \$100 to nearly \$5,000 and back below \$1,000. Those swings produced life-changing gains for some and devastating losses for others. The position taken throughout this book is simple: **crypto belongs in a portfolio, but as a satellite allocation — never the core.** The numbers, strategies, and India-specific tax facts that follow explain how a trader can participate without gambling the farm.

Why 5–10% of Capital Is Enough

The case for any crypto allocation rests on one argument: it is an uncorrelated asset with high volatility, and a small position can meaningfully boost a portfolio's total return without putting the rest at risk. The case against a larger allocation rests on at least five arguments, all valid:

- **1. India taxes crypto punitively.** Gains on crypto assets are taxed at a flat 30% with no deduction for expenses and no basic exemption. Worse, a 1% Tax Deducted at Source (TDS) applies to every transaction — so a daily trader who turns over ₹1 crore in a year has ₹10 lakh tied up as TDS credits until the annual tax filing, even if their net profit is zero. This cash-flow drag alone makes frequent trading structurally penalised.
- **2. The regulatory status remains uncertain.** India's Cryptocurrency and Regulation of Official Digital Currency Bill, introduced in the 2021 winter session of parliament, created a regulatory shadow that has never fully lifted. Exchanges operate under periodic banking- access restrictions, and the tax regime explicitly treats crypto differently from business income.
- **3. Exchange risk is real and permanent.** The collapse of FTX in November 2022 wiped out billions in customer funds. Even the largest platforms are not too big to fail. A regulated Indian exchange with FIU registration reduces — but does not eliminate — this risk.

- **4. Volatility destroys undercapitalised positions.** A 15-minute candle that moves Bitcoin by \$2,000 would be an extraordinary event in any equity market. In crypto such moves are routine. Without aggressive position sizing, one such candle liquidates a poorly margined account. Some traders have seen entire accounts wiped on a single BTC move against their direction.
- **5. The mental bandwidth cost is high.** Monitoring crypto positions around the clock, especially given the tax friction of frequent trading, burns attention that could be deployed more productively in indices. A trader who sizes crypto at 10% of capital and checks it weekly will outperform one who sizes at 50% and checks it hourly.

For these reasons, experienced crypto traders consistently cap their allocation at 5–10% of total capital, treating it as pocket-money risk that cannot damage the main portfolio even if it goes to zero.

What India's Tax Regime Means in Practice

The 30% flat tax plus 1% TDS structure is best understood through a concrete worked example. Consider a trader who executes ten round-trip Bitcoin trades during a financial year, each of ₹1,00,000 notional value. Total turnover: ₹10,00,000. The 1% TDS on each transaction means ₹10,000 is deducted and remitted to the tax department over the course of the year. If the trader's net profit after all trades is ₹50,000, the tax due is $30\% \times ₹50,000 = ₹15,000$. The trader has already paid ₹10,000 in TDS, so the net payment at filing time is only ₹5,000. So far, manageable. But scale up. If the trader's total turnover is ₹1 crore (100 trades of ₹1,00,000 each), the TDS tied up across the year is ₹1,00,000 — a meaningful chunk of a ₹10–15 lakh trading account. The trader must finance that ₹1,00,000 from their own capital for up to 12 months before the refund arrives. Every percentage point of that capital is capital that cannot be deployed in the next trade. Worse, if the trader's net profit is zero (winning and losing trades cancel), the 1% TDS still applies on every transaction. The ₹1,00,000 in TDS is returned at filing — but only after the full financial year. For a small account, the TDS cash-flow drag can exceed the available trading capital, making frequent intraday crypto trading effectively impossible. The practical conclusion: for most Indian participants, the rational approach to crypto is either a long-term hold (held beyond three years, where the effective tax rate via indexation can drop to 10–20%) or trading on a registered FIU-compliant crypto F&O exchange, where contracts are treated as business income with full expense offset and loss set-off across instruments. The business-income treatment eliminates the 30% flat structure — profits are added to other income and taxed at slab rates, with expenses deducted.

Crypto Options: Opportunity in High IV

The one area where crypto genuinely rewards disciplined participants is premium selling. Cryptocurrency derivatives trade with implied volatility that is 2–10× higher than equivalent equity index options. A far out-of-the-money put on the Nifty that pays ₹10 in premium might pay ₹200 on Bitcoin at the same moneyness. This is not free money — crypto can and does move to strikes that the premium priced in — but it means that range-bound premium selling works as well in crypto as in indices, with one critical adjustment: **breakeven bands must be wider**. A typical Bitcoin structure during the consolidation of mid-2025 to early-2026, when Bitcoin traded in a broad \$80,000–\$100,000 range, looked like this. A short straddle at the \$90,000 strike — selling the \$90,000 call and the \$90,000 put simultaneously — would have collected combined premium of several thousand dollars per contract on global exchanges. The breakevens of the structure would have spanned roughly \$83,000 to \$97,000, wide enough to absorb violent daily swings that would have destroyed a narrower position. The trade would profit as long as Bitcoin did not break decisively outside its established band — which, during a multi-month consolidation, it did not. Ratio spreads and butterflies also translate directly. A call butterfly during the same period — a strategy that involves buying one call at the lower end of the range, selling two calls at the midpoint, and buying one call at the upper end — would have offered defined risk, a wide profit zone, and a limited loss in any direction. The construction is identical to the index butterflies described in Part IV of this book. The one precaution specific to crypto: **never run a naked short**. The margin on a naked BTC short straddle might look manageable, but a single \$15,000 gap move against the position — routine in Bitcoin — can generate a margin call before the trader has time to react. In crypto, always pair the short with a cheap far-out-of-the-money long leg. The premium earned on the short legs easily covers the cost of buying the long wing.

A Field Report: An FTX-Era Short Strangle

A real-world example from the FTX collapse period (November 2022) illustrates the principle. Bitcoin had fallen from roughly \$70,000 to \$15,000–\$16,000, and most market participants believed further downside was likely. At that point, the market was near-term oversold, and a simple short strangle — selling a put at \$10,000 and a call at \$25,000 — offered a breakeven from roughly \$8,000 to \$27,000. The premium, given the extreme implied volatility, was substantial relative to the margin. The structure survived the remaining weeks of the FTX aftershocks without adjustment, because its breakevens spanned a range that included both the current low and any plausible counter-rally. The trade that ultimately won was not a clever prediction — it was a bet that the selling would exhaust itself, priced at levels that compensated the seller for the ride.

Exchanges and Practical Points

The exchanges available to Indian participants evolved significantly between 2022 and 2026. The FTX collapse triggered a flight to regulated platforms. By 2024–2026, at least one platform had obtained FIU (Financial Intelligence Unit) registration in India, allowing residents to trade crypto options in rupees without foreign-exchange exposure. On such platforms, margins are set in INR, profits are taxed as business income (set off against other F&O income, offset by trading expenses), and the need to handle TCS on crypto funding is eliminated. The strategies taught in Part IV of this book – short straddles and strangles for range-bound markets, ratio spreads for mildly directional views, butterflies for defined-risk trades – all transfer directly to crypto options. The only adjustments are:

- **Size smaller:** 5–10% of capital.
- **Breakevens wider:** at least 2× the recent daily range.
- **Exchange risk:** prioritise FIU-registered platforms; never put more than half of your crypto allocation on any single exchange.
- **Tax treatment:** maintain separate books for crypto F&O; treat as business income with full expense deduction.

At the margins described here, crypto option selling has reportedly produced consistent monthly returns – not because the market is easy, but because implied volatility is high enough to compensate sellers for the genuine risk of violent swings. That is the entire thesis: a disciplined premium seller, in any asset class, makes money by charging insurance premiums that reflect the market’s fear. In crypto, the fear is real, and the premiums are proportionally large. The job of the trader is to keep the allocation small enough that even a total loss does not change their lifestyle.

Strategy	Crypto Adaptation	Timeframe	Risk Level
Short straddle	Wider strikes, 2× daily range	Weekly-monthly	Moderate
Short strangle	Very wide, span range-to-range	2-4 weeks	Moderate-low
Call ratio spread	Financed by high crypto IV	4-8 weeks	Defined risk
Call butterfly	Lower range end for upside	4-8 weeks	Low, defined
Cash-secured-like put	Deep OTM put sale + far OTM wing	Monthly	Moderate

Key Takeaways

- *Crypto belongs as a 5–10% satellite allocation – never the core – given its tax, regulatory, and exchange risks.*
- *India’s 30% flat tax + 1% TDS makes intraday crypto trading structurally penalised; long-term holding or using an FIU-registered F&O platform is preferable.*
- *Crypto’s high implied volatility (2–10× equity indices) rewards range-bound premium selling – but breakevens must be 2× wider than usual.*

- *Short straddles, ratio spreads, and butterflies all work in crypto; the constructs from Part IV translate directly with wider strikes.*
- *Exchange risk is the single greatest danger. Use FIU-registered platforms; spread across exchanges; size positions so a full freeze does not damage your main portfolio.*

The Twenty-Five Lessons

Four million words reduce, in the end, to a surprisingly short list. What follows is not a summary of the preceding chapters but a distillation of what survived every filter applied to the corpus: the ideas Dhanraj returned to most often, expressed most forcefully, and demonstrated most consistently across eight years of public teaching.

They are ordered roughly as a trader encounters them — first the nature of the market, then the instruments, then the management of risk, then the conduct of the person, and finally the money that is not in the market at all.

On the nature of the market

1. The market is not complex; it is merely uncertain. Dhanraj's repeated insistence is that price is the outcome of demand and supply and nothing more mysterious than that. The difficulty is not that the mechanism is complicated but that its inputs are unknowable in advance. Traders who mis-take uncertainty for complexity respond by adding indicators, when the correct response is to add humility and reduce size. DHANRAJ'S VIEW

2. Markets react to surprise, not to news. An expected event, however dramatic, is already in the price. A minor event nobody anticipated can move the index more than a major event everyone forecast. This is the single most useful lens for interpreting why a market fell on good news or rallied on bad. DHANRAJ'S VIEW

3. Amateurs open the market; professionals close it. The opening minutes are dominated by overnight emotion and retail order flow; the closing hour is where institutional decisions are executed. Dhanraj uses the observation both descriptively and prescriptively — it explains the shape of an intraday session, and it warns against acting on the first half hour. DHANRAJ'S VIEW

Because I always say amateurs open the market and professionals close the market or retail people open the market, institutions close the market.

4. A bull market is born out of pessimism, grows on scepticism, matures on optimism and dies on euphoria. The framework is not original to Dhanraj, but he applies it as a live diagnostic rather than a retrospective aphorism: the moment the

taxi driver, the neighbour and the office group chat all agree the market only goes up, the cycle is nearer its end than its beginning. DHANRAJ'S VIEW

5. In a bear market, every rise is a selling opportunity; in a bull market, every fall is a buying opportunity. The corollary matters more than the statement: identifying which regime one is in is the hard part, and the trader who applies bull-market rules in a bear market compounds the error. DHANRAJ'S VIEW

6. Institutional flows explain the past better than they predict the future. Foreign and domestic institutional activity is genuinely informative about what has happened and why. It is a poor timing device, because by the time a flow is reported it has already been transacted. DHANRAJ'S VIEW

On the instruments

7. Futures have no future; options have plenty of options. Dhanraj's most quoted line is a compressed argument about payoff geometry. A futures position offers one exposure with symmetric risk. An options position can be shaped — capped, hedged, staged across expiries, financed by another leg. The flexibility is the edge, not the leverage. DHANRAJ'S VIEW

8. Understand the seller's arithmetic before selling. The option seller's typical trade wins often and loses rarely but loses large. That distribution is workable with adequate capital and strict sizing, and lethal without them. The frequency of small wins is precisely what seduces the undercapitalised into believing the risk is small. DHANRAJ'S VIEW

9. Time decay is a real edge, but it is a small one. Theta is the seller's income and it accrues reliably. It does not accrue fast enough to repair a single unmanaged gap. Any strategy that relies on decay must be constructed so that no single event can consume many months of collected premium. DHANRAJ'S VIEW

10. Margin is a business input, not an afterthought. The professional's attention to SPAN and exposure margin, to collateral and pledging, and to return on margin employed rather than return on notional, is what separates an operation from a hobby. Capital efficiency compounds; so does its absence. DHANRAJ'S VIEW

11. A far out-of-the-money option bought cheaply is usually not a hedge. It is an inexpensive object that resembles insurance. Dhanraj's argument is that it fails at precisely the moment protection is needed, because the loss arrives in the region between the sold strike and the distant bought one. A hedge that does not cover the realistic loss zone is a psychological comfort with a real cost. DHANRAJ'S VIEW

12. Expiry mechanics destroy more accounts than direction does. Physical settlement obligations, in-the-money assignment, and the last-hour behaviour of options near their strike are operational risks that have nothing to do with market view. They are learned either from a manual or from a loss. DHANRAJ'S VIEW

On risk and capital

13. Capital protection precedes return. Every other lesson in the book is downstream of this one. The trader who survives a decade of markets will beat the trader who outperforms for three years and is liquidated in the fourth, and the arithmetic of drawdown — a 50% loss requires a 100% gain to recover — is why. DHANRAJ'S VIEW

14. Leverage is the instrument of nearly every ruin. Not a wrong view, not bad luck, not a black swan by itself, but position size relative to capital. Dhanraj's institutional years inform the point: professional desks impose limits precisely because judgement degrades under pressure and only pre-committed constraints hold. DHANRAJ'S VIEW

15. Position sizing is the only variable fully under the trader's control. Direction is unknowable, volatility is unpredictable, but the number of lots is a decision made in calm conditions. It should be made in calm conditions, in writing, before the position is opened. DHANRAJ'S VIEW

16. Never catch a falling knife. Averaging into a losing position because it has become cheaper substitutes a story for a stop. The price is not information about value; it is information about the balance of urgency between buyers and sellers. DHANRAJ'S VIEW

17. Assume the tail event will arrive during your largest position. Gaps, circuit breakers, and events that price cannot traverse continuously are not hypothetical — they are periodic. Dhanraj's black-swan humility is not fatalism; it is the operational conclusion that a position must be survivable at a size the trader can hold through a discontinuity. DHANRAJ'S VIEW

18. Know the point at which repair becomes gambling. Adjusting, rolling and restructuring a losing position are legitimate techniques. Adding risk to a losing position in order to avoid recognising a loss is not, and the two look identical from the inside. The distinction must be drawn in advance. DHANRAJ'S VIEW

On conduct

19. Trading is a business, not a lottery ticket. It has capital, expenses, taxes, record-keeping and an expectancy that is either positive or negative. Participants who treat it as a business behave differently from those seeking a thrill, and the difference shows up in the equity curve rather than in any single trade. DHANRAJ'S VIEW

20. Money and experience are exchanged at the beginning. The beginner arrives with capital and no experience and leaves the first phase with experience and less capital. The tuition is unavoidable; its size is not. Trading small while incompetent is the only genuine discount available. DHANRAJ'S VIEW

21. Discipline outperforms insight. The corpus contains far more warnings about process failure than about analytical failure. Dhanraj's own method is repetitive

and unglamorous by design, because a repeatable process can be executed under stress and a clever one usually cannot. DHANRAJ'S VIEW

22. Simplicity survives; complexity breaks. Indicator stacking and over-analysis produce confidence rather than accuracy. A strategy the trader can explain in two sentences can be followed when the screen is red. DHANRAJ'S VIEW

23. Verify before you trust, especially when the name is familiar. The fraud chapter's central lesson is that credibility is borrowed more easily than it is built. Guaranteed returns, private groups, unverifiable screenshots and messages arriving in a direct inbox are the recurring architecture of predation — and impersonation of a trusted name is now a standard tool. DHANRAJ'S VIEW

On money outside the market

24. Taxes, costs and regulation determine the net outcome more reliably than views do. Dhanraj's running argument — expressed most memorably through the contrast between a honeybee, which takes nectar without destroying the flower, and a sugarcane press, which extracts every drop — is that transaction taxes and frictions accumulate quietly against the frequent trader. Whether one accepts his policy conclusion or not, the arithmetic of costs is not optional. DHANRAJ'S VIEW

Taxation should be like the honeybee, not the sugarcane press.

25. Wealth is built outside the trading account. The corpus is emphatic that trading capital is not a life's savings, that asset allocation across equity, debt, gold and property is not a compromise but a structure, and that the objective is financial independence rather than a large number on a screen. Dhanraj's contrarian preference for systematic withdrawal over systematic investment belongs here as his view, not as settled advice — but the underlying instruction, to plan for drawing an income rather than merely accumulating, is sound whatever one concludes about the mechanism. DHANRAJ'S VIEW

The recurring frameworks, consolidated

Six phrases recur across the corpus with enough frequency to function as Dhanraj's working vocabulary. They are gathered here because they are most useful together.

"Amateurs open the market; professionals close it."

Read the session, not the opening tick.

"Markets react to surprise news, not expected news." Ask what was already priced.

"Buy on rumour, sell on news." The event is the exit, not the entry.

“A bull market is born out of pessimism and dies on euphoria.” Locate the cycle before choosing a tactic.

“Futures have no future; options have plenty of options.” Prefer shaped exposure to raw exposure.

“In a war, nobody wins.” Geopolitical shocks are moments for reduced size, not directional conviction.

A final caution

The temptation, having read a list like the one above, is to treat it as a system. It is not. Every item is a constraint rather than a signal — a statement about what to avoid, how much to risk, and what to verify. Nothing in this book, and nothing in four million words of source material, tells a reader what the market will do next.

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What the corpus does offer, consistently and across every market condition it happened to record, is a temperament: sceptical of certainty, preoccupied with survival, hostile to leverage, contemptuous of shortcuts, and unusually willing to say in public that a previously held view had been wrong. Readers may reasonably disagree with Dhanraj’s strategies, his tax politics, or his market outlook. The temperament is the part worth borrowing.

Chapter Takeaways

- Capital protection precedes return; every other lesson in the book is downstream of that one. Position size is the only variable entirely within a trader’s control, and it should be decided in calm conditions before a trade is opened. Time decay is a genuine but small edge, and it cannot repair a single unmanaged tail event. Discipline and simplicity outperform insight and complexity, because only a repeatable process can be executed under stress. Costs, taxes and frictions shape net outcomes more reliably than market views do. No list of lessons constitutes a system; these are constraints, not signals.
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VERIFIED FACTS VS. DHANRAJ'S OPINION

- **What the record shows:** The arithmetic underlying the draw-down lesson is definitional rather than empirical — a 50% loss requires a subsequent 100% gain to return to the starting value — and holds regardless of market conditions. **UNVERIFIED** **What the record shows:** The regulatory and taxation changes referenced across this book, including increases in the securities transaction tax and the revision of capital-gains rates, are matters of published record and are documented claim by claim in the companion volume of sources. **UNVERIFIED** **What remains Dhanraj's opinion:** That non-directional option selling is structurally superior to directional trading, that systematic withdrawal deserves more attention than systematic investment, and that Indian market taxation has become hostile to active participants, are Dhanraj's own positions. They are argued consistently across the corpus and are reproduced here as his views, not as conclusions this book endorses or as advice to any reader.

DHANRAJ'S VIEW

APPENDICES

Glossary

ADR (American Depositary Receipt) — a US-listed certificate representing shares of a foreign company; Indian companies with US listings produce overnight ADR signals for the Indian market the next morning. **ATM/ITM/OTM** — at-the-money (strike near spot), in-the-money (strike already favourable), out-of-the-money (strike unfavourable). **Bank Nifty** — index of India's largest banks; the most-traded index after Nifty for options. **Block deal** — a single large trade (typically ≥₹10 crore or 500+ shares) executed off the order book between two parties. **Breakeven (options)** — the underlying level at which a position stops losing: strike plus (for call buys) or minus (for put buys) the premium paid; for sold options, the same points mark where losses begin. **Calendar spread** — selling an option in one expiry and buying the same-strike option in a farther expiry; profits from time-decay differentials. **Call option** — right (not obligation) to buy at the strike; the seller of a call has the obligation, for premium. **Cash market** — the equity market for immediate delivery, as opposed to derivatives. **Collateral** — pledged securities/FDs/cash that fund derivatives margin without cash outlay; the margin system's building block. **Covered call** — selling a call against stock held; caps upside, earns premium. **Crash / correction / bear market** — working definitions used in this book: a correction is roughly a 10% fall from highs; a bear market roughly 20%; a crash is a violent, multi-percent single-session or multi-session event. **DII** — domestic institutional investor (mutual funds, insurers, domestic institutions). **Doji** — a candlestick with open and close nearly equal, signalling indecision. **Drawdown** — peak-to-trough decline of capital or index. **Expiry** — the date an option contract settles. Indian index options moved from weekly expiries per index to a rationalized single-weekly-per-exchange system after 2024–25 regulation. **F&O** — futures and options. **FII** — foreign institutional investor (also FPI, foreign portfolio investor). **Firefighting (adjustment)** — restructuring a losing position (rolling, hedging, ratioing) to reduce further damage rather than exiting outright. **Gap up/down** — opening above/below the prior close, usually on overnight news. **GIFT Nifty** — the Nifty futures contract traded at GIFT City (successor to SGX Nifty, which served the same role before July 2023); trades nearly 21 hours and indicates India's opening direction. **Greeks** — sensitivity measures: Delta (price move per index point), Gamma (rate of change of Delta), Theta (time decay per day), Vega (sensitivity

to implied volatility), Rho (rate sensitivity). **Implied volatility (IV)** — the volatility embedded in option prices; IV Rank/ Percentile compare current IV to its own history. **India VIX** — the volatility index computed from Nifty options; readings below ~15 are low-volatility regimes, above ~30 signal panic. **ITM put calendar** — selling a near-month in-the-money put and buying the same strike in a farther month; a margin-efficient, directionally-biased income structure. **Lot size** — the fixed number of units per derivative contract; Nifty's lot moved from 75 to larger values in the 2024–25 regulatory tightening. **Margin (SPAN + exposure)** — the collateral required to carry derivatives positions; SPAN is the portfolio risk calculation, exposure an additional buffer; peak-margin rules require intraday sufficiency. **Mark-to-market (MTM)** — daily settlement of futures gains/losses. **Max open interest (max OI) strike** — the strike with the largest open interest; treated by traders as a crowd-consensus support/resistance zone to be respected or faded. **MSCI rebalancing** — periodic index-weight changes that force passive funds to buy/ sell constituents mechanically. **Open interest (OI)** — total outstanding derivative contracts; rising OI with rising prices signals new longs, etc. **Option chain** — the table of all strikes with premiums, OI, and volumes for an underlying. **Payoff** — the profit diagram of a position at expiry. **PCR (put-call ratio)** — volume or OI of puts divided by calls; a sentiment gauge best read with positioning context. **Physical settlement** — post-2019 Indian rule requiring delivery of shares for in-the-money stock options at expiry. **Premium** — the option's price, paid by buyer, received by seller. **Put option** — right to sell at strike. **Qualified institutional placement (QIP)** — a fast private share issuance to institutions. **Ratio spread** — buying and selling unequal numbers of options (e.g., buy 1, sell 2), creating a credit or low-cost directional structure with a capped or naked tail. **Read-through trade** — trading Indian stocks on overnight signals from related foreign-listed securities (ADR moves, foreign peers' results). **Rolling (a position)** — closing a nearing-expiry option and opening a farther one, often at a different strike. **Short covering** — buying back borrowed/sold positions, producing sharp upside moves. **Short straddle/strangle** — selling both a call and put (same strike for straddle, different for strangle); profits from range-bound decay, suffers from big moves. **Short covering rally** — a rapid rally driven by shorts closing, not new buying. **STT (Securities Transaction Tax)** — the turnover tax on trades; raised repeatedly, most sharply on options. **Stop-loss** — a pre-set exit order; this book argues mechanical stop-losses are often inferior to position sizing plus adjustment for option sellers, and shows both sides. **Straddle/strangle buyer** — one who buys both call and put to bet on a big move either way. **Synthetic future** — a long call plus short put at the same strike, replicating futures exposure. **Theta decay** — the acceleration of option time-value loss near expiry. **Tug of war** — the recurring FII-selling vs DII/retail-buying dynamic that defined Indian markets 2021–2025. **V-shaped recovery** — a sharp fall followed by an equally sharp rebound, as in 2020. **Volatility crush** — the collapse of

IV after an event (budget, results) passes, hurting option buyers. **Whipsaw** — a false breakout that reverses, trapping both sides.

Strategy Quick Reference

Strategy	Construction	Best regime	Principal risk
Collateral-funded option selling (framework)	Sell options against collateral: bank FD, shares, mutual funds or bank guarantee pledged to the broker	Traders with large capital seeking steady returns	Margin calls on booked losses; losses can exceed premium received if unhedged

Strategy	Construction	Best regime	Principal risk
Falling-VIX combo (call ratio + put ratio)	Bought 8,200CE, sold 3x 9,000CE; bought 8,000PE, sold 7,400PE + 7,300PE (as stated)	Falling VIX with a directional view; benefits from vega collapse on the short legs	Upside loss above 9,000 on the 3:1 call ratio; downside acceleration through 7,300 on the put ratio
Strangle roll-under-stress mechanics	Short 9,000CE + 7,000PE written Friday around spot 8,000; on a violent rally, buy back 7,000PE (releasing margin) and sell 7,500/8,000PE instead	After violent directional moves when the losing leg must be repositioned	Forced buyback at inflated premiums; whipsaw if the market reverses immediately
Strike-and-expiry put ladder (illustrative, high risk)	Sold puts at 6,500 / 7,000 / 7,300 / 7,400 / 7,500 / 7,800 / 8,500 across weekly, May and June expiries; small stock- option positions (IndusInd 800 qty @22.52; ~2,300PE on a NBFC s	Extreme high VIX with stabilizing market (COVID April 2020)	Aggressive directional sizing; a renewed crash through the ladder strikes would produce large losses; explicitly not replicable by retail
Multi-strike, multi-expiry put selling (April 2020)	Sold put options spread across various strike prices and expiry periods rather than one strike	Ultra-bearish consensus with the negative surprise already announced	Losses if the market breaks below the sold strikes; premium is the cap on profit

Strategy	Construction	Best regime	Principal risk
Cash Secured Put	Sell a put at the strike where you want to own the stock; keep the full cash ready for delivery	Sideways-to-up markets, or when you want a lower entry price in a quality stock	Profit capped at premium; stock can fall far below strike; requires full cash backing of the strike
Infosys earnings iron fly with financed wings	Sell 650CE + 650PE (5 lots); buy 720CE + 580PE; sell 2x 750CE (10 lots) and 2x 550PE to finance the wings	Results eve with elevated implied volatility	Beyond 750/550 the financing legs turn the risk unlimited again; overnight gap risk
IndusInd Bank earnings hedged straddle (May series)	Sell May 400CE @62 + 400PE @52; buy current-month 500CE @4.25 + 300PE @5.25 as protection	High-IV stock ahead of results; next-month premium rich relative to risk	Very large move beyond the wings; one month is a long time in trading
IndusInd earnings-day iron-fly style combo	Sell 400CE + sell 400PE, buy 500CE + buy 300PE (current month)	earnings day when heavy short positioning built up	big gap moves on expiry; adjustments need reserve capital

Strategy	Construction	Best regime	Principal risk
Put-selling ladder in collapsing-VIX rebound	Sold puts across strikes from ~6,100 to 9,000 during April 2020 recovery	post-crash VIX collapse with market refusing to make new lows	windfall not repeatable; VIX normalizes; requires conviction view
ICICI Bank call ratio (1x2) for earnings	Buy 1 lot 350CE at ~2,440; sell 2 lots 380CE at ~1,190	mildly bullish stock pinned below known resistance into results	gap above the sold strike doubles exposure; earnings gaps both ways
OTM credit-sale adjustment on a losing ratio	Existing: long 350CE, short 2x 380CE (max loss ~0.50/share ~ Rs 800/lot). Adjustment: sell 1x 400CE at ~3.65	After a results miss confirms the directional view is dead	New short call adds upside risk; acceptable because view is now neutral-bearish
Staggered index investing with cash-secured puts	SIP into a Nifty 50 ETF; optionally place cash-secured puts at desired lower entries	Post-crash pessimism; long horizon	Multi-year drawdowns; requires no-liquidity-needs capital
Futures-plus-collateral long-term long	Buy 1 lot long futures; park notional value in FD/Bharat Bond; pledge for collateral margin	Large capital, long-term bullish, willing to manage monthly rollovers	Monthly rollover discipline; gap/MTM risk on the futures leg; lot-size minimum locks ~7.5L capital

Strategy	Construction	Best regime	Principal risk
Cash-secured puts (ICICI 300PE, HDFC 840PE)	Sell puts below market with full cash set aside for delivery	moderately bullish with stocks near support	sharp breakdown below strike forces delivery at loss
Hedged short option (spread)	Sell 10,000C / buy 10,200C (200pt); variants 300-400pt	any directional credit view	max loss = width x lot; premium give-up
Liquid BeES cash-component collateral	Buy Liquid BeES; pledge as the cash component of margin	any time idle capital sits in a trading account	haircut 10%; liquidity depth
Monthly short option + weekly protective hedge	Sell far-month option; buy near-week option slightly OTM below breakeven; re-buy weekly	credit selling with black-swan protection	weekly wing expires worthless after rallies; rollover cost creep
Hedged short put	Sell near put + buy a further-OTM put same expiry	Any short-put view; mandatory insurance	Unhedged version: margin cascade and uncapped gap risk
Hedged put sale (index)	Sell 1600 put, buy 1500 put (June expiry); Bank Nifty call ladder 21500/22000/22500/23000 with weekly hedges	High-VIX range with defined support	Range break below support
Limited-risk call ratio spread (1:3:2)	Buy 1x 10,500 CE (Aug), sell 3x 11,000	After a sharp rally, into strong resistance	Sustained breakout above 11,500 hits max

Strategy	Construction	Best regime	Principal risk
	CE (Aug), buy 2x 11,500 CE (Aug)	(200-DMA + 50% retracement of 12,400->7,500)	loss; requires two-month view
Expiry-day naked call selling (documented failure)	Sell 10,000 CE on weekly expiry day (18 June 2020) in size at Rs 4	High-probability decay days only, with strict size	Low-premium options have violent multi-fold spikes; this is the canonical blowup pattern
Unhedged short straddle on a single stock	Sell 1000 CE (49) + sell 1000 PE (39) on HDFC Bank, 2 lots (1000 qty), June 9 2020, hold to near expiry	High IV with range-bound expectation around a support level (1000)	Unlimited loss beyond 1087/913; a single-stock gap through breakevens is the failure mode
Collateral-funded option selling (HNI pattern)	Pledge debt mutual funds/bank FDs as collateral; sell options against the margin;	Wealthy, income-focused sellers who accept trading as a bonus stream	Trading losses eat the collateral cushion; interest is not guaranteed

Strategy	Construction	Best regime	Principal risk
	keep interest as primary return		anted against credit events
TCS earnings combo (put sale + call ratio with financed long call)	Sell 2 lots 2000 PE; buy 2 lots 2300 CE @47.75; sell 4 lots 2400 CE; sell 1 lot 2500 CE	Pre-earnings IV elevation on a low-beta large cap expected to move modestly	Gap beyond 2508 on exceptional results; assignment/liquidity on stock options
Covered call via futures leg (margin-optimized)	Hold long futures instead of physical shares; sell calls against it	Large holders wanting option income without physical-settlement complexity	Futures MTM swings; margin calls if exposure margin rules change
Infosys earnings iron structure (put debit spread + call ratio credit wings)	Buy 800 PE (1 lot); sell 770 PE (1 lot); sell 830 CE (2 lots); buy 900 CE (2 lots)	Pre-earnings on a momentum stock near highs where a moderate move is likelier than a blowout	Strong beat-and-raise above 900 creates the defined max loss; low liquidity in stock options
Shifting short straddle (Bank Nifty)	Sell ATM straddle monthly (21500 @2400 combined); shift to 22000, then 22500 as market trends; run weekly ATM reference trades alongside	Trending or wide-range months where the index keeps moving away from the initial ATM	Whipsaw periods cause repeated shifts with slippage; uncapped loss if a shift is missed
FD/collateral-backed premium recycling	~25 lakh FD pledged; premiums from option selling recycled to absorb small booked losses without touching the FD	Option sellers running multiple small premium streams	If booked losses exceed total premium received, cash injection is mandatory

Strategy	Construction	Best regime	Principal risk
VIX-based expected-move strangle placement	Sell puts below spot - $(VIX/\sqrt{12})\%$ and calls above spot + $(VIX/\sqrt{12})\%$	Elevated VIX (crisis); recompute daily as VIX moves	Band is statistical, not a wall; theta/other factors shift premiums; violent moves can exceed the band
Post-earnings leg-by-leg review of the hedged straddle	650CE/PE sold; 720CE/580PE long; 750CE/550PE sold 2x - each leg marked after the results	Immediately after results, when volatility crush pays all sold legs	Far wings are effectively naked beyond 750/550

Strategy	Construction	Best regime	Principal risk
Call ratio spread (financed directional)	Long 1x 9400CE; short 2x 9800CE; short 1x 10000CE (300/600/300 qty), plus weekly far-OTM call sales to offset net debit	Mildly bullish, expect stay below written strikes	Unlimited above 10,080 (net short top strike); upside capped at 9800 zone
Futures + rolling short straddle on a long-term holding	Long monthly future; sell ATM calls; convert to straddles; roll puts lower as market falls (1460->1440); add 1520C	long-term bullish holding with two-way volatility	gap risk on naked legs; assignment/roll slippage
Bharat Bond as trading collateral	Buy Bharat Bond ETF units; pledge to broker as collateral for F&O margins	declining interest rates; idle capital awaiting trade opportunities	rising rates compress price; credit concentration in PSU issuers
Synthetic futures (long/short)	Long: buy ATM call + sell ATM put (same expiry). Short: reverse legs	Any directional view where collateral efficiency matters; far-month exposure	Stock synthetics fail on deep-ITM liquidity; index only
Hedged long stock/futures with call ladder + straddle conversion	Long 2 lots (1000 shares) Reliance futures from ~1010; sold 1580/1600/1640/1680/1700 calls progressively; converted a 1500 short call into a short straddle by selling 1500 puts (la	Strongly trending large-cap you want above trend to monetize drift	Gap above highest sold call caps upside; margin spikes when doubling corrective legs
ITC pre-earnings call ratio with put floor	Buy 2 lots 197.5CE @6.55; sell 4 lots 205CE @3.50; sell 2 lots 185PE @1.05 (July 2020 expiry)	Mildly bullish stock in a range into results, with high dividend yield cushioning the downside	Gap above the 3:2 short-call ratio (225+) after results; assignment/obligation on short leg
SBI results call-ratio with put floor	Buy 1 lot 180CE @16.70; sell 3 lots 210CE @4.65; sell 1	Stock stuck in a 170-200 range into results; strong resistance overhead	Blowout above 225 triples the short-call exposure
Strategy	Construction	Best regime	Principal risk
	lot 160PE @1.75 (SBI ~189.5)		
Dividend capture via cash-futures arbitrage	Buy stock in cash market before ex-	Extraordinary dividends (>5% of market	Futures may already price the dividend;

Strategy	Construction	Best regime	Principal risk
	date; short equal futures; collect dividend; square both legs post ex-date	value) where futures still price the gross dividend	margin on short futures; execution costs
Reliance long futures + rolling option ladder	Long 2 lots futures (~1000 shares @~1400); short 1800/1900/2000CE rolled to 2040/2100CE then 2180CE; long 1700PE; short 1680/1640/1600/1500/1400PE; later aggressive short 1900-2200	Strong vertical uptrend with high IV (premium selling on both sides)	Deep gap reversal against both legs; escalating margin needs; overconfidence after wins
Long-dated index option buying on IV collapse	Deployed 60-70 lakh across December 2020 Nifty options (puts and calls), holding 30-40 lakh cash for adjustments	Post-panic IV compression with market stabilization	Time decay if IV stays low and market ranges; long options bleed without direction
Nifty long / Bank Nifty short pair	Long 1 lot Nifty futures + short 1 lot Bank Nifty futures (25 lot size), rebalanced views weekly	Index divergence phases - Bank Nifty underperforming Nifty for weeks	Correlation breakdown in crashes; both legs can lose if sized wrong; margin on two futures legs
Cash-secured put entry on BPCL	Sold BPCL 350PE at ~14 (August 2020 expiry), cash reserved for assignment	Stock corrected on event delay; willing to own at strike	Assignment in extended divestment delay / crude spike
Bullion index equity hedge	Long/short equity portfolio paired with same-direction or inverse position in MCX BULLDEX futures (70.52% gold / 29.48% silver)	Portfolio-level diversification when equity-gold inverse correlation is intact	Correlation breakdown; VaR-driven margin changes
Dividend-cycle futures + covered call	Long futures on dividend-paying stock most of the year (cheap covered-call margin); switch to cash market only in dividend months	High-dividend-yield large caps with liquid options	Futures basis/discount eats part of the dividend benefit

Strategy	Construction	Best regime	Principal risk
Synthetic long future	Buy ATM call + sell ATM put (same strike/ expiry)	Directional long exposure with lower capital than futures; premium received on the put offsets	Early assignment is absent in India (European index options); margin on the short put leg
Infosys bearish iron-condor-style spread + firefighting ladder	Initial: 800PE long / 770PE short; 830CE short / 900CE long. Firefight: sold 780PE, 830PE, 900PE (later doubled), 850PE, 1000CE	Adverse post-results spike in a stock you can sell puts on	Continued vertical moves; margin exhaustion; doubling short puts is aggressive

A Note at the End

Nothing in this book asks to be taken on trust. Every market event it narrates was checked against the public record, and the two companion volumes carry the evidence: *Verified Market Timeline, 2018-2026* gives the dated record as asserted and as corrected, and *Sources and Verification Notes* lists the sources behind it together with the correction log. Where the commentary remembered a number wrongly, the corrected figure is the one printed here.

THE MARKET IS THE PROTAGONIST.

Between late 2018 and mid-2026, one Indian trader posted market commentary on almost every trading day: a pre-market brief before the bell, a post-market review after the close, a weekly outlook on Sundays — and, between the daily grind, a complete course in options, hundreds of strategy walkthroughs, and honest accounts of the worst losses. Several million spoken words, scattered across eight years of daily noise. This book is that education, distilled.

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“The trader who loses less during bad months outperforms the trader who makes more during good months.”

FROM CHAPTER 3

ABOUT THE AUTHOR

DHANRAJ is the pseudonym of an Indian options trader who posted market commentary on almost every trading day from late 2018 to mid-2026. The commentary is public; the name is not. The most repeated line in it — that option writers are always wrong, including the writer — is the closest thing this book has to a thesis.

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Companion volumes: Verified Market Timeline, 2018–2026 · Sources and Verification Notes.