IMPLIED VOLATILITY

UNDERSTANDING IV OF NIFTY & BANKNIFTY OPTIONS

TRADING TOOL

WHAT IS IV ?

- IV is a value derived using **Black scholes formula**
- We input Strike price ,Expiry Date, Option Price , Spot price .etc. to get the IV for a particular option strike price.
- In simple words IV can be used to find if call option or put options is **overbought** & **oversold**

BENEFITS OF IV CHARTS

- Find if options are costly or cheap
- Find if its good time to do Option selling or Option buying
- Visualise IV spike and IV crash (Theta Decay)

Trading Options without looking at IV is like you are in the middle of sea without a GPS.

IV example

Strike	Spot	Option Price	Days To Expire	IV
35000 CE	35,000	410	5	**28**
35000 CE	35,000	450	5	**30**
35000 CE	35,000	350	5	**22**

TYPES OF IV CHART IN TRADINGTOOLX

- Tick by Tick IV
- Neutral IV charts
- Auto Straddle , Auto Strangle IV charts
- Custom Multi Strike IV charts

Normal Vs Neutral Vs Auto IV charts

Example : Current Price BN - 35400

	9.30 AM	11 AM	1PM	3 PM
BN SPOT	35400	35000	36000	35400
35500 CE IV	24	28	18	22
Neutral IV	24	26	23	22
Auto chart	35400 CE	35000 CE	36000 CE	35400 CE

When do IV spike

- When Gaps gets filled
- When previous low , high is broken
- When option sellers close their position in panic
- When lots of SL’s of option sellers gets hit.
- When buyers are more aggressive than sellers expecting big move.
- 70% of the time on market fall and 30% of the time when market rise
- When price is out of range (zones)

When do IV Crash

- When market is Flat (Inside zones)
- If IV spiked due to down move in index , IV crash when price reach support and bounce up.
- If IV spiked due to up move in index , IV crash when price reach resistance and fall down.
- When both call and put is below Zones.
- On expiry day IV falls gradually throughout the day.

Different Strategies using IV

- IV scalping
- Long Straddle / Strangles
- Short Straddle / Strangles
- Calendar Spreads based on IV differences
- Naked Option buying before IV spike
- Option Selling after IV spike

IV SCALPING

- Sell Straddle / strangle on IV spike
- Buy Straddle / strangle on IV crash
- If IV spiking on down move , it's better to buy put if bearish and sell put if bullish.
- If IV spiking on up move , it's better to buy call if bullish and sell call if bearish.

Short Straddle / Strangles

- When IV is below moving average.
- When option prices are inside the range.

Long Straddle / Strangles

- When IV is above moving average.
- When option prices are outside the range.

Calendar Spreads based on IV

- If IV is fallen in one expiry and if IV is spiked in another expiry .. **BUY** the option whose IV is low and **SELL** the option whose IV is increased.
- You can do with two different Call options , or two different Put options or can do both like straddle/strangle

Naked Option buying before IV spike

- Buy call or put option when zone is broken on top , When zone is broken on top , IV tends to spike , which is good for option buying.
- When price breaks out after big increase in open interest , its added advantage as option seller cover their shorts , there will be even more big iv spike.

Option Selling after IV spike

- If IV spiking when market is falling , wait till you find support and Sell costly call and cheap put.
- If IV spiking when market is rising , wait till you find resistance and sell costly put and cheap call.

Thank you

Most option seller Lose money when they hold their positions when IV is spiking.

Most option buyers Lose money when there is no momentum and IV is crashing.

Predict the IV and get your EDGE.

TRADING TOOL