

Option Trading Strategies Cheat Sheet

12 strategies · Buying vs selling · Hedging · 15-minute VWAP rejection setup · Psychology checklist

1. The 12 Option Trading Strategies

Strategy	View	How to build it	Max risk	Works best when
Long Call	Bullish	Buy 1 ATM/OTM call	Premium paid	Fast up-move, low IV
Long Put	Bearish	Buy 1 ATM/OTM put	Premium paid	Fast down-move, low IV
Covered Call	Mildly bullish	Own stock/future + sell OTM call	Downside of the stock	Slow grind up, extra income
Protective Put	Bullish, insured	Own stock/future + buy put	Limited to put strike	Holding through events
Bull Call Spread	Moderately bullish	Buy ATM call + sell higher call	Net debit	Cheaper directional bet
Bear Put Spread	Moderately bearish	Buy ATM put + sell lower put	Net debit	Cheaper directional bet
Bull Put Spread	Neutral to bullish	Sell put + buy lower put (hedge)	Width – credit	Support holding, high IV
Bear Call Spread	Neutral to bearish	Sell call + buy higher call (hedge)	Width – credit	Resistance holding, high IV
Long Straddle	Big move, either side	Buy ATM call + ATM put	Both premiums	Before events, low IV
Short Straddle	Range-bound	Sell ATM call + ATM put	Unlimited (hedge → Iron Fly)	High IV, quiet market
Short Strangle	Wide range	Sell OTM call + OTM put	Unlimited (hedge it)	High IV, no news ahead
Iron Condor	Range-bound	Short strangle + buy further OTM wings	Wing width – credit	Defined-risk premium selling

2. Option Buying vs Option Selling

Factor	Option Buying	Option Selling
Maximum risk	Premium paid	Large (unlimited if naked, capped if hedged)
Maximum reward	Large	Premium collected
Capital needed	Low	High (lower with a hedge)
Typical hit rate	Lower	Higher

Factor	Option Buying	Option Selling
Time decay	Works against you	Works for you
Best market	Trending, volatile	Range-bound, high IV
Suits	Small accounts, momentum traders	Disciplined traders with capital

Advantages of option buying

- Limited, known risk (premium only)
- Low capital requirement
- Unlimited upside on big moves
- Benefits from rising volatility
- Simple, single-leg management

Advantages of option selling

- Time decay works in your favour
- Higher probability of profit
- Profits in sideways markets
- Gains from volatility crush after events
- Flexible, adjustable positions

3. Hedging in Option Selling

When you sell an option, buy a further OTM option of the same type. Sell call + buy higher call = **bear call spread**. Sell put + buy lower put = **bull put spread**.

Leg (Nifty at 23,213, illustrative premiums)	Action	Premium
23,200 CE	Sell	₹120
23,350 CE (hedge, 150 points away)	Buy	₹55
Net credit		₹65

- **Max profit:** ₹65 × quantity · **Max loss:** (150 – 65) = ₹85 × quantity, however far Nifty moves
- Caps the worst case, protects against overnight gaps, and lowers margin
- Closer hedge = tighter risk but less profit; wider hedge = more profit but bigger losses

4. The 15-Minute VWAP Rejection Setup (ATM Nifty Options)

1. **Pick the ATM strike:** round Nifty to the nearest 50. Nifty 23,213 → track 23,200 CE and 23,200 PE.
2. **Chart the option premium** on a 15-minute timeframe with VWAP.
3. **Every 15 minutes, at candle close,** look for a VWAP rejection: premium tests VWAP, fails, and closes back below it.
4. **Short that candle:** sell the rejected ATM option.
5. **Stop loss:** just above the rejection candle's high (= 1R).
6. **Target:** 1:4 risk-reward (4R below entry).
7. **Hedge with a 150-point OTM option:** sold 23,200 CE → buy 23,350 CE; sold 23,200 PE → buy 23,050 PE.
8. **Hold until stop or target,** overnight if needed. The hedge caps gap risk.

Backtest summary (Jan 2025 – Oct 2026, hypothetical)

Capital / size / cost	₹28 L · 1,300 qty · ₹700 per trade (2 legs)	Total trades	294
Wins / losses	150 / 144 (51.02%)	Profit factor	2.07

Net P&L	₹47.73 L (170% return)	CAGR	74.0%
Max drawdown	10.2% (~₹2.8 L)	Expectancy / trade	₹16,236
Avg win / avg loss	₹61,514 / -₹30,928	Best / worst trade	₹2,78,085 / -₹1,00,150
Carried overnight	140 of 294 (47.6%)	Avg hold	0.97 nights

5. Trading Psychology Checklist

- Expect losses: a 51% hit rate means almost every second trade loses. Streaks of ~7 losses are normal.
- Judge the process, not the outcome. A rule-following loss is a good trade.
- Never skip signals after a losing streak. Never move the stop. Never remove the hedge.
- No revenge trading. One signal, one position, fixed size.
- Journal every signal: taken or skipped, entry, stop, target, result.

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