

## TRADING IN EQUITY OPTIONS CONTRACTS USING BOLLINGER BAND WITH SPECIAL REFERENCE TO NSE'S NIFTY OPTIONS IN INDIA

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### ABSTRACT

Trading in option contract is found to be more complex and challenging as compared with other segment of Indian Equity Market. It may be due to immense fluctuation in the option prices. Volatility in prices is one of the important factors causes this type of changes of option pricing. This volatility shall be traced by using momentum indicators of technical analysis. Bollinger Band is one of the tools of technical analysis which helps in ascertaining momentum and give hint about future volatility in prices. The present study aims to test trading system using Bollinger Band to trade in option contract by addressing to the volatility in prices. For this purpose, historical data of NSE's NIFTY index was tested on stipulated rules of Bollinger Band indicating strong momentum and accordingly creating long position in corresponding In The Money option contracts. The risk and return of using this trading mechanism in NIFTY option was calculated using Return, Maximum Loss Zone, Average Gain to Average Loss Ratio, Strike Rate (Success rate) and its significance. The results are found acceptable for aggressive traders with time frame of two weeks in option contracts.

**Keywords:** Option Trading, Technical Analysis, Technical Trading System, Bollinger Band

### I. INTRODUCTION

An investment is considered as lifeblood for any economy of the country and financial market share acting as blood-vessel for the same. In any organized economy like India, Financial Market provides different alternatives of investment. These alternatives of investment may be Risk free investment alternatives & Risky investment alternatives. The trading activities in equity market through Investment & Speculation are prominent and widely acceptable alternative by investors' fraternity. In India, stock market has witnessed marvelous growth and development of derivative segment in last decade in line with increase in market depth and volume in equity market. In Indian derivative market, derivative instruments are available in forms of future and options contracts for different indices and stocks and are available to trade mainly on platform of NSE and BSE. However, it is observed that trading in NSE NIFTY's