Asymmetric Risk and the Merchant from Babylon

[00:00:00] This is the 20th edition of the 0-dte.com podcast. I want you to get that correct now, that is 0-dte.com. Podcast.

[00:00:14] And today we're going to talk about asymmetric risks and, we’re going to use the butterfly strategy as our underpinning to that. But I wanted to talk about asymmetry and what it really means to us traders.

[00:00:31] I think most traders are not really thinking about this concept. They're accepting what they have, and they do have asymmetry, but it's completely not in their favor. In other words, the risk is usually large. And then what you're going after is a little bit small. And the reason why they do this is because they, accept large risk and small profits, profit potential, not small profits for the surety. Now I'm using this word very loosely, the surety, because it's, there is nothing sure about it. The surety of a high probability trade. So, they say, yet, Even though they put on these high probability trades, they managed to lose a lot and they're not very probable as far as I can tell. Now, what if you could take that asymmetry and turn it around completely, do what I call the inversion of risk, where you take a small amount of risk for the probable outcome of a very large amount of profit.

[00:01:38] That seems to make a lot of sense. And what if I said that you could do this in such a way that by doing this type of trade, that by putting on a trade that your trading platform is telling you is a lower probability of profit, because it lies! Sorry. I get excited occasionally, your trading platform is lying to you.

[00:02:02] The odds that it's giving you are off. They are way understated for puts. And they're slightly understated for calls. Anyways, getting off track here, back into the weeds, out of the weeds Ernie. Your trading platform lies. It cannot consider all of the myriad of other factors and things that you do to make it a more profitable or more probable trade.

[00:02:31] And that's what we. What I'm saying is that by relying on the statistics, like most traders think that they should, they think that's good stuff. Let's put on a highly statistically probable trade and we'll make millions because all the odds are in our favor. If we do enough trades with the law of large numbers, we will become successful.

[00:02:53] Yet... 98% of you are frigging loser. You ever think about that? Oh, then there's the excuse that maybe it's the psychology. My psychology was off. I was in a dark place, and I wasn't following. I wasn't disciplined enough. All bullshit. The problem is that you're trying to use the odds in your favor because you think that's the right thing to do.

[00:03:19] Cause that's what they tell you to do. Getting back to that old broker narrative again, that's what they tell you to do because they want you to create a lot of transactions.

[00:03:29] Again, Ernie getting into the weeds, get out of the weeds Ernie, alright.

[00:03:36] Asymmetric trades. An asymmetric risk is the idea of taking a small risk and produce a comparatively large return. That's generally what it is. Now. This is a mind-blowing concept in your trading and it will transform your trading career.

[00:03:53] If you adopt this type of methodology, this idea, this philosophy, and quite frankly, it will also improve your overall quality of life. I'm not saying that trading is going to improve your quality of life. I'm saying adopting this type of probability outcome, this risk to reward mentality can influence every part of your life.

[00:04:19] Yet it is a concept that virtually every trader totally ignores. I don't even know if they know about it or even considered it or have ever been presented with this idea. Hey, why not just take small amounts of risk and look for our huge outcomes.

[00:04:37] Oh. The probability of that happening is very small Ernie. We'll lose our shirt. We'll do nothing. We won't make any money.

[00:04:43] Really? Is that the case? Now you remember the movie, The Big Short? That was a depiction of a few people that were able to find an asymmetric trade during the housing crisis, they found an anomaly. They found that the bonds were a bunch of bull and so they bet against them.

[00:05:09] And there was this one pair within the movie. They were. They were dealing with Brad Pitt and he was some, guru retired guru and they needed his help to get onto an exchange so that they could implement their idea. But before they even got to that point, they had also implemented a, they took a hundred thousand dollars and turned it into a $30 million fund out of there, out of their garage.

[00:05:32] And they did it using asymmetric trades. They would take option bets on out of the money. Plays and yeah, sure. They would lose occasionally, or they lose a lot. But they would lose tiny bits, but when they hit it big, and they were able to take a small amount of relatively small amount of money and turn it into a nice big amount of money right now.

[00:05:54] Then we're going to take that $30 million that they had and leverage it into the ultimate asymmetric trade. And that is betting against subprime mortgages, back in 2008. And man, did they, oh, did they win? Now this is exactly. What we do here at 0-dte.com. The dash is so important because if you don't put the dash in 0-dte.com, you will go down a path of misery to another service that is crap.

[00:06:30] And so instead by putting that dash in there makes all the difference in the world, and then you will be opened to the superior application of this event using 0-dte.com and put on asymmetric trades. All right. So, this is really talking about leverage,

[00:06:53] And as Archimedes, said, give me a lever long enough and a fulcrum on which to place it. And I shall move the world.

[00:07:00] Now we are definitely taking advantage of leverage here with options. We're going a little bit further than that. We don't have a lever, unlimited levers and unlimited strength of fulcrums, but we do have our brains and we can put on trades using certain types of vehicles, strategies that will put us into a position where we can put on an asymmetric trade.

[00:07:28] And on top of that, we can do it in such a way that it's very highly probable. Now your trading platform, won't tell you this, your trading platform will lie to you. And it does, it may tell you that butterfly trade, oh, it's only about a 10 or 15 or a 21% probability and it's lying. It is lying to you because it cannot it's not really lying.

[00:07:54] It’s telling you the truth based on its known information, which is crap. So, what we do is we inject our intelligence. And we create a trade that is asymmetric, small risk, high potential reward, and move the probabilities in our favor. And we do this three times a week. We do this with options on the last day of expiration, because that's the day when premium is the decaying at its fastest rate.

[00:08:23] And it gives us the greatest opportunity to make the largest amount of money in the shortest amount of time by putting on asymmetric, it's all, everything is converging into one. Nice, neat little package last day, fastest decay, largest amount, asymmetric opportunity. Our intelligence, putting us in the right place at the right time at the right moment.

[00:08:45] There you go. That's what we do. That is what we do. So, I wanted to convey an old parable and. I don't know if you've ever read this. Maybe in school you did. I it's one of [00:09:00] those classics.

[00:09:01] It was written in 1926 by George S. Clason, called The Richest Man in Babylon. And there was one story in there. And these stories are 4,000-year-old parables filled with all kinds of financial advice. And. These days, you probably don't see it that much because, we're all mired in the here and now and social media.

[00:09:21] And they said how can a 4,000 year old parable be significant in my life, let’s consider this one. There was a merchant trapped out, outside the city walls. And because it was because it was nighttime, they had closed the gates and they weren't going to open until morning.

[00:09:42] Now this merchant had just come back from Lord knows where selling his wares, but he had come back with a nice, hefty profit, and he needed to get into the wall inside the walls he needed, that cause that's where he lived. So, he said we're stuck here. We need to hang out. So, they built a bonfire outside of the gate.

[00:10:04] And then suddenly, he heard the bleating of sheep in the distance. And then that bleating became louder and louder, Bah! And another merchant to sheep master arrived with his flock. So, they made their introductions and the sheet master said he lived nearby, and he wanted to sell his sheep at a good price in the morning, suddenly a house servant of the sheep master arrived.

[00:10:30] He was all out of breath, and he says, master, your son was gravely injured in an accident. And so, the sheep master. Oh my God, I've got to go. But he's extremely worried about, selling a sheep and they're there. Now. He offered the other merchant that was there. The guy who had all the gold on them, a great discount, if he would take the sheep off his hand.

[00:10:54] So he could go to the aid of his son. He said that I have over 200 sheep [00:11:00] here. 200 sheep. And I'm going to give you such a great deal, that I know that you could at least double your money if you buy these sheep now so that I can go off and tend to my son. It's a great deal. It's an asymmetric trade.

[00:11:16] Now, the merchant, he had just enough gold to cover what the sheep master was asking. And he knew from his experience, like it said that. 200 sheep could easily bring in twice the amount that he had in that gold. And that, that would have been a fine, that would have been a real deal, an asymmetric trade, but there was no way to confirm that they were 200 sheep there because it was dark and all they had was their bonfire and it was nighttime.

[00:11:44] And of course they didn't have streetlights, 4,000 years ago in Babylon. So, he thought he was taking a little bit of a risk here. Could the old man be lying to me about the number of sheep? What if there were only a hundred sheep or 50 sheep, so the merchant ended up not buying the sheep.

[00:12:06] So the old man decided to go to his son and left his servant theater to sell the sheep in the morning. The next morning, when the gates opened, other merchants came out to bid on the sheep and they bid them up four times the amount he was originally offered. four times.

[00:12:21] So he missed out. Not only did he miss out on the two times, but double what he could've made all because he wanted to, because he was just, I guess not trusting. He didn't want to take that asymmetric bet. Now, obviously we're not taking care of trading sheep here. We're dedicated to trading the last day of expiration.

[00:12:43] But we are talking about recognizing opportunity in a situation that affords you the ability to achieve asymmetric profits from small amounts of risk, often achieving as much as 500 to 1500% on your trade with as little as $50 to put up. So, your $50 could turn into easily five hundred, seven hundred and fifty-eight hundred, and sometimes as much as $1,200.

[00:13:13] It really comes down to opportunity saying yes. And having confidence in that. Of course, me just telling you that probably doesn't instill that into you. So, you can go down to 0-dte.com/try and try it out for four weeks and then see what I'm talking about.

[00:13:36] Right now, volatility is a little bit elevated, but it's, it is coming down. And when it came down to about 15, our opportunities were drying up. They were still there instead of having a solid trade three times a week, we would have two trades a week, sometimes only one trade and we'd lose two.

[00:13:55] But those two losses. Imagine this, those two losses amounted to $50 each a hundred dollars, but that wins. That produced 500, 700, 800, $1,500 of profit. So, we didn't really care about those small losses. They were inconsequential. And we were there to take that opportunity because we had the confidence we see; we saw are doing this over and over and over.

[00:14:24] Now when volatility is elevated, these opportunities come and it's like a no brainer. We can do this usually three times a week, occasionally, we might have a miss, but our risk opportunity, our risk to profit or reward is even greater on those times. And I think there was a streak where we had one, something like 30 out of 35 trades.

[00:14:49] And it was just marvelous, and it was just time after time, just, it became rote. Right then volatility came down, it just dropped. It just dropped and it was tougher. It was, we would have two trades in a row that didn't go so well. Or we would have a trade in the morning that didn't go so well, then we would turn it around and go the other way.

[00:15:13] Right after that, and that would work out well. And so now we were making one or two trades a week instead of two or three trades a week, but still the amount of our wins so far outstripped the losses. It was that asymmetric trade. It was that opportunity. It was that merchant. They gave up the ability to make four times as profit.

[00:15:35] And we're not talking about 400% here. We're talking about something much larger. So, we have an opportunity to make way more money than that merchant on the sheep. And we do it repeatedly. So, there's my little story about the merchant from Babylon 4,000-year-old story. And it has relevance today taking that that opportunity is the key.

[00:16:01] Having the confidence while you develop the confidence after you've done it a few times after you've done it four or 5, 10, 20, 50 times, and you see how regular it is and how much your trading platform is lying to you, telling you that the probabilities are only this, when in reality, the probabilities are three, four or five times that it couldn't be five times.

[00:16:24] That would be a hundred percent. But 20% it's really. 55 60, 70 in bad times and 80 90% in times where we have elevated volatility. So even during the times where our opportunity is significantly cut down by as much as 50%, we are still outperforming all the other services by orders of magnitude.

[00:16:49] And we take virtually no risk compared to them. They are literally putting up a thousand dollars to make $50. We are literally putting up $50 to make a thousand dollars and we are doing it with the same or greater regularity than they are. We never take stop losses because there's no need to manage our risk.

[00:17:17] Focus on managing our profits. Imagine if your primary job in executing your trading strategy was trying to figure out how much money this time that you were going to bring in, not how much you are going to potentially lose, because that is what we do. That is the advantage of the dash, the zero dash DTE.

[00:17:43] So we got some we got some questions here. Oh, loud and clear, V commented that Bitcoin Bob was up to his old tricks. What he's referring to is a video that I've made. Bitcoin, Bob has back there. I'll bring him out soon and we'll give him another beating. All right now.

[00:18:02] Butterflies. Why do we choose butterflies? First. There, there are several reasons. It's one of the more flexible options strategies we can put on a symmetric butterfly where the risk is even on either side of the short strikes, but about a fly is essentially made up of two short strikes at or two short option contracts at one strike all the contracts in the strategy by the way are either puts or calls.

[00:18:29] So let's say it's a put, so two short puts at one strike, and then to offset the risk of that, we put a long put at a lower strike and a long put at a higher strike equidistant away from the short strikes. That would be a symmetrical butterfly. And then by moving those short strikes out of the money, or far away from where the current price is the risk to reward starts coming way into our favor.

[00:19:01] Obviously the probability of profit is also moving away from us. The key here is that we can move it sufficiently far enough away where the risk to reward is very large. It reduces our Delta. Our Delta is very small, but our theta is very large. So even if we don't get inside the profit tent of the butterfly, we still can profit.

[00:19:26] And stay in the trade for a very short period, now with our analysis method, using volume profile and our geo macro tactical analysis, where we can determine both the direction and magnitude of that direction with a fair amount of regularity. All we must do is better than 50% today. The truth is, in this market, that's about all we can do.

[00:19:50] We can do about 60%, in a. Highly charged market, where there's a lot of volatility. It's a lot easier. We can do it about an 80% or even a 90% clip. That's all we must do is just get into the range butterfly sometime during that trading day. Now the earlier that we can get there, the quicker we can make profit often what happens is we'll end up pinning those short strikes by the end of the day. We do this with a fair amount of regularity, and those are the times where you'd take and make the full benefit of that asymmetric trade. And we just did this on Monday, right? We did this last week. We did it the week before we did it the week before that we're really hitting the short strike or pinning the trade at a clip of about 30%.

[00:20:42] Of all the trades that we take, if we did nothing else, we would be so wildly successful that it would be the best trading strategy on earth, but I'm telling you that we do better than that because at least one or two other times, during that day, we also hit the other trades as well. The other two opportunities.

[00:21:04] And that's what we do. We use the butterfly. There were other things besides creating the symmetrical butterfly. We can further put an asymmetric trait or make our greater asymmetric trade by. Creating what's called a broken wing butterfly. That's where you take the wings from the center strike and you put them at not equal distance, but different distances.

[00:21:29] So if you take the one that's further away from you and make it further out so that the long strike on that is closer to you. Is a lesser distance away from the short strikes. And the one that's further away from you is a greater distance as you're coming up this way. Then the risk on that short side, that a shorter distance side, is much smaller.

[00:21:51] And so all the risk. In the trade is way on the other side. Now what's cool about that is because the butterfly is positioned far enough away, and we can measure this with our expected move. Even though we don't trust the expected move, we can pretty much get a good feel for it. Then the chances that we will drive through the butterfly and then go to the greater risk side are very small.

[00:22:20] And even if it does, we're sitting there managing our trade, trying to decide when we take the profit. So even if we go to the, the weighty risk side, we can still make huge asymmetric profits. If it stays either in the center or to the lower risk side, we still make profit because premium is decaying at a very rapid clip that it's rising into us. So that's really the edge that we have.

[00:22:50] The more time that we're allowed to hang out in this sweet zone. The more time we must make profit. And that's where we make our I guess our meat and potatoes trade, where we're getting 150 200% trade, not the 500 or a thousand percent, but still, who wouldn't like to make 150 200% on your risk?

[00:23:11] Lance is asking, do you have an example of how you would set up an asymmetric trade for stocks? No, not for stocks. This is all options. So, we do this, like I said, with the butterfly. And the way we do it is by changing the long strikes, the distance from the short strikes. So, one side will make, say, 20 points away and the other side we'll make 30 or 40 points away.

[00:23:37] So now that's an example of an asymmetric trade, our trades, the risk is so small that a loser provides zero anxiety, zero worry. You're not sitting there wondering, oh, am I going to get challenged?

[00:23:56] Because it never happens. The other people without the dash, it happens virtually every trade again, the inversion of risk. That's the difference? So, the answer Lance is saying, stock options, of course you can do that with stock options to the differences. There's not as much volatility or as much premium.

[00:24:19] And you only have that opportunity once a month or once a week, because there are no options that have expiring options three times a week, like the S&P does. So, it's the opportunity. That you're giving up by going to option two, going to stocks or options on stocks, but options on the S&P futures contract is giving you that opportunity.

[00:24:41] Now, some people might wonder why do you use the futures? The SPX it's so much more friendly. The problem is that the SPX only trades during the cash. For most brokers, that's the only time that they can put on an options trade. The margin is also much greater on the SPX.

[00:24:57] Many times we can put on a trade the night before and we can actually be out before the cash market even opens. So there is really no comparison when using options on futures compared to the SPX.

[00:25:12] The SPX is good and it's better doing it that way than any other way to trade. Like those ways to trade without the dash using futures. Way better. I would say four or five, 10 times better. And then on top of that, doing the asymmetric trade, riff the futures. It's just an unbeatable combination. If you'd like to try it out, go to 0-dte.com/try at the end of the trial period.

[00:25:45] If you want to sign up. I'll give you a coupon code to refund you the cost of that trial. So, the trial will be essentially free

[00:25:55] Now, I want to say that this is not an alert service. Although I do provide alerts.

[00:26:00] This is an educational service. This is a service where I teach you a strategy that you will not be able to forget. You won't want to forget it, that you'll use for the rest of your life, and then use the philosophy in other parts of your life. Hope. Like the man, like the merchant from Babylon, or Ken's got to ask, why is the butterfly better than a regular vertical spread?

[00:26:24] Because you got two strikes. And because it will allow you to give that asymmetric risk and because it will flatten out the Delta on the profit curve. So that regardless of which way price goes, you don't have that, that huge Delta dropper or gain. So that's why butterfly is way better than a vertical.

[00:26:48] All right. I'm done here. I hope you got a lot out of this. The concept of an asymmetric trade, and why it is better. Why taking asymmetric opportunities is perhaps the best thing you could possibly do to advance your career?

[00:27:02] And that's why I wanted to talk about it today. All right. I am done. Thank you very much for joining me. I really appreciate that. Please hit the like button on your way out. Share this video. If you would, if you can subscribe, that's the big one. Subscribe to this channel. You won't regret it. Time to go peace to you all. And we'll see you next time.

[00:27:28] We'll see you the next 0DTE day, and that will be Friday. And that concludes podcast. Number 20, where is that off button? It's way the hell up there. Thank you all. We'll see you next time. Take care.