Pump Up the Reward without Added Risk

[00:00:00] Yep. We're alive. This is awesome. Another great day. It is Monday, as I've said in the past that Monday, it's our favorite day of the week. And why is that? Because we get to trade the zero dash DTE strategy. Today's episode, the title is...

[00:00:23] Pumping Up the Reward with no Additional Risk. How can you say that, Ernie?

[00:00:29] How can you up the reward and not the risk that's because what we concentrate on is in fact, our risk to reward as our primary metric. All right. Now, let me explain. Unlike most other zero DTE strategies where their risk to reward is in fact, an asymmetric proposition. It is asymmetric in that their risk is much greater than their potential reward, much greater.

[00:01:03] Usually by putting on an iron condor or credit spread with a low Delta, like a five or six or a seven. Their risk is usually anywhere from five to 10 to one. That's what it is. They are working all day by putting out 500 to a thousand dollars of risk capital, either on the ES or the SPX to make about a total profit of $50, maybe a hundred, however, they never go for that 50 or a hundred.

[00:01:42] They get out. As soon as they achieve 50% profit, if they achieve it, they also put on stops that essentially turn their high pop strategy into a relatively low pop strategy. So most of the time they're riding and raving in anxiety, hoping that their trade will center again and not hit or not challenge the stop.

[00:02:13] So that they can ride it out for as long as they possibly can to get that 50% of their potential profit. In other words, a 10 to one, or sometimes even a 20 to one risk to reward, and then they take it. Maybe that is their life. That is not our lives. Our lives are exactly the opposite. Additionally, they never have the opportunity to go for a winning trade.

[00:02:40] A real winning trade let's see their biggest trades are maybe 15% return on capital. I'm talking about a hundred percent. That would be great. Wouldn't it? Or what about 200%? That would be unreal. What about three or 400%? That would be outstanding. What about a thousand percent or 1500%?

[00:03:02] That would be insane yet. That is what we do almost every trade. So today we started out with a one to nine risk to reward and then without putting too much more capital in the game. In fact, just another 30%, we're able to increase that to a one to 13 risk to reward. So, our total capital outlay was still under our average for a typical position, even though we put two positions on because it gave us that additional risk to reward.

[00:03:49] So now we're sitting here with a very small risk to reward with the potential. So in other words, okay, let me put it in numbers. Put out about $140 on two positions for the possibility of making $1,800. That is what I am talking about. That is what I am talking about. Pumping up the reward with virtually no additional risk.

[00:04:17] You might say, oh, but Ernie you were putting on $40, extra risk. That's putting on additional risk. Yeah. Okay. You got me there, except that it was still under our, what we would consider our max sized singular position. And we increased our overall reward. By nearly 40 yeah, it's about 40%.

[00:04:46] So yeah, we basically did exactly what I said. We pumped up our reward without taking on any additional risk. Our risk to reward ratio increased. I'm sorry, decreased. Or if you go the other way around our reward to risk increased dramatically. So, then the plan was. Now we have multiple positions on as we usually do.

[00:05:11] If you have multiple positions on, we're looking for that opportunity to take some of those positions off so that we can obtain what we call a free ride. And that's where we take off half to two thirds of our positions in such a way as to guarantee a profit, got to take a drink.

[00:05:33] And let the rest ride for the chance of pinning the trade and pinning. What that means is we put on butterflies and pinning. If you understand what that means is possibly expiring the trade expiring with price, right at the apex of the butterfly. And you might think, oh, that is just crazy talk.

[00:05:55] That's gotta be what, like a 2% chance. No, it's not. In fact we come within a few percentages or percentage points of pinning trades about 10 to 15% of the time, based on the placement of our trades, our analysis, our market structural analysis, but with using volume profile, yeah. We come about 10 to 15% of the time we pin our trades and achieve return.

[00:06:27] In the area of 300, 500, 1,015 hundred. And even at one time close to 2000%, in fact, one could make the argument that the additional profit that we put on today, $40 to return $500. That's a, that's over a thousand percent. Position we took off was only a measly, 120% or something like that, but it paid for the second one

[00:07:00] So that's what I'm talking about. Pumping up your reward without adding any additional risk. Now, from our point of view, you might be thinking, first, let's say it's from your point of view, you might be thinking, but you could have lost the whole 140. And we would have said. Sure, we could have lost the whole $140 and not made bupkiss, bupkiss Sparky.

[00:07:30] But for us, that is just the cost of playing this game because our average return on risk is about 150 to 200%. Sometimes more. If the volatility. The implied volatility or we're above a certain volatility. What I call the volatility regime right now with super low volatility, where we usually average about 150% on all our trades.

[00:07:58] So letting a minimal size position. Lag and not coming to profit or to achieve I guess it's no achievement, but to realize a max loss is no big deal, because then we just go onto the next one. And then the next one, and then the next one. So, for instance, last week we had two out of three winners. We had a 250% winner, a hundred percent winner, and then, or maybe it was a little bit more.

[00:08:29] I think we averaged between those two, about 200%. And then we had a max loss on Friday. So, the total week I think came out above 150%, probably closer to 200%. So we achieved our average this week, we're starting off with 400, 500% winner. We could lose the next two trades, no problem, and still be well above our average.

[00:08:56] So that's the power of our asymmetric strategy, asymmetric reward to risk, not asymmetric risk to reward where we don't worry, and we do not manage our risk. What we do is we concentrate on managing our profits.

[00:09:12] It's a completely different paradigm from the way everybody else. Is exercising or performing their zero DTE trades. I call it the inversion of risk. And like most things are people that have been successful in life. They usually got that way by doing something that nobody else is doing it completely differently.

[00:09:37] And that's exactly what we're doing.

[00:09:39] ' Most people following this failed strategy of Tammy Chambliss. I think it is somehow she has become the I don't know, the standard bearer of zero DTE trades. When what she is, professing is an absolute losing loser strategy. Yet everybody is continuing to put their effort into it and they're dropping like flies and they're flocking to our strategy.

[00:10:04] That's what's happening people time and time again, that I've seen on the web that have tested back tested, or even live tested this strategy only to find that after a year's worth of toil to come out a loser or at best breakeven,

[00:10:20] I don't care how much data she has. How big her spreadsheet is, there is no way in hell that strategy can make money and it doesn't, and everyone's proving it in our strategy. We can't get out of the way of making money.

[00:10:38] That's a horrible thing to say. That's like jinxing and I'm not guaranteeing anything because quite frankly, there are some people, if you hand them winning trades over and over, they managed to screw it up.

[00:10:53] I don't know how or why this is the paradox that I'm dealt with, but it is also the challenge that I am dealt with because I understand. They're coming from a completely broken culture. They're coming from a culture where they manage risk and use technical analysis. They do everything in their power to put themselves at a disadvantage.

[00:11:20] And so when they come to our strategy and they come to our service, they are broken. And it takes me a long time to reprogram them, to build back up the confidence that they need in order to manage a winning strategy. So yeah, even with a winning strategy, people can try to take it and still lose. And that is all because of their total lack of confidence, which causes them to act poorly, make bad decisions.

[00:11:50] Some people might say less than optimal decisions. There's a euphemism for you. So that is the difference. And so, what we do here, and what I like to say is the purpose of our strategy and how it is different from everybody else. Besides the fact that we have a strategy method. And a process that encourage the continuous improvement of not only your execution skills, but also your confidence, your, your emotional skills.

[00:12:25] I don't like to say it's emotional. It's not about that. It's about developing confidence through building muscle memory on learning how to win again, learning how to make winning decisions. And learning how to understand when your edge is such, that you no longer must worry about managing risk, your primary worry, if you want to call it, that is how to manage the profits. How are you going to maximize the profits that are coming towards you? How are you going to minimize making dumb ass decisions? And that all comes from developing confidence. Confidence is the number one tool, the number one skill. And it is a skill that we teach here.

[00:13:16] Like I said, there is this parable of the best trader in the world, and you put this failed trader next to him and he is going. Parrot the trades that the best trader in the world is doing yet at the end of the exercise, the best trader in the world has made gobs of money. And the damaged trader has lost, even though he's trying to take the same trades it's because of decision-making and lack of confidence.

[00:13:44] And I see it when new people come in, I'll tell you the people that are most successful when they come into me, my service are those that have no experience trading options and practically no experience trading. Maybe they've done some investing, they've been into mutual funds or whatever, and now they want to try something new.

[00:14:03] They are the easiest people to train and to show them the strategy and to get them up and running very quickly because they develop that confidence very quickly. They replace it with nothing, no expectations. They replace it. Winning and just following the strategy and building their muscle memory, their confidence,

[00:14:25] the people that come in that are seasoned traders, they are the worst. They come in with all this baggage, this technical analysis and all the way they think things should be done and they fight you every step of the way. And you tell them, look, I think that you're letting anxiety get the best of you, but they rationalize that away thinking I did this and I did that.

[00:14:51] And therefore I did this and that. And I'm thinking, man, you just not, you have an inability to step outside of yourself and see what you're saying and how you're acting. That's why I'm. I'm here as the coach and the mentor to keep you accountable and tell you, look, I am not doing this from a lack of experience.

[00:15:17] Like I'm just some Schmo off the street. I've been involved in this business for 40 years. I was the coach and mentor to them, those difficult people in the world, the most headstrong people in the world to ever coach and mentor the level, people of fortune 50. Fortune 100s, try telling them what to do.

[00:15:40] That was my job for many years.

[00:15:43] If I can do it for them, I can do it for you.

[00:15:46] You just must submit and admit it. It's almost like a, an AA program, but we don't have 12 steps. We have four steps. And we must repeat them repeatedly in our brand of a continuous improvement process. It's an agile process. You've probably heard of agile. So, it's more than just a strategy.

[00:16:08] It's more than just methods and techniques and edge. It is also enveloped in a process, a continuous improvement process. That's what we.

[00:16:21] Today was a good winning day. It looks like it's going to be about a 400% return on capital on our risk capital. So, we like that. Let's see, I put up $140. The profit for me was $480. So, it's not quite, it's about 400%, 300 and something 390. I'm sure that some people did a little less, some people did better. It all comes out in the wash.

[00:16:46] I want to thank you very much for joining me today. This is episode number 28 of the zero dash DTE podcast. Before you go, I want to tell you that I'm going to put a link down in the description and it should be one right there in this YouTube video and it's https://0-dte.com/webinar.

[00:17:07] There's a webinar on Wednesday. My friend Dan Passarelli has invited me to a webinar series that through his business called traders exclusive. And I'm a featured speaker there on Wednesday at 1:00 PM. All right. So, sign up. I'd really appreciate that. Thank you very much.

[00:17:27] And we'll see you next video. We'll see you next podcast. Take care confidence. That's the key

[00:17:36] Peace.