Tipsy Squiffy Broken Fly

[00:00:00] So today is a 0-DTE trading day. And we took a trade using a broken wing butterfly. So, what does that mean? Let's see, let's start by doing something like this. Let's turn on the iPad.

[00:00:16] All right. So there's the iPad. And then we'll say a normal butterfly.

[00:00:22] It looks something like this. Ah, there we go. So, in normal butterfly looks something like this, right? And then the zero-line zero profit. This will be loss down here. And profit up here.

[00:00:42] And then this is your risk here. So, with a symmetrical butterfly, it's the same on both sides in the wings. All right. So that's a normal, healthy butterfly. Now what we're going to try to do is erase some of this. So, we'll erase some of this and then we'll create an asymmetric butterfly or a broken wing butterfly.

[00:01:05] That's where if we have our short strike right here, and then we have our. Long strikes, maybe one here and then maybe one further out here.

[00:01:20] Like that. So now we have different risk on the two sides. Sometimes the short side, if you get in at the right moment. That loss can be very small. And then in some cases can even be instead of a debit, it can be a credit. So instead, it's up to here. All right. That's important. So now what we're really looking at is the difference in these two spreads.

[00:01:49] If one spread that's this much, one spread that's that much.

[00:01:54] And of course the risk on the spread that is bigger is much greater. Now you may wonder why would I put something like this on Ernie, the butterfly supposed to be a symmetrical or a market neutral strategy, right? This is assuming that price is like right here. Of course. That's what most people assume that the butterfly okay.

[00:02:17] They assume this well, you obviously, you wouldn't assume this with a broken wing butterfly, you would assume that price is going to be on the lower side of the risk, or maybe it's on the higher side and you're expecting it to go down, but you don't want, you think it's going to be a big move and in case it's a big move.

[00:02:33] You want the lower side to have smaller risk or it's on the lower side of risk and it's and you expect price to rise into the Butterfly. But not go as far as and go so far as to go into the higher side of risk. That's what the broken wing butterfly would be good for and what we call an asymmetric trade.

[00:02:55] Now there's no reason why you can't look at a symmetrical butterfly in the same scenario. You don't have to start off with it being or assume that the butterfly is a market neutral strategy. Why not treat it more like a vertical, because that's certainly what you're doing here. It's not even a vertical.

[00:03:16] It's more like a ratio trade where you have one, one side, one leg that has more contracts than the other. And that's essentially what we have here with the butterfly. No, butterfly is a really. Mainstay and what we do here in the 0-DTE service. And the reason for that is that we can create asymmetric strategies.

[00:03:50] Now, of course, the strategy is no good, unless you can have some sort of, some level of confidence. Price is going to move into the profit. What's called the profit tent of that strategy, the profit tent being this thing. Now you got to remember also that butterfly. And I wonder if I could create that was about saving.

[00:04:15] I would create a new one, a blank canvas, and we'll start over again.

[00:04:20] This is the pencil is a symmetrical butterfly. Now what we'll do is we'll draw in the zero line. All right. Now let's say that price is right about here. When we price a butterfly out. Like this and prices right here. We can get a nice low risk, high potential profit trade.

[00:04:49] However, if price, if we centered the butterfly right here, then we're not going to get a zero line right there. We're going to get a zero line up here somewhere.

[00:05:00] So it all depends on where you center the butterfly. So here, this one is an out of the money butterfly. And this one is an act, the money butterfly. Now you see the difference. So why would you do one or the other now? I'm not sure there aren't too many cases where you'd want to use a, an at the money butterfly.

[00:05:22] Although this at the money butterfly is what most people. And they believe that the butterfly is specifically meant for this type of trade in the same way that they also believe that an iron condor is meant to be an at the money strategy which it is, but it's a very poor one. And the reason for that is that how often does price when you put on a trade, stay at your entry?

[00:05:48] It's rare. Here's the thing you needed to stay here for a long time. Why? Because the [00:06:00] black line represents the profit at expiration. It doesn't represent profit now because if it did, everyone would put their trade on right at the peak of profit and say, okay, give me my money. But it doesn't, it starts off something like this, the profit line.

[00:06:16] And then with time, As the, as we come to expiration, that profit line grows like this. And then finally like this until it fills the profit tent. Once it fills the profit tent, that's the point of zero expiration or what we're looking for. So, while all this is happening, profit is rising based on time.

[00:06:43] Time is our friend, but as time goes on, it, price is moving this way. And this way, sometimes it moves one in one direction or the other and challenges are butterfly. And so when we move in different directions, then we're going to get different levels of profit or loss. If we move too far and spend too much.

[00:07:07] So that's why putting something on at the money is really a bad idea because you must have incredible forethought of knowledge of forethought or understanding of the market to have the courage, to put something on here. Because as soon as you put that on price is going to start moving and you're going to go from what you believe is the peak profit or, the apex of this curve.

[00:07:32] Do something less than that profit at that time. So, time is ticking away like this until we get to exploration and that's profit taking away, it's rising, but it's a curve. And so we're at the top of the curve and we're moving. Like we're rolling down a mountain while it's, while the mountain may state, it might be a stationary mountain, but if we roll off the mountain, then we're not at the top of the mountain.

[00:07:56] So this must stay there in order for an, at the money butterfly to work in the same thing with an iron condor. The only difference between a butterfly and I, and condor is that it caps the peak here and it gets spread out a little bit. And typically, people put that on because they're not sure about what the hell they're doing.

[00:08:16] So they put on a very wide iron condor, trying to put in all kinds of. Range in the trade to collect a very small amount of profit while taking on a huge amount of risk, their risk might be like this. So, their risk might be 10 X and then their profit might be one X. All right. That's typically what people do when they're putting something on at the money or putting on an iron condor at the money butterfly or night.

[00:08:48] However, if you put an out of the money, meaning that the butterfly strikes the strike and these prices right here, right? This is a long distance here. When we put on a long distance, then the zero line starts way down here. The closer that we put or get closer to at the money, the higher this thing goes. So as we get closer, let's say we put on that money. Then the zero line is okay.

[00:09:22] So out of the money, we have nice asymmetric risk. We have huge profit potential and small risk. One risk, two 10 profit.

[00:09:35] Okay. All right. When we do out of the money at the money, we’re. 10 risk to one profit. Okay.

[00:09:46] Is it a few other things I want to show you? So that's the basics of our asymmetric trade that we want to be out of the money when we put this on, but that means that we need to be sure about direction. Or do we, we have to be somewhat sure about direction or at least somewhat correct. But we don't have to be sure about the extent or how far we move.

[00:10:08] no, I'll show you why. Okay.

[00:10:11] and then we have what's called the T zero line or the profit and loss. So when we start, when we get into a trade, the profit and loss is very low. And this is assuming with very small amounts of risk

[00:10:26] is assuming that we're way out here in terms of price out of the money.

[00:10:35] So we have a small amount of risk. And a very large amount of potential profit. The other thing that we have is we have a teaser line or a profit line curve that is very flat when we first get in, as we get closer to expiration, that profit line starts taking the shape of this and slowly grows until it's something like that.

[00:11:02] This very near expert. But you'll notice there is an area here

[00:11:08] that even before price, if price were to move this way, prices moving this way, say, ideally, we want it to end up in here somewhere because that will give us our maximum, if we were to hold it right into expiration. But let's say that we never get there. Let's say that we get.

[00:11:26] Let's see. So CRA sir. Yeah, that's the eraser.

[00:11:30] Alright.

[00:11:31] Let's say that we never get there. Let's say that we only get.

[00:11:36] you want me to get there right there? We're still in profit. See that green stuff. That's profit. Even if we're getting closer to exploration, we're still outside of there and we're still in profit. So, we can, and you can get a fair amount of profit there too. It's surprising how much profit that you can make out there.

[00:11:56] We re routine. Grab profit anywhere between here and here. That's usually where we're grabbing profit. So, we can grab profit here anywhere there, or anywhere here. Of course, if we go in the opposite direction, then we get bucketed.

[00:12:19] Yeah, I think I have. Let's see, what do I do here?

[00:12:22] I'm not used to this thing yet. Is that what I'm looking for? Yeah. I don't know. Yeah, there it is. There's the solid line. Of course. If we, if price goes this way, we don't make it. However, because we're putting on an asymmetric trade

[00:12:41] and this risk is so small compared to that prophet, say one X risk to 10 X potential profit. We don't sweat these trees.

[00:12:55] Now we know that price is going to move at any time. Our platforms will tell us there's an expected move and that expected move might be somewhere. I don't know. Let's say somewhere around here, it could be anywhere within this box.

[00:13:14] So it could go this way or could go that way. And that's just the expected move. That's not a guarantee. It could move that it could move that amount. It could move less, it could move more, but let's say that we put this trade on and there was some sort of catalyst that moved price in this direction.

[00:13:33] And we put that trade on, say here, price starts moving this.

[00:13:38] And it has an expected move, and it ends up say here we've been in profit almost from the point of, from the very time that we put on this trade all the way through here. And not only are we in profit, but that T zero line is moving up that entire time.

[00:13:57] and we're in profit even before we get inside. I know this is getting messy even before we get inside of that butterfly. All right. So that's the asymmetric butterfly. I know all of this or any, just to get to that point.

[00:14:12] All right. So, the asymmetric butterfly, let's say that this is the zero line we put on asymmetric. Butterflies. If price is here again, out of that.

[00:14:24] We're going to put an out of the money tray. This is where price is. It's just at the money right now, but we're going to put a trade that's out of the money. And so, we choose a center strike right here. This is where the two strikes of our butterfly going to go. Now we have to choose where the wings go, right?

[00:14:42] So maybe we put one here and then another one way over here. So, what this will create. Is a butterfly that looks like this.

[00:14:56] Okay. And it lines up with that strike and that lines up with that. And there's our center. So now price is moving this way. Why would we do something like this? We do something like this. Now this might represent an even greater. Asymmetry here instead of one to 10, this might be one to 21 more. So on this side, our risk is very small.

[00:15:23] One part to 20 parts reward on this side. It might be very big. This might be all 15 to 20, or maybe almost equivalent to that. However, expected move or one standee standard deviation move is here. Maybe this represents two or maybe even three standard deviations. I know I'm not drawing it to scale, but let's say that this is three standard deviations.

[00:15:57] That means that's only 2% case to get the maximum. And the case of say, getting to here might be, I don't know maybe an 8% case. If it's two standard deviations, getting here is a this here would be about a 35% case getting all the way to.

[00:16:23] Yeah, but if price is moving, as it's moving that 35% case gets better and better, all of these numbers start increasing as price moves this way. So, what we look for is a catalyst that says, hey, we're moving in this direction. We have a vector. All right. If you've ever done vectors, they have length. And then they have magnets.

[00:16:48] I'm sorry. They have direction and magnitude. So, both have the same direction. These two vectors down below here. This is vector one and this is vector to say we had a catalyst at this maybe early in the morning and economic report came out and it was super impactful. Like this morning, CPI.

[00:17:12] Even though it was within expectations for whatever reason it shut the market up. And it created a move in the market that had a directional move in the direction that we wanted that direction. Say number two and a significant gravitas with it to bring us at least a one standard deviation, possibly a two standard deviation.

[00:17:38] So we place our broken wing butter. Now, you know how the markets been. We keep on making new highs and then we pull back and new eyes pull back only very occasionally. Do we have a huge move up and then just keep on blasting off? We move up some sort of measured amount and then drift back or retrace and then come back and then consult.

[00:18:03] A price goes or something like that.

[00:18:07] So that's why we put on this broken wing, because if we feel that maybe this catalyst, this CPI report was overblown, we want to protect in the case where the vector changes direction and goes like that. So, we put very little risk on the near side and a lot of risk on the far side, knowing that far site has a very small chance of actually happening.

[00:18:33] Now, there are more things that we can do to improve these numbers dramatically, besides just placing our trades.

[00:18:42] Let's see, there might be some questions here.

[00:18:45] Yeah. As the trade still going, let me let me check that. I haven't even looked.

[00:18:51] All right. We're way up

[00:18:54] and it's perfect. So I trade is working fantastic.

[00:18:58] And we're not even inside of the prophet tent. We're not inside the profit tent yet. We already collected about, almost about one third of the potential. And that is also again because of this broken wing, this tipsy Cliffy broken wing, or broken fly let's let's see that again. We'll we'll redraw it.

[00:19:24] So we have our zero line.

[00:19:26] We started here OT. We put on our butterfly looked like this. Some people got a credit, some got a slight debit, but our butterfly looks something like this.

[00:19:39] And on this side, you had a slight, or a slight debit, but it was insignia. And currently, because it's an asymmetric that, remember I said that you have the teaser line that grows it's flat. When you have an asymmetric one it's skewed. So it grows like [00:20:00] this. So ours is growing like this. And currently price is right here outside.

[00:20:10] Of this sweet zone here. We're right here in this area. We haven't even come into this area. And of course, time is moving on. Whereas sitting here at 2 35, there's an hour and a half left in the trading day. Soon this T zero line is going to look like this. And so we have to start getting closer here and we're doing okay.

[00:20:36] Price is right about here. Yeah, right about there. And we're slowly moving up like this. Now we could probably hang on for another half hour if price doesn't move and stop with very healthy profit. However, we're probably ready to get out now. There's no reason we've got a third of the potential profit.

[00:20:58] Our risk to reward was just off the charts. I don't know what you would call that. That was at least well, in most cases, I only paid five. I only have five sense of risk there. And currently my debit is 5 cents there. And currently per contract, where am I? I am I'm at $132. So 0.05. Versus 1 32, there's my risk to reward.

[00:21:29] I don't even call this risk in play because the chance of getting to this was less than 2%.

[00:21:38] Okay. I don't even know if I'll get here. I think getting to here that will be, a two standard deviation. 95 percentile move. 94, I think, or the opposite of that would be a 6% move here. I am almost dead even with our expected move and we've made this kind of ratio of risk.

[00:22:01] The green shady below the blue line is not quite in profit.

[00:22:05] yeah, I'm in must be looking at the previous one. What do you think about putting on two butterflies where each one is centered around the extreme of the expected move one will lose, but the other might profit enough to pay for both. Yeah. I find that that is just wasting money that you really don't need to do that.

[00:22:26] You're throwing away a trade. If you get better at. Predicting where price is going to go. And that's mainly what we do. I haven't even talked about that part of our strategy and we're able to do that better than 50%, probably close to 70% of the time, maybe two thirds of the time. Let's be generous and say 68% of the time we can choose very accurately direction and magnitude of direction and that's all we need.

[00:22:51] And then we can employ the type of strategy that I just laid out. The shovel is asking, what does T zero mean T zero that's time, zero at this present time. So when I say the T zero line, that's the and think of swim. That's the little purple line that's showing you where the profit is. That's called the T zero line.

[00:23:11] And in my chart here, that is the green line. That's my teaser line. I don't have a nice magenta color here with this person.

[00:23:19] Jeffrey's asking since you do have significant risk on the upside, would you set a stop? Ah no stops. That's that is so idiotic. I'm sorry. No, you're not idiotic. It's not an idiotic question, but people who would do that have to be totally screwed. There is no reason why would I put a stop when I have gobs of time, God smacks.

[00:23:47] I'm gobsmacked that you asked that question. We have gobs of time to get out of this trade. We haven't even entered the prophet tent of the butterfly yet. In other words, we [00:24:00] haven't even gotten to the center strikes yet. And you're talking about. And the chances of getting to a stop position are very small.

[00:24:07] And even if we did get up there very early, we still have a chance to get back, but that's not happening. There's no reason a stop in options means that you don't know how to place your options or how to define your risk and model your notion of the market with the appropriate options trade. That's the only reason to put a stop.

[00:24:29] With an options trade that your dumb ass, right? I didn't say you were Jeffrey. I'm just saying that people that use stops, like in the other strategy, the zero dash DTE without the dash, they put stops on with the famous Tammy's or a DTE strategy. And they are frigging losers all day, all night, every day, every week, every month, every year.

[00:24:55] A stop in options is for losers. It's for people that really [00:25:00] do not trust their strategy. We don't have to do that because we have complete trust in our strategy because it's put on with care and knowledge and edge, real edge. So we don't need stuff. Oops. We don't need no stinking stuff.

[00:25:18] All right. Let's see. I think another thing that I could do here let's put another, we'll put the zero line back in here. Now what most people are doing. Like I had mentioned iron Condors, most people are putting on. Five Delta spreads on their iron Condors, meaning that price is sitting right here.

[00:25:44] And so what they'll do is they'll put a a spread way out here and another spread way out here, see in a butterfly, this strike, and this strike would be right here. But in an iron condor, it would look like this. So they created. Something that looks like this.

[00:26:03] It doesn't even look like that. That's a gross, exact exaggeration.

[00:26:06] It's more like that.

[00:26:07] Because they have such a wide profit tent. They also have,

[00:26:16]

[00:26:16] So they have huge risk.

[00:26:18] And tiny profit, but what they have is a 95% pop.

[00:26:27] Now the problem with that is that when they start out with their teaser line, it's nice and flat, like ours looks like. Because it has such a small distance to move. There's, isn't usually that flat it's that was, it's usually more like this.

[00:26:45] That's what it's usually because it comes down to the wings. So, they come in here and they have this teaser line. And as soon as the market gets good,

[00:26:57] Arc is going to go this way or this way. As soon as it gets going, they start losing money because

[00:27:04] they get to here. This distance right here represents a lot.

[00:27:09] So as soon as they get into this position, they are almost immediately in a loss and it can be very large because this distance here is very large. So there's a lot more distance here. So their risk to reward is usually like 10 X risk to one X reward or profit is the is what I was using before.

[00:27:32] Now, here's the problem. The amount of time that it's going to take to get to expiration is represented by, how much this profit line is going, or this teaser line is going to ride.

[00:27:44] And in this case, it doesn't have very far to rise. It has to rise to here, but when it arises, it's going to arise like this. It's going to fill up and do something like this. The problem is that in the meantime, [00:28:00] there's a lot of risk here and as prices moving, if it comes and challenges, one of these wings.

[00:28:06] They could be set up for one of these max risks. So what they do to combat that is they put in a stop. They put in a stop, like right here and here effectively turning their trade into not a 95% probability of profit, but more like a 65% probability of profit.

[00:28:30] And they often hit that wall and take that loss, which is usually set at three times the maximum profit sum. Most of these traders are dissatisfied with that, because it happens a lot. And so what they do is they remove their stock with the hopes that it will come back to the. And a lot and half the time it doesn't and then they go and they get a max loss and they will wipe out a month or two months' worth of their trading profits.

[00:29:03] So while they might be making tiny little scraps, because they're putting on 95% props, actually 65% pop ups, tiny little scraps that they make in between this window, three days. And then every once in a while, they get a huge one that wipes out their whole week or they take the stop off and then they get a max loss, a catastrophic loss and lose two months with the profit.

[00:29:27] That is the life of the other zero DTE trader. This never happens to us ever. We're not anywhere close to that ever happening because our risk is never. There it's always small and non-existent

[00:29:48] so Jeffrey is continuing to ask. So if the market moves up past the profit peak, would you then exit and profit then? Maybe it depends on what time of the day. It is. A [00:30:00] lot of times we don't have to do anything. Okay. So let me.

[00:30:05] Let me see where we're at here.

[00:30:07] Just looking at all so we're still outside market. Hasn't moved up at all. I would say that if we're not going to move up, we need to get up to 4450 on the SPX to start making more, to get inside of that prophet tent. If we hang out here under, underneath 4450, we're probably not going to improve our position.

[00:30:27] And so we can get out here with an insane profit based on our risk, or we can hang on for a little while. And we have that luxury. We only have. Now we only have an hour and 10 minutes to go. So it either has to make a move now. And it appears as if the market is consolidating a little bit and it could work out for us.

[00:30:49] So we'll have to see how that works.

[00:30:51] Let's see.

[00:30:52] Yeah. Okay. So, we can probably turn off this, the iPad here, and then a recap. So Steven saying, I am waiting for SPX to make a run at 4450, between 3:00 PM and 4:00 PM. It just might, if that happens that'll be beautiful because we might get a chance to pick the time. And instead of making 120, $130 per contract, we could make up to let's see how much we can make

[00:31:24] Let's see. Almost $500. So yeah, that, that's a real good incentive. To see if the market's going to run up another 10 points. Now of course the expected move is still at about 10 points. So from this moment in time, the expected move well, actually right now, the expected move has dropped down to the end of the day.

[00:31:49] It's around five and a half points. So there's a good possibility that we could move up five and a half points, which, which would still put us inside of that prophet tent and give us a nice run. So that's the game that we play. Now. One thing that I didn't talk about in our strategy, besides putting on an asymmetric trade and employing the, this these principles of asymmetry getting tipsy, so to speak or quippy is that we perform an entire macro analysis of the.

[00:32:22] To come up with our directional bias and the magnitude and direction of that, price, vector. And then we have a set of guidelines on how we model that with volume profile. And that helps us set the strikes appropriately because that will tell us where support and resistance are and where the market structure lies and where to place them.

[00:32:49] Asymmetric trade. So, we have all of this going for us. We have a very good idea of where we believe price can go. Right now, we're set up as Steven said that there's a good likelihood that we could move up another five points into this small node that was established earlier today and finish the market off there.

[00:33:12] Now, if it does do that within the next half hour. It is going to dramatically increase our profits. So, it's probably worth hanging on for that for that move. So that's probably what we're going to do. All right. So, there you go. There's a trade inaction. Let's see.

[00:33:31] Next time. What I'll do is I'll use the iPad. And I will superimpose the actual profit tent and the actual market, and then dry her over it. And then go a little bit deeper into how we use volume profile. Okay. Oh, another question by Geoffrey. When do you do the modeling with volume profile?

[00:33:53] What timeframe do you use? Usually consider a model. First, we don't use a timeframe in the traditional sense, like somebody does with bar charts where they say, Hey, I use five minute bars or hour bars or whatever. We're more interested in time span. So, we look at the profile over multiple months, multiple days intraday and inter hour.

[00:34:20] And we'll look at all of those and then evaluate the profile in all of those different perspectives so that we can figure out because the larger profile. Generally, have precedence over the smaller profiles, but profiles that were created in a shorter period or have that a younger tend to have slightly higher gravitas to them too.

[00:34:41] So the big profiles have the most, the biggest closest have the most, the smallest furthest had the least. And so, everything in between and from that we develop a a market map or. Where we can tell where support and resistance are, where the market's finding [00:35:00] value, where it's not finding value, basically that supply and demand.

[00:35:03] And with that, we can use that very accurately to place our strategies, whether it's a symmetrical butterfly or a spread or an asymmetrical butterfly or a ratio spread or any of the above. And so that's how it's done. Of course. There's a lot more to it than that. There's a fair amount of macro analysis that we do too.

[00:35:26] We develop, we have a process of continuous improvement in our our strategy and what we do. So, we're always learning, and we take that learning and then we feed it right back into each individual sprint that we do on the way to trading. If you're familiar with some software development processes like agile or scrum or Kanban, we use basically the same principles in that each trade or set of trades are like a mini project.

[00:35:56] And we apply our technique, our methodologies within that project, we upfront do all the analysis. Then we exited. And then we learn from that and we use the learning, what we call the retrospective to feed right back in to the next project. And in that way we're continually improving what we do.

[00:36:18] That's a lot like what machine learning does, but we're acting as the machine. All right. So, there you go. You just got to an inner look at how we do stuff here at 0-DTE. And today represents a win number two of this week. We were winners on Monday. We're also windows are on Friday. And in this very low volatility market where we're absolutely killing it in terms of our utilization and our efficiency of using capital and the amount of return that we get from the capital put in.

[00:36:52] Where most other people are trying to eke out five to 15% return on their risk. We're averaging 150 200% return on our risk, even in these low volatility regimes. When we get into the higher volatility regimes. In other words, when the VIX gets over, 17 gets up into the twenties, our return on risk. And our capital efficiency explodes, and we are far more accurate.

[00:37:19] We win more trades and we win bigger trades. So, at our lowest, most anemic situation, we are still an order of magnitude greater in terms of performance than there than the other strategies. Best performance.

[00:37:35] That's great. All right. That's about all I have to say. I want to thank everybody for showing up. Thank you for the questions. And I've got to get back to work. Hopefully this market's going to move up another five points. That would be wonderful. All right. Let's see, where is that off button? There?

[00:37:54] It is. Bye .