0-DTE Recipe

[00:00:00] How ya doing friends, Ernie here with the zero dash DTE podcast and today September 15th, it's about two o'clock in the afternoon.

[00:00:08] And today is another zero DTE. That's zero days to expiration where we trade options or sell options or collect premium on the very last day of expiration three times a week, that happens three times a week with the S&P.

[00:00:26] It also happens with the NASDAQ, as well. But we don't choose to sell premium on the NASDAQ because the liquidity is much less. The liquidity is less, and the margin is way higher, it's not a very desirable or fun way to trade, but the S&P is a completely different story. And we trade both the E-mini futures. The options on the E-mini futures and options on the SPX.

[00:00:51] And we do this in a very special way that that's our recipe that I'm going to show you today, or that I'm going to describe to you today. And I want you to say, I want to say right off that there are really two ways to make money in this market. And this is one of them not specifically in the zero DTE way, but.

[00:01:10] To sell or collect premiums, be a net seller of premium is one of the key ways that professional traders and institutions make money. The other way is through arbitrage. And I'm with both of those two different strategies, selling premium and arbitrage. Countless ways that you could implement those probably less on the arbitrage side, more on the premium selling side.

[00:01:38] The most accepted way on the arbitrage side is when people are market makers will sell or play both sides of the market, a pure arbitrage, and they make a guaranteed profit of the spread in between. The bid and the ask, and that's probably the most common, but there are less common ways that are fleeting, but they're out there.

[00:02:02] And then selling premium, there are several ways to do that as well. What we have chosen. And one of the reasons why selling premium, has edge is because it has inherent edge built into it. First, that's one of the reasons and that inherent edge is the constant or consistent. Overstatement of a volatility or implied volatility, which is the premium, which is the primary factor that goes into pricing options and inflates the premium in that option.

[00:02:35] So essentially what we're doing is when implied volatility is overstated. Premium is overstated. In other words, the option contract itself is overpriced. And so, what we do is we sell that premium when it's overpriced. And then as it gets close to expiration, the actual volatility versus the implied volatility tend to converge.

[00:02:58] It is also a kind of arbitrage, and we make good money. Of course, all of this is predicated on you being in the right place at the right time. And hence, that is what the recipe is all about. And we have a recipe that I believe is perhaps the premier way to day trade in the markets, particularly for a retail trader.

[00:03:27] I know that there are professional traders that are doing a version of what we are doing. Almost exactly what we are doing. And what we are doing, I think is perhaps the easiest way to implement this strategy and gives you the most bang for the buck. One of the things that we predicate this on is putting on asymmetric trades, asymmetric strategies.

[00:03:56] And the reason why we do this is so that it minimizes our risk and exp expounds upon or magnifies the potential profit that we can make. I'm just checking on one of my trades here and, uh, it is doing just fabulous. It looks like we might have a chance of pinning this trade today.

[00:04:20] So. Getting back to asymmetry, asymmetry is a universal concept that almost all successful entrepreneurs, traders, investors, people who are taking risks in life, how they achieve success, they find. Okay. Well, first, what they do is they develop a process, their process of getting into these situations and they perfect that process.

[00:04:56] They're not going for this, high and mighty goal that they believe that the goal will come. Success comes in perfection of this process to put you in the situation where you can take these asymmetric bets. And that's why you often hear, uh, people who are ultra-successful in life that have become multimillionaires or billionaires.

[00:05:17] They'll tell you that they, they failed a thousand times, but they failed at things that cost them little other than experience. They failed at asymmetric opportunities. It didn't cost them much to fail, but they learned, and they were able to improve so that they put themselves in that next situation where a small bet could end up returning huge returns.

[00:05:43] We use the exact same process here. So as I said, I'm going to reveal. Recipe is, and I'm going to state it in basically four steps that we follow. This is the process that we follow. And it's a process that we follow with every trade. Now I'll have to admit that this trade that we're in right now is, is shortcutting that process a little bit.

[00:06:11] It's still using some of the tenants of that process, the asymmetry and the selling of premium and the managing of profits. But it is missing one thing, and that is a catalyst. And that is because today's move that put us into this trade came from an unknown catalyst.

[00:06:32] We've had five, six days of downward movement in the market. Volatility has slowly creeped up and given us that inflated premium that we're looking for. But the market seems to have stalled and then started to turn around without any. Now it hasn't really made a full turnaround yet. It is just sort of peering its head above right now.

[00:06:57] Now whether it will continue there, is completely up in the air. We don't know, but for whatever reason, the market bounced up today, some might say that there was a divergence in play. Others might say. it was oversold, which I believe is a bunch of crap. If someone can identify what oversold means in the real sense, I'd love to hear it because I don't buy that whole idea of being oversold.

[00:07:23] There are other reasons, there are reasons that perhaps the market simply didn't feel that the value existed below that current level. And that day price discovery started. Some whales came in, pushed the market up. And now that trying to figure out whether this level is the level of where value exists in the market.

[00:07:45] That's basically how the auction process works. There are those whales that push or out of timeframe, players that push the market to different places to find, or to discover prices that have value. Once it sticks, then all the little rats go up and they chew up and consolidate on that area. And hence, then you get this sort of trending and consolidation, trending and consolidation kind of movement at all, timeframes in the market.

[00:08:16] Some say it would be fractal and it's true. So whether you're talking about the one minute. The hour, the daily, the monthly that's the way the market behaves. It is pushed up into areas. It trends to areas, finds areas of value, and then hangs out there for a while. And then when it thinks that there's another area of value.

[00:08:37] Now why it moves. Usually is because of some sort of catalyst and I'm getting into the recipe right now usually is because of some sort of catalyst and that catalyst can be things like, disruptors, economic reports that come out that surprise. It could be a politician that says something dumb, which is a very common occurrence.

[00:08:59] It could be a fed governor that has gone off script and decided to say something that. Jolts the market. And so, the market will respond to it. It could be a foreign leader, an unusual situation or a big global macro event. It could be any number of things. These things that we call catalysts and what we do here is we keep our thumb on the pulse of that global macro activity.

[00:09:29] And what we're most interested in is just that very last day, that final day of expiration. And if we can get a good sense on and a good hold on, what are the catalyst in the market and gain a good understanding about the cause and effect of certain types of reports. And then when we see markets move, then we can, assess the magnitude and the direction of the market, at least for the short term.

[00:09:55] And that's all we need. We only need a couple hours. Anywhere from, one or two hours to up to 10 hours, that's all we need. And of course, there are varying catalysts. Now those catalysts won't tell us how far something will move or to what levels that they will move. That is step number two.

[00:10:15] The second step is that we do a thorough analysis of the market structure, the landscape, so to speak the land. Over which that price that has been pushed onto it will then traverse. So, price and price, discovery, and traders with all their, you know, whatever things that interest them are coming over.

[00:10:42] That landscape, that landscape is represented by other traders that have positions in the. And either they have a lot of positions and orders in very specific levels in the market, or they don't. We use a volume profile to illustrate this, and it shows us these, what we call volume nodes. And those volume nodes are sometimes massive.

[00:11:04] And sometimes they are, whispers, but we do a thorough analysis and that gives us a texture of the market, the market structure. And then when you combine the two, it's like combining, , baking a cake, you're combining the eggs and the bread and the yeast and the water, and then you get some sort of reaction to it.

[00:11:26] Something happens, some consistency, something desirable. The same thing happens here. When we combine our analysis of the catalyst, the movement with. Market structure. We're able to then see very clearly where price is likely to go, where it is likely to move quickly to, and B and gravitate towards where it is likely to get rejected.

[00:11:55] Now, once we have that in, in view that whole picture in view, and we see those scenarios. Very clearly plainly in front of our face. We can then place a premium collection strategy and options strategy using the edge that I talked about before the idea of selling premium in, in that, and put it in the wake of this movement in such a way that we can create and define our risk and define an asymmetric.

[00:12:29] So we create a trade with very, very small risk and very, very large, relatively large return. Now we won't take anything, any trade that, unless it has a minimum of one part risk to five parts return. In many cases, we'll put on one to 10 or one to 15 in this case, it's about one to nine. And so far, we've already achieved almost a third of that, of its.

[00:13:00] So that's what we're doing right now. We have actually put on an asymmetric trade, in an opportune place, coincident with the market structure. Something has provided that catalyst. That's the one thing that's missing in this trade. We don't know. We don't know what that catalyst was this time that happens occasionally.

[00:13:20] I started intuitively that I could see the pricing building. And I could see the divergences and I could see other things, but I wasn't willing to alert it to the group. So instead, I made a suggested trade. And so, because it didn't follow the full tenants of our recipe or most of the recipe, I guess it's kind of like we were making unleavened bread instead of making 11 here.

[00:13:45] You could say that that’s the best analogy that I can come up with. We were making pita instead of a nice big fat loaf. So that was our recipe for today. We did three quarters of the recipe, but hey, I'm going to take profit no matter how it comes, what do I care. Really, what do I care if, I use all the strategy or just part of the strategy.

[00:14:10] However, we find that we have our best opportunity when we use all of the strategy, when we have a good idea, and we can make predictive moves because then we can make moves that are further away from the action in time. And then from that, we can generate things that have even greater asymmetry.

[00:14:30] So there is a, there is an advantage to that. So hopefully you get this. All right. So there's the first three parts. The fourth part is something that is completely the inverse of what everybody else in trading does. You all, you always hear people talk about how the way to trading Nirvana, the way to consistent income, which is a fallacy.

[00:14:53] There's no such thing as income and trading. The way to make money is to manage your risks. And I'm telling you right now that that is bunk managing your risk means that you're managing your losers. It means that you're trying not to be too much of a loser, although you accept the fact that you're a loser, that's what managing your risk means.

[00:15:19] However, if you put on an asymmetric trade, And the risk is small enough. There's no way you can be a loser, just like the person who becomes a millionaire or a multimillionaire or a billionaire. They don't consider themselves losers if they fail 10, a hundred a thousand times, because the winning is so much sweeter it's so overshadows the losing.

[00:15:49] So we do not manage our risks. We manage our profits. We spend the majority of our time in this service managing profits, where everybody else is managing risks. Now, how would you rather spend your days? Would you rather spend it with three quarters of your time in hell or three quarters of your time in.

[00:16:17] It seems like a rhetorical question to me. Anyways. There you go. There's our four-part recipe. We look for a reason for the move and come up with our best analysis. That means that we're students of the global macro condition. We look at the structural aspects of the. Where the market finds value, where it doesn't.

[00:16:46] And then we look at how combining those two will give us scenarios. We model those scenarios with asymmetric trades that collect premium, when that price moves into those asymmetric trades, or even anywhere close to it, we sit there, and we collect.

[00:17:04] And now our job is to see, well, how much of that premium can we collect? How much profit can we manage? If the trade goes against us, it's a throw away because the risk is so small. We don't even worry about it. We just say, okay, let's move on to the next. Is there another opportunity?

[00:17:23] So putting all that together, is a recipe for success, a recipe for no anxiety trading and a recipe for realizing the reality of the situation that trading is not about generating an income. We take what the market gives us. We take small risks into highly, potentially profitable trades. And when we make those, our account goes.

[00:17:54] When we lose our county that stays the same, or just goes down a fraction of that.

[00:18:00] That's how we do it. That's the recipe to zero dash DTE trading, quite the opposite of all the other people who. Doing zero DTE trading or the last day of exploration trading. As a matter of fact, a lot of the people that are in our service have come from those other services and they tell me all the time that they're fallacy there, their mistake, they are using huge amounts of capital chasing after tiny little profits, where we're taking tiny little amounts of capital chasing huge amounts of.

[00:18:38] And duplicating in the small, what the most successful people in the world have done in the large that's it. And right now, we're looking at, let's see. Almost a third of the potential profit here. And really, we don't have the price of the market does not have to move right here, even if it moves up or down several points, as long as it stays somewhere within this range.

[00:19:04] And it appears as if it will, because we've landed on a volume node where the market has found value. It will hang out there for a while because volume nodes have stickiness to it. And while it's sticking there, Volatility is dropping as volatility drops, premium collection accelerates. So now time is on our side.

[00:19:30] We are managing our profits. That's how we do it. All right. That's it for episode number 37 of the 0-dte.com podcast. If you would, again, like to join our service, there's a four-week trial. You can go to 0-dte.com/try. Thank you very, very much for your time. We'll see you on the next 0-DTE event.

[00:20:02] And that will be on Friday. It looks like today is another winner. Monday was a fantastic winner. I must admit the first two weeks of. Of September were rough. I think we only did maybe two winners out of six, and that's very unusual for us. However, we still, because of the asymmetry, we were still positive, still positive when it all comes down to it.

[00:20:30] However, September worst trading month of the year, we are now heading into October, which is one of the best trading months. So now I expect to move right back to the. Performance that we were seeing in, um, from the spring and through the summer, which was outstanding. And even those months aren't the greatest.

[00:20:50] So now we're moving into the sweetest part of the year. So really looking forward to that. Well, right now I've got to get back to managing my profits and showing the zero anxiety. I'm going to sit back. Without any bead of sweat in my head without worrying about, achieving a max loss, because I know that that's exactly what most of those people that are in the other services are doing right now, because it moved outside of the zone.

[00:21:21] They are sweating bullets trying to manage their risk, trying to manage how much or how little they're going to lose.

[00:21:30] Anyways, there we go. Thank you very much. We'll see you Friday. Peace take care. All right. Can never find that off button. Cause I have so many windows. Where does it get?

[00:21:48] I should have, I didn't have like a big red button here that I can just push and say, Ugh, but I don't. I make the same mistake every day. Where is that frigging off button? Oh, there it is.