Make mistakes and Still Win Big

[00:00:00] Hey friends. This is Ernie and this is the 41st episode of the zero dash DTE podcast. Also livestreamed on YouTube. So every Monday, Wednesday, and Friday, unless there's a holiday, you can expect me to be here and talking to you about these zero DTE days. And what is there a DTE?

[00:00:28] It is the zero or zero. th..., is that a word zero th? A zero th day of expiration, four options on the S&P. Or both the futures and the SPX or the SPX index. And that's what we do. We trade options on the S&P on that last day of expiration. Now why the last day? Why? There's that question?

[00:01:00] Why, again, it's always about the, why isn't it. And I say, no, it's not about the why it's about the, what. We trade the very last day of expiration because it gives us an incredible edge and that edge is the exponential decay of premium. On the last day of expiration of any options. Contract premium is decaying at its most rapid possible rate on that last day.

[00:01:26] And so what does that mean to someone like myself who likes to sell premium or be a net seller of options? Okay. Well, that means that because I am selling, and I am taking on the obligation of being the writer or seller of an option. I get rewarded by taking in the premium and as premium decays, that decay goes right into my account.

[00:01:55] And that is nice. That's part of the edge. And just that alone as being a net seller of premium, you have a huge edge over most options traders, but there is much, much more to it than that as a general rule, premium is overstated, or the volatility is overstated and that's volatility is primarily what makes up premium it's overstated and it's like selling stuff.

[00:02:27] That is always overpriced. And then people beating down your door to buy your overpriced stuff. That's a wonderful thing. That is a wonderful thing. Especially in this market. There's always. Uh, you know, just a huge crowd of people just wanting to beat down and buy my overpriced stuff. Well, it's not my overprice stuff.

[00:02:54] It's what I'm taking control of at that time. So that's the other edge that we get other, and we have many, many other edges that I've talked about in other podcasts, go back and check them out. And we just stack them on top of each other to create a strategy that is without.

[00:03:13] I would say the premier way today, trade in these markets. I don't know of any other day trading strategy, other than being a market maker and getting that guaranteed profit from the arbitrage you get from the difference between the ask and the bid. Other than that, this is I believe the only way that you can consistently make money.

[00:03:37] Now, I don't want that consistent word to be. Mixed up with the idea of producing an income. This is not about producing an income, producing an income would, would necessarily assume that the market is this sort of steady as she goes type of thing. And you just must step into gear with it and then pull out, you know, your regular check ever every second day or Monday, Wednesday, or Friday.

[00:04:08] And that's not the case at all. This is a growth strategy because that's what the market provides us in terms of opportunities. Most of the time, those opportunities are relatively benign or slim and we can make darn good profit off those benign days. Like today. And then occasionally, between 30%, sometimes as little as 10% of the time, we get gifts, gifts from the market that totally explode our profit-making potential.

[00:04:44] Well, that's not today, yet. It could be now September has. And if you go back to my previous podcast, you'll know. We've already pegged September as one of the worst and most difficult times for all traders for all fund managers, for all markets to operate for whatever reason this is. And this is a worldwide phenomenon.

[00:05:07] September is the worst in terms of returns on the general markets worldwide, going back 50 years. Now there's no one thing I could come up with all kinds of reasons why I think, it's tough and it's been tough for us, but tough for us is a very, very special kind of tough. And that is going to lead me into what today's topic is.

[00:05:33] Today's topic is talking about how you can make mistakes or be wrong, or be mostly right, but somewhat wrong and still make a lot of. And this hearkens me back to, a Scott Adams book that is entitled something like that, How to Make Mistakes and Still Win Bigly. And there is an art to this and, or a realization that if you put yourself in the right position and you.

[00:06:07] Or you concentrate on perfecting a process and don't concentrate on goals, which is what people with income in mind, they have this goal that I need to make this much money to pay my bills. And if I don't pay them, if they're going to throw me out of the street, that's incredible pressure. You don't want that.

[00:06:28] So what that's telling you is that don't rely on this. Money that you make from the markets to pay your bills. You should have another way to pay your bills. Either you have an emergency fund, or you have your clipping coupons, or you have a job on the side, you have a side hustle, you have the wife working, whatever something else is bringing in the money so that you can pay your bills and then use trading as a growth strategy to keep on building your account.

[00:06:59] When the opportunity arises. The mistake to make is to think that you can extract a set amount of money out of the market every day or every time that you step up to your desk. It's just not there. It's just unrealistic. It is a fallacy income producing strategies in the options world as a made up.

[00:07:27] And again, I think that this is all part of what I call the broker narrative. It is out there designed to get you to produce transactions for the benefit of the broker. Because every time you create a transaction, they go, Kuching cut Jane. That's what they want you to do. So what we do is we trade smart.

[00:07:50] We take opportunities as they come. So again, getting back to this idea of being mostly right or somewhat wrong, or sometimes just being outright wrong, but never giving up. Here's another situation. If you were putting on an options strategy and you have defined risk, why would you ever stop out?

[00:08:16] Even if you go to maximum. Y, what is the upside? If you're in the middle of the trading day or let, let me put it another way. What is the downside? If you're in the middle of a trading day and price in the market has gone against you, and you're near or at max loss on your strategy. Is there any risk to you at that moment in time?

[00:08:39] The answer in short is. Because the worst that's going to happen is that you are going to continue with that max loss to the end of the day. And then you take on and you realize the max loss that you defined for yourself. Now, the key here is to riddle you with anxiety or cause you to bleed blood from your eyes.

[00:09:13] You know, that would be dumb. No. Instead put on strategies that have max losses that are almost a don't care, right? I mean, wouldn't that be the smart way to trade put on asymmetric trades where you have a max loss. That's very small, but the potential wind could be huge. I mean, it only makes sense to me.

[00:09:38] That's what we do. What do you do? I know that other zero DTE strategies, not the zero dash DTE, but the zero DTE strategies that are out there. They do what I was just talking about. They put on huge max losses for. Supposedly high probability event where they're going to make a tiny, tiny, little bit of profit and that tiny little profit, they don't even take that.

[00:10:05] They're happy with half of that. And then they get out and then they make the monumental mistake because they are afraid of hitting that max loss of putting stops in there. Totally defeating the whole idea of defining your risk. And now what they're doing is they're defining their loss.

[00:10:28] That's that, that, that is an unforgivable mistake. Now I don't mind if we make a mistake, and we get to max loss or. We're still in the game. We still have skin in the game or we're just wrong on direction somewhat, but it's maybe right enough that we can still pull some profit out of the market.

[00:10:50] Those types of mistakes are kind of like high quality mistakes that you've set up. You have set those situations up so that when you make errors in judgment, that they don't hurt so much. Or they may hurt a little bit or a little less than a little, or maybe don't meet your full expectations, which means that you probably profited, or they turn out just swimmingly.

[00:11:22] Good. You know, those few times when you just explode in profit, now let me give you some, you know, real numbers to attach yourself to, and what. In general, when we trade this way, when we trade with asymmetric opportunities on average, our average trade, if we're going to take, say a hundred trades, we're looking for anywhere from 150 to 250% return on our wrist.

[00:11:50] And, you know, over the course of a year, if you were to average out our winning percentage, that probably happens about 75% of the time. There are some times in the year where it's up around 95 to a hundred percent win rate. And other times of the year, like September, where it drops down to like 50-to-65%-win rate.

[00:12:11] However, our return on capital, our return on risk that we put on is still dramatically. Then the amount of risk that we take. So, on average were returning about 150 to 250% over all the trades. Now there's a small percentage of those trades that we expect, or we enjoy, I should say, not so much.

[00:12:38] But the odds just kind of work out this way that we achieve what we call a pin trade. And that's where we got everything, right. There were no mistakes, but not because, you know, we're just like super smart, but because that's what the market decided it was going to give us that day and we pin the trade and we can make as much as 500, a thousand, 1500% of the risk capital that we put up for that.

[00:13:07] That's right. That's what we do. And we can do that consistently 10 to 12% of the time over the long haul. There are times like, uh, earlier this summer there was a stretch, I think for, I don't know, 7, 8, 9 weeks where we were pinning trades every week, 30% of the. One of our three opportunities during the week was a pin trade or within very close to the pin trade where we were consistently making 800, 1200, 1500% return on our risk.

[00:13:46] Yeah. Those are like the glory times. Right. And then every once in a while, you would be outside of the prophet tent that you were trying to where you're collecting this premium, and you would make a measly. A hundred or 150% or go to max loss. And when you hit a max loss, they were so infrequent.

[00:14:05] We didn't really care. However, now when we get into September, the dreaded September, those max losses become more frequent. So instead of say losing 5% of the time, now we're losing 25 or 30 or 35% of the time. And then, you know, it’s all in perception when you're in a situation where it seems like you can't lose.

[00:14:38] The one thing, the one mistake that you would make is to expect that to continue. In fact, when that situation presented itself to us, I tried to beat back the expectations of our group to say, look, this is great. Let's enjoy it while it's here and then allowed our accounts to grow because there's going to be a time when all of this regresses back to the mean, and it's not going to be so great.

[00:15:09] However, the difference is that we can still put ourselves into a position where we're still winners, just not as big of a winner. For people that have lofty expectations of, you know, Lambos and hoes over here, and then they only achieve, I don't know, um, VWs and, um, I dunno, what else, what would be the antithesis of Lambos and hoes?

[00:15:40] Whatever that is now, you're just achieving just average stuff, but still. It's still making profit. It, it seems like it is something much, much less or undesirable. It's all perspective. All of it is perspective

[00:16:03] and that that situation can induce us into making mistakes. Making errors in judgment, thinking that the only way to get back to that is to force the market, to give us stuff. And that is, that is the ultimate mistake to think that you can force the market to give you what you want, because it's not going to happen.

[00:16:30] In fact, the more you try to force it, the more the market will punish you. So, the answer is I don't give a shit don't care. Just take what the market gives you. If it decides it doesn't want to give you much than say thank you very much for what you've given me, be grateful for the 50 or a hundred percent return you made on your risk out.

[00:17:00] Which to most would sound like, you know, when we, God, you're making 50 to 100% and your risk capital, you must be a trading. God, yet we feel like we're scum. So that's, again, that, that is again, perspective. The difference between the way the zero dash D T E crew trades and the way all the other zero DTE crews trade refill, like Scott.

[00:17:27] Making money when they feel like God's when, where they have no conception of our godlike feelings. In fact, it's the inverse, what they feel when we're feeling those godlike feelings is pure hell, because they're trying to do what everybody else is trying to do in the market. Take from the market instead of receiving.

[00:17:57] So I would say that that is probably [00:18:00] the biggest mistake that someone can make in this market is to think that they can take stuff out of the market. They can take an income; they can take profit. It doesn't work that way. The best you can do is to trade smart, put yourself, or line up all the edges in your favor.

[00:18:26] Put on asymmetric opportunities, placed them in such a way that gives you the best opportunity to receive, and then let it happen. If that day, the market only wants to give you 50 or a hundred percent return, which is darn good scum to us, but still darn good. Then take it. If the market wants to give you more.

[00:18:54] Be open to that. Take that, to just use your strategy to its best, what it's meant to do. So and so in, I don't know how you follow up with that. That is a transition. So, I guess the conclusion is. We can still be wrong generally on what our expectation was, or at least of what our forecast was. I was not going to use the word hope because it's not hope what our forecast is and then come up short.

[00:19:41] So we're wrong on our forecast, but still be profitable. We could also be wrong on our forecast and. Wildly profitable. That's the difference. And the way we get there, the way we get there is this mindset in a perfection of our process of what we do on putting these trades on that is how you can be wrong or make a mistake.

[00:20:15] And still be able to recover or profit by accepting what the market is willing to give you.

[00:20:28] Sure. You can set up situations where even if you're wrong. You're right. I know that sounds crazy, but that's really what it comes down to. We just don't want to accept. Being wrong and being colossally. I don't know if that's a word. I don't know if I said that correctly, did I?

[00:20:55] That we're hugely wrong. That were catastrophic wrong. That would be a huge mistake that would be unforgivable. Why would you put yourself in a situation where you can only accept these kinds of losses? When if you really thought about. And you did your homework. You could set it up in such a way that the only kind of loss is that you take like this, that insignificant little gnats of losses, annoyances.

[00:21:30] Those are the kinds of losses that I prefer to take. All right. Let's see.

[00:21:40] We have a couple of questions. Our market's manipulated to blow out all the stops. Let me say this about market manipulation. All markets are always manipulated all the time. If you have enough money, just imagine this, you had enough money. I don't know what enough is, but let's say that you had craploads of money.

[00:22:06] Would you, or would you not be trying to manipulate the market? This is a rhetorical question, because obviously the answer is yes. If you had enough or a gargantuan amount of money, you would do anything in your power to put all of that in your favor. Well, the reality is that there are many entities out there that have that kind of money and that kind of power.

[00:22:32] And that's what they do. There's nothing that you can do about it. It is not. Well, there might be some illegality on it, but it is for the little guy disheartening. If they feel that they can't find a way around that, but there is a way around it. Most people can't find a way around it. And so, when they lose and.

[00:22:55] In that situation, like the other zero DTE guys, and they take these huge risks to make tiny profit and then the market doesn't go their way. It didn't bend to their will. They blame all the manipulators? Well, we don't blame them, manipulate us. We thank the manipulators because to us, they provide something that is very needed and that's liquidity and volatility.

[00:23:20] And for that, we thank you, manipulators. We thank you from the bottom of our heart for what you provide.

[00:23:31] All right. Let's see Lance. I don't know how to manage tranches in such a way where I take profits off the table and still hold on for a runner. All right. So what Lance is talking about? Is how to properly position size your account and how to split up your position into parts or tranches. And this is a more sophisticated strategy we develop over time and it's individual to each person and the size of their account and how much, how many tranches that they can have that make up a full position.

[00:24:12] But in general, this is what we're going for less. Because we have low expectations or let's say mediocre expectations, which are, again, I'll repeat God-like compared to the other services. But to us, you know, there are these mediocre expectations and we have so much money that we want to commit to a trade.

[00:24:38] Now let's say that our, we have a small account because of the. Economics and the granularity or size of positions with a small account, we may only be able to take one position. So, we only have one tranche, and there's not much of a strategy that we can do there in terms of say scaling in or scaling out.

[00:25:01] That's not an option to somebody with a small account. So, they must come up with a strategy that works for them with just one position for each. But let's say that now you have an account that's double that or triple that or 10 times that size, and you can take much larger positions, but the average position size is still the same.

[00:25:27] But now to get to your full position size, you could take five positions. And so now you can either go all in with all five positions on every trade and then all that. Or a portion of them in, and then the portion of them in later until you build up to a full position, if you build up to a full position, depending on the market, you have that option because you have that ability, that flexibility, because you have a bigger account and then do the opposite when you're coming out, maybe scale out.

[00:26:03] So from a. From a market taker or a take what you get mentality we're only expecting or have low expectations. And we know through our experience that only about 10 to 15% of the time, our expectations are blown away and we'll be able to achieve one of these larger returns. So why don't we play the market that way?

[00:26:36] So in other words, when we've met our expectations and we have five tranches to put towards the market, let's say we get them all in there. We put the first three on, on the initial position. Cause it's a good price pulls back a little bit. Maybe we add two more and it lowers our cost basis.

[00:26:55] Now we have all five trenches in there and then during the day, Because of premium decay, we've reached 50 or a hundred percent return on our risk and which is right into our wheelhouse. And we can take three of those tranches off thereby achieving a good amount of profit so that even if the other two go to max loss, we've still made.

[00:27:25] And we know that those other two that are on there have the potential to go and become one of those 10 or 12% and pin and making maybe make a thousand percent of our risk, or they could fall somewhere inside the spectrum between the low end and then the high end. And there is a spectrum. And we, we know that most of the time, I would say 50, 60% of the time we're going to do that hundred, hundred and 50% return.

[00:27:53] About 10% of the time we're going to achieve that big, huge return. And then everything else in between is something between, we could let those other two sort of float, and maybe we get a little bit more, maybe we pin the trade. Maybe they go to max loss. So that's it. Now this is all, you know, dependent upon the trader, the size of their account.

[00:28:17] What types of. Strategies that they've developed like that, but in general, that's what you do. You take off a Porsche, a portion so that you have what we call a free ride for the rest. Then you manage those profits for the remaining portion. So that's the difference also between what we do. That's a high-quality problem on our part.

[00:28:38] We manage profits where everybody else is managing loss, managing risk.

[00:28:51] Kevin asks, uh, this is the best kind of wrong, but still be right? Yeah. So low expectations mean a hundred, 250% return. Well, I would say 50 to 150 because during September that shifts down to like 50 to 100%, because

September is just so. So today was like one of those days. I mean, I achieved a hundred percent on a Mo on my SPX trade.

[00:29:18] And right now I'm at about 50% on my e-money trade. So I feel good about that. I'll take that profit. That's good by me.

[00:29:32] All right. Any more questions, guys? Any more questions from the peanut gallery?

[00:29:40] So, hopefully that makes sense. Before I go, let me tell you that you can try out our service by going to 0-dte.com/try. There we offer a four-week trial where you get to be fully exposed to our entire strategy are hundreds of other traders in our rooms. The resources that we have and the coaching and mentoring, at least from a group setting point of view, get all your questions answered directly.

[00:30:14] Even the trial members get my personal mobile number. And yes, you can call me. And I do answer the phone. So, you get first-class support before weeks, you are going to get an education that is worth thousands of dollars for a measly pittance. And if that, then you decide to come on as a full-time member, I will rebate that trial costs towards the cost of your membership.

[00:30:41] Pretty much, a no-lose situation. All right. Again, that's 0-dte.com/try you go down below. You'll see the link. I want to thank everybody for showing up today. And hopefully I described what being that well, I described a, how you can be wrong or mostly wrong or somewhat wrong yet. Still come out a winner.

[00:31:10] That's what we do. Thank you very much peace to you all. And we'll see you on Friday. Oh, that reminds me. I think that tomorrow would, there may be another zero DTE expiration for the month contract. So, we'll take a look at that. There's a possibility we might be here tomorrow, but I'm not sure yet.

[00:31:32] Definitely on Friday. Thank you very much again. Peace to you all. We'll see you Friday for sure.

[00:31:42] Is that off button? Ah, there, there we go. Got it.