September Pain October Gains

[00:00:00] all right. We're back. And what I mean by back is that I am back. After two wonderful weeks on Martha's Vineyard family. And I had a nice respite. It was beautiful, beautiful there almost every day. We were book-ended by two hurricanes first Henri, uh, which delayed our time onto the vineyard by a day.

[00:00:20] And, and then Ida near the end. So, that was kind of interesting. Although the vineyard didn't really experience any bad weather. Just a little bit of rain. Anyways. Today's episode of the zero dash D T e.com podcast. Always remember that-zero-dte.com. Cause that dash is so important. If you don't have that dash well, I know this is, this sounds so corny.

[00:00:54] Um, well then you trash, if you don't have a dash, you have trash today's episode. I want to talk about September, because September is one of those months that most traders, most fund managers, most algorithmic traders, most hedge fund managers. Most everybody that's in the market wants to just put out of their mind because historically September is the worst month for gains in the market.

[00:01:28] Now there's a lot of conjecture and opinion and ideas is on why that is so, but apparently nobody has been able to come up with a definitive reason why. September is so consistently bad, but it is, September is bet I have my own ideas. Now, when I say bad, how bad is bad? All right, well, we're going to put it into some real terms here.

[00:02:05] Now. All you must really do is just go to Google and search trader and monthly returns chart. All right. Do that, go to trader monthly returns chart and look at what comes up. Go to the graphical search or the image search for Google and take a look at any of the charts. There's a dozen of them up there.

[00:02:29] And September. The S and P average return by month in September for the past 30, 40, 50 years, I think people have been tracking. This has been negative, and there's only one other month that has been negative too, but not nearly as to this extreme. And that is August. August is the second worst.

[00:02:53] Now at the zero DTE. Service. We did quite well in August. And in fact, we did phenomenal in August, and I expect to have a very, very good September. However, it should be subdued. And there's a lot of reasons for that. Some of them are my own ideas. Some of them are what some people consider the reason, but no one, as I said before, has ever come up with the definitive answers to why September is so bad.

[00:03:21] It just didn't. I think it has a lot to do with, just human behavior in general. All right. Now, now to the numbers, what are we talking about here? What exactly are we talking about September? So in September, on average, the S and P itself is down about half a percent. Now you compare that to October.

[00:03:46] Or November or December, October on average is up over a percent. Same with November. December is the second strongest month be right behind April, which is up nearly one and a half percent on average for the past 50 years. Yet, September. Is down now, most of the middle months from May to September, May, June, July, August, September are pretty poor.

[00:04:17] There's also February that's poor and I'm not sure why February kind of stands out there. It's like someone has a hand and they cut off the ring finger. But February for whatever reason is bookended by great months in January and March, but February. Maybe because it's Superbowl. I don't know. It's the coldest month.

[00:04:36] I don't know. It's not cold everywhere. And oh, by the way, these, this behavior of September being so bad is not a us phenomenon. This happens all over the world everywhere. What is it? It's like a mass psychosis for some reason. September is just bad.

[00:05:00] Here's my here's my PR uh, what would you call it? Here is my theory, my hypothesis. So, the summer months it's understandable that there's a slowdown. It's summertime it's hotter, but it's not hotter on the other hemisphere of the earth. Right. So, do they slow down during those months? I think so, but I think that a lot of it is that everyone does whatever the United States does because the United States being the world's superpower biggest economic force by far were in this hemisphere.

[00:05:38] And summertime it's gets hot. People go on vacation; they slow down and that's just the way things are. So as the United States goes, I guess the rest of the world follows. So that's a plausible explanation as to why the rest of the world also slows down with the United States. I mean, it's so apparent too.

[00:06:01] When, when you look at, when you look at the market and there are, three, four major markets in the world. There's the Asian market. There's the U S market. There's the European market. Well, I guess there's three major markets. And when the Asian market opens, there's hardly a whimper, at least on the S and P, which is the primary driving asset that most people trade in as well with bonds.

[00:06:34] Nothing happens. Very, very little activity. The European opens relative to the U S opens in the early morning at 3:00 AM. If I'm taking it from east coast times and then the us, and there's really never any real big upset or change on a daily basis to the market. Then of course, when the U S market opens, that's when all the activity happens, that's when most of the volume is out there.

[00:07:00] It is understandable, 90% of the world's volume in now I'm just making that number up, but I'm sure it's something close to that. 90% of the world's volume in the markets is happening in the United States. So that makes sense. Everyone's following what happens here, but why does it happen here? Okay.

[00:07:21] Summertime, that makes sense. Warmer months, people start taking vacation. They go to the beach, they relax, they sit back, they take it slow, lower. That's the way it is. That explains it doesn't really explain may. You know, there is that, that saying sell in May and go away, right. And then come back in October, which makes perfect sense because it is, it makes a lot of sense that it's an old, uh, I dunno what you would call that, a cliche and it makes perfect sense because on average, the market.

[00:08:01] System-wide doesn't matter what market it is may is a bad month. , it is a huge discrepancy or huge divergence from April. April is actually the biggest month. So, you go from the biggest month to one of the smallest months, just like that. Sell a man, go away, come back in October. I don't know what the rest of that cliche is.

[00:08:26] Come in, come back in October and live another day. I don't know what it is, whatever rhymes, but may, and then June is flat for a long time. For 50 years, June is flat things pick up in July. Why do they pick up in July? What's going on in July? Could it be. The July 4th celebration, that sort of perks everybody.

[00:08:51] I don't know what it is about July, but August that's when the heat of the summer or that's. I think that's when most people are taking vacation. That's generally when I go to the vineyard and spend time there with the family and I like to slow down and not work as much. So, July is the only other negative month besides.

[00:09:12] But after July, after August after August, that's when everyone's coming back from their vacation, the summer's winding down, kids are going to school. Maybe funds or rebalancing, uh, reigniting starting up, maybe that's that has something to do with it. So, there's a little bit more activity. In September.

[00:09:37] So everyone's sort of churning, their cash and trying to figure out where to deploy it as you head into the fall months. let's say football season starts in September. Does that have anything to do with it? I don't think so. I think that what happens is that people come back from vacation, and they are copacetic. They are just sitting back. They are feeling good. They don't want to work.

It takes them a few weeks to start getting those juices churning before they can get back into the swing of things. And you know what suffers, well, basically productivity suffers. I would imagine now. Okay. There is an interesting question, which I do not know the answer to, and I will find out what happened.

[00:10:28] In general, in terms of economic activity. Now you would think that, and I'm speaking in terms of labor, manufacturing activity, inflation, all of these different indicators that we look at, you know, what's, what's the housing market doing? What is energy doing during that month of September? Is it, are those things also universally contracts?

[00:10:54] That's what we need to know. But the market for Sur for certain is [00:11:00] contracting in September. It is pulling back. It is usually a loser, but why is that happening? Maybe it doesn't matter. The why. Now I know that, uh, You know, you, you talk to any kind of entrepreneur or anybody that it's, that is into motivation and self-help and all of a sudden the lie is the most important question, but here I'm telling you the, why is the least important question to ask?

[00:11:31] It really doesn't matter why. You just have to accept it. That's the way it is. And the earlier and the sooner that you accept that, that's the way it is. Then you can start reacting to it or acting in kind.

[00:11:48] Why be consumed, why be attached here? I am with why? Why, why, why, why, why should you care that the market goes down when all you must do is live with it, accept it. The market goes down in September, right? So, what are you going to do about it? The what, that is the question. What are you going to do about it now from our point of view, as traders, now, this isn't universal with most traders because most traders don't even understand this concept that when markets go down, volatility tends to go up now for most traders, most retail traders in particular.

[00:12:36] Higher volatility is something that is scary. I mean, it is associated with the fear index, right? High volatility, the VIX, the fear index goes up. And when that happens, people want to contract, contract into their carpus their shell and hope that the volatility goes away. And then they'll just. Move back from the market.

[00:13:00] Now, now that might have another reason why the market's going down because people contract, they move back, they become, oh, more risk adverse, but the people who are real traders, the professionals, they love that time. They are. Cramming and creaming for more volatility, because without volatility, there is no market.

[00:13:27] There is no signal. There is no range. You need volatility in order to make a dollar in this space. And so that is why we here at zero dash DTE are looking so forward to September because we know that there is going to be increased volatility.

[00:13:49] Well, we can at least expect that there will be, uh, on average, some more volatility coming into a market after volatility has hit a low and it hit it is, it is at the anemic zone, right. It is at a zone that I call blood sucking life sucking low volatility. When you're, when you have volatility low, it is very, very difficult to put on a trade, the noise in the market, the background noise. And I've talked about this in a previous podcast. When the background noise exceeds the signal, you can't see the signal.

[00:14:31] You can't see where the bottom of the wave. And the top of the wave is being obscured by this up and down movement that is just there all the time to sort of randomness.

[00:14:44] So that's what we experienced in August typically. And so, I understand why August is down and then it gets to a crescendo, I believe in September. So, a lot of things happening in September for whatever reason, uh, bringing that market down. But that is the Genesis for volatility. When the market comes down, people panic markets drop VIX moves up premium expands opportunity, abound.

[00:15:22] Now I've said also in the past that there are really two ways that you make money in this market. And only two ways how you do it. I'm sure that there are a million ways to approach these two ways, but there are two primary ways and recognized in the market. Two ways to make money in this market.

[00:15:42] One is through arbitrary. And that's what market makers do they play? PE. They play both sides of the market, the bid, and the ask, and they make their profit from the difference between that bid and ask that's one way, the other way is through the selling of premium, the insurers have price levels. That is the other way that professional traders make money.

[00:16:07] That is how we make money here at 0-dte.com. We make money by selling premium or I guess a better way to put it is that we put on strategies that benefit from the collection of premium. Those are the two and the reason why those two ways are the best ways or really the two accepted ways that most people make money because nobody makes money through technical analysis.

[00:16:38] Nobody makes money through price act. They're fooling themselves. Now, of course, I'm talking about short-term trading. I'm not talking about long-term trading, long-term value investing and that sort of thing. The Warren Buffett way of trading, that's a completely different thing. I'm talking about the traders, the people who are attacking the market every day, they need volatility to make money and you need, well, you need both of those two things.

[00:17:03] If those are the two things, when do they make the most money? Think about it. If you're playing arbitrage and you're a market maker, you want wide spreads. When are you going to get the widest spreads? When there's lots of volatility, that could be one of the times that you make it. When are you going to make the most premium when you're selling it?

[00:17:27] When, when is the best time to sell premium? Well, when it's very, very expensive, when it's bloated, when it's overpriced overstated, that’s when there's higher volatility, believe it or not. There's also a fair amount of premium, when markets are, are moving, you know, when they're trending or whatever, So those are the two times when you're making the most money.

[00:17:53] And now September is setting up those times for those fall traders. And that is why October, November, and December are three of the biggest months and they have the biggest change from one month to the next September to October. It's a huge change. It is the biggest change from one month to the next of any two months in the market, October.

[00:18:20] For lots of traders will make their entire year. And that's what I'm seeing. That is why we endure the September pain, because that brings October gain. I like that. That's cool. You know, play on, play on words. So that's really what I wanted to, talk about. That yes. September is going to bring some pain.

[00:18:49] We have to endure a little bit of pain and grief and anticipation. I guess it is difficult to test our fortitude, to test our discipline to back off from trading. You know, you, you always want to have skin in the game, right. And you wonder, well, how can I have skin in the game if I can't put a trade on?

[00:19:11] Well, that is part of having skin in the game is knowing when to put it all in when to push those chips in. Right now, it's very difficult to do that because we simply don't have, we don't have anything, to push it towards. There's just nothing there it's emptiness. It's froth,

[00:19:30] but October. October is a wonderful month here in new England for a lot of people. It's their favorite month because the heat of summer has subsided. We usually have clearer ear, bluer skies, things are just starting to temper off and there's a lot to like about it. Now November and December, it starts getting a little wonky, you know, and the coldness comes now.

[00:20:00] I feel like getting out of here, but that's the time when, from a trader's point of view, when people that are getting to work, they're starting to really get into work because there's no better place to be than to be in the office. Right. And have your head down and start grinding out and pushing out those Benjamins.

[00:20:16] So I think that, , once they've had their rest of summer, their heads are down. They're working like dogs making the money. Maybe that's why October, November, and December, you're working towards that. , that end of year, you, you have to sort of prove yourself after slacking since may, right?

[00:20:38] You're a slacker, from May to September. You're a slacker. And now you must do all that work and make up for half a year in three months that could explain it. I think, there's another Ernie theory. I think I'll mint that one. All right. We asked some questions.

[00:20:54] Ernie, the Biden administration wants to tax cap gains at your income tax bracket. What's the likelihood of this happening? Well, they have control of both the house and the Senate, but I believe that there are too many wealthy people in the Democrat party. What we call armchair. Or limousine liberals that probably are down with that idea, from a political point of view, but from a pocketbook point of view or not.

[00:21:23] So, I don't see that happening. If they pass a capital gains tax that is at the same rate as your nominal tax rate, it's going to basically kill all investment unless that's. Plan, maybe that's the plan to destroy America? I don't know. It seems unlikely because it's basically a destroying yourself.

[00:21:46] Right. But a capital gain at a nominal tax rate would be the worst. If anything, cap gain should come down to encourage investment. I mean, that is the lifeblood of this country. Let's say Jeffrey's asking the market is where it is, because that's where it's supposed to be. Well, that is profound Jeffery, and the market is supposed to be there because that's where it is.

[00:22:11] Yeah. I love that. Circular reasoning makes sense to me, gray bull saying it's like my shoe size. I wear it. I wear an eight, but a 10 feels so good. I buy a 12. You wouldn't believe how big my feet. I am, you know, I'm a five-foot, 10-inch guy, average size, right? Maybe a little bit bigger around the waist, but I've got, the hands and the feet of someone who is six foot, four, six foot five.

[00:22:43] My foot is size 14, quadruple II. What does that say about me? Oh man. I wish I could fit into a size 12, at least then I could go to the shoe store and there would be shoes. But anyways, you know what they say about guys with big hands and big feet right there. That's right. Big shoes and big gloves. All right.

[00:23:06] Where are we going from here? Where we're, where are we going from is to tell you a little bit about the zero dash DTE strategy. What we do is we sell premium on the very last day of expiration on options for the S&P 500. And we trade both the E-mini futures, contract options on the E-mini futures, contract and options on the SPX index.

[00:23:29] And we do that. with, great success. Our, our returns are really phenomenal. We're using what I call an inversion of risk philosophy, where we put on asymmetric trades. Our style of trading is such that we never, we never, really sweat the risk because our risk is so small. And we're not for that reason.

[00:23:57] We don't manage risk. We manage profit, which is a place where you'd rather be because we can come into a trade with zero anxiety because we're not sweating that risk. And we're just managing that profit. It's a high-quality problem to have.

[00:24:15] So that's what we do. , we average. About now this, this is the absolute truth.

[00:24:21] I know it may sound a little out there, but we average our average trade returns about 150% on the risk that we put up. and as high as 2000% and sometimes even higher, those higher ones, what we call pinning the trade. They only happen about 10, 15% of the time, the average trade and anything in between happens the rest of the time we lose.

[00:24:46] When volatility is slightly elevated in what we call the Goldilocks zone, only about 15 to 20% of the time when volatility is super low. our efficiency goes down a little bit and we're probably. Winning, uh, only maybe 65% of the time instead of 85% of the time. But because we have those asymmetric returns that risk to reward and those high average returns, even with low volatility and, the lower win rate, we're still killing it.

[00:25:20] Still doing our worst performance is still. And an order of magnitude better than any of the other zero DTE strategies out there on the best day. Right? And so, the way I'm measuring that is by the amount of return that we get on the capital used

[00:25:39] literally an order of magnitude better than any, anybody else out there. But anyways, that's what we do. If you'd like to try this strategy. We have a four-week trial go to 0-dte.com/try. All right. There's the, uh, the advertisement for the day. I want to thank everybody for showing up. Thank you from the peanut gallery for the questions.

[00:26:06] And, I was unable by the way. To do some podcasts last week, uh, because the internet really on the island totally, totally sucks. So, , I apologize for that. , it was a difficult thing to go from what amounted to like DSL performance internet on the island, back to gigabit internet here at home.

[00:26:33] So. We're back in the saddle again. Thank you very much for joining me. We'll see you. Next video. Peace.

[00:26:44] Where is that off button? That's all there.