Asymmetry and 0-DTE Trades

[00:00:00] Yeah, there it is eight on friends or any here. And it is Friday, October 8th. We're right near the, um, the market close. We're about 10 minutes away, 15 minutes away. And this week wasn't the greatest one. In Xero, DTE trading. But the one thing that I can say is that because we do asymmetric trading, in other words, our risk to reward is, has such a disparity.

[00:00:37] Our risk to reward is like one to 10 or sometimes one to even 15 that are our risk or our potential law. It was usually very, very, very small and a while it kind of sucks to lose. It's not painful. It's not painful at all. In fact, the previous two weeks, we had three out of three, three out of three, six straight winners.

[00:01:08] And that was wonderful, but the real benefit of that is the asymmetry. That asymmetry is everything. So I'm going to try to illustrate that today with my iPad. And I'll show you what I'm talking about, but you should consider how other people, how other successful investors are, or how they become successful.

[00:01:39] They become successful because. They well, first, they have an edge. That's the biggest thing. You must have an edge. The other is that they concentrate on the process. They develop a process; they get good at that process. The process yields everything. They say part of being successful is lucky, but luck is the residue of perfection of your process.

[00:02:12] You do something over and over and over enough times you start developing an innate sense of what you're doing. Another level above what other people that might just be starting out doing what you're doing, that you become lucky. It's the same way with people that are poker players or professional athletes or virtually any endeavor.

[00:02:40] It's those people that put the time in that seemed to become luckier more often, and that plays into it too. So, there is some asymmetry in that. So, there's a few things you put the time in for the process. You have a definitive edge that you need. That you can quantify. And then you put on positions in such a way that your, your risk is limited, and your upside is multiple times what your risk is.

[00:03:14] That's a formula now. It doesn't mean it has to be systematic, but it is a formula, a method and a process and a strategy that you follow. Returns fantastic results. It also puts you into a unique psychological position. And this is very, very important. People talk about the psychology of trading and how important that is, that in some cases they'll say that it's 80% of training.

[00:03:43] And I don't know about that. Obviously, you need an edge, and you need to do something that is actually worth trading and some knowledge, right. Put it all together, I can understand where they think that a good portion of it is psychology because you must be in the right mindset to be able to make good decisions.

[00:04:03] If you allow yourself to get caught up in the moment to be attached to. Two things that are bringing you down and it becomes difficult for you to separate yourself from those bad things, those bad habits, those bad ways, or shedding those primal fears that people have.

[00:04:25] Those things can destroy your decision-making. So how does asymmetry help that? The biggest way it helps is that when you have very, very small risk and you're not so concerned about say losing a trade, because it's not going to hurt you financially. And it doesn't bring you through these huge swings up and down, up and down swings. Either it's going to go in your direction or it's not.

[00:04:57] And you know, quickly when it's not, and if it's not going to your direction, it's no big deal the other. And so you're not sitting there with a lot of anxiety this has gotta be the one, right, because that's not the game that you're playing. You're not playing a high-risk high stakes game.

[00:05:19] You're playing a smart game one where you take minimal risks for maximum profits. Here's the other thing about asymmetry. Asymmetry isn't necessarily an all or nothing thing. It's not, hey, either you're going to lose a little or are you going to win a lot? It's not like that either because the amount that you can win.

[00:05:44] Set up your trade. You can set up your situation in such a way that there's a spectrum of winning there. And that spectrum generally, when you're setting up a summit asymmetric trade, you're setting up a, or an exponential increase in your profit. As you get closer and closer to your.

[00:06:05] So in the beginning, you can make small wins. And there's a spectrum, as I said, between from where you start and where the maximum profit is. And as you get closer and closer to that maximum, you start winning more and more and more. The key here is to find. A strategy that will put you near the maximum profit, at least some portion of the time, and then returns that you get for the other areas of that, that winning side of the trade, that spectrum.

[00:06:47] And so that takes a little skill. That's where the process comes in and that's where understanding your edge and all of that comes to play. Because obviously if you have said a one to a hundred risk to reward, but there's only a 1% chance that you're going to ever be into the rewards section, then you know, it's really not going to do you very much good.

[00:07:15] But let's say that you. At the very least be in that winning side, 50% of the time, just 50%. And then out of the 50% winners, you're going to have some spectrum of wins. And let's say that there's a normal distribution of those wins. So that on the outlier, say a second standard deviation move. You might be 10% of the time in that.

[00:07:44] In that area where you get that maximum win, all right. That 10 X and then say one standard deviation or maybe 65% of that time. You get somewhere between, one times, or which actually equates to a hundred percent to maybe 500% return. All right. So now. You're in a situation. And then on the opposing side, no matter how much you lose, you're only losing whatever the maximum loss is.

[00:08:18] And sometimes you don't even lose that. Sometimes you can end up even. So, you can see that even in a 50, 50-win rate, if you can set up your trade in that way, your wins and the size of your wins are going to dramatically outweigh your loss. And so that's where the asymmetry comes in. Of course, as I said, that is predicated on you being able to find this type of situation and what we trade here at zero DTE.

[00:08:52] We have exactly that situation and with options, you can create such a profit graph. It’s very easy to do that. And being a seller of options and being on the premium collection side of things you stack those wins in your favor that when graph is in your favor, because time is in your favor.

[00:09:16] So if you move towards the winning side, say that 50% of the time. And however far you move it, move towards it as time passes by the profit is increasing in your favor. This is different from if you were a buyer of options. And if you know about say buying a long call or a long put, you know that if you don't move fast, In the direction of that trade, that trade is going to run away from you.

[00:09:44] Because even if you move in the direction of that trade, the premium is decaying, and that decay is working against you because you're long the option. You're when you're long in option premium is working against you. When you're short, the option, the premium is working for you. So, it affords you a, the type of situation.

[00:10:06] You could construct a trade where you don't even have to move to the winning side. You could stay right where you are and still be a winner. You could even move towards the losing side, a little instill, be a winner with this idea of premium decay and collection, because that's in your favor. That's a huge, huge game changer there.

[00:10:31] When you think about. What we're saying now is that you don't even have to be right. 50% of the time you could be right. Even less than that, and still enjoy these very large asymmetric wins.

[00:10:46] Now, there are other things that you can do that will improve that. And that's part of our, our methodology, our analysis and that sort of thing that, that helps us choose whether something better than a 50% win rate. 50% win rate for us is about the minimum.

[00:11:04] Let's say that it's 50 percent, and let's say that's similar to flipping coins. Then you know that if you're going to flip coins, say 10 times, there's a wide variety of outcomes that you could have. Those outcomes could be, two wins, eight losses. It could be seven wins, three losses, or any combination there because you're.

[00:11:31] Flipping just a small representative sample there. You can get a lot of variants, but as you start doing more and more and more flips, say 50 flips, a hundred flips, your win rate starts getting to closer to what it should be because it's a random 50, 50 choice where you get half of my winners, half of my losers.

[00:11:54] So let's say that's your model, without any kind of analysis, any no knowledge of the underlying market structure or the catalysts that are in the market or anything like that. And you can set up this asymmetric trade, then you're still going to be a winner. Now, the reality here in our type of trading is that there are certain market conditions that favor us.

[00:12:21] Can push us over that 50%-win rate in some cases can get us as high as 90%. And that's when volatility is at, within a certain range when it's within that certain range, our win rate naturally increases when it gets down to the lower end of that range, it starts decreasing. And so, when you're in that lower range, it's very possible to have 2, 3, 5 losers in a row.

[00:12:50] Now with most there's the market with most traders, that can be a significant thing. You know, 3, 5, 7 or eight loses in a row could really kill you because other zero DTE traders. They are taking on huge amounts of risks. They're there. They also have asymmetry. The problem is that it's in the exact opposite end of the spectrum, where they're taking huge risks to make small profits.

[00:13:21] So their only choice really is to win in a very, very small spectrum, right? Their spectrum is extremely narrow where they can actually meet. Wins. And then the winds are relatively small when you're trading a symmetrically like we do in the zero dash DTE system. Our spectrum of winds are very wide and even the low end of the spectrum is bigger than their narrow end of the spectrum.

[00:13:54] And then every other part of the spectrum it's very wide and it is gradually increasing to point where it is as our winds. Our, when we get to that, what we call a pin trade or near the maximum profit is larger than their max loss. So how would you want to trade? Would you want to trade where you don't have to win as often?

[00:14:20] And you can be right. Whether you're. A little bit wrong or neutral or, or right. And your wins have a wide spectrum of out of positive outcomes with the top end being huge, or would you rather be in a situation where you only win when you move drastically in your favor and you have a very narrow range of, of a winning possibility.

[00:14:49] And then the total win is very small. This is a rhetorical question, obviously, that is in its essence, the difference between the way everybody else is trading zero DTE strategies, using what they call high probability trades using iron Condors. They end up using this reverse asymmetry of huge risks for very, very small profits versus.

[00:15:18] Where we use an asymmetry that is completely in our favor. The markets and timing is with us in our spectrum of wins are bigger than the 50 50 landscape. And even our smallest win is larger than their largest win. And our biggest win is orders of magnitude bigger than that wins.

[00:15:43] That's the difference. That's the difference of asymmetry. If you look at anybody that's successful in business, and I have to be careful here. If you say anyone, you know that I'm not saying this includes everyone, I would say that this is the case with most successful people that yes, they take chances, but they take calculated chances.

[00:16:08] And they take chances where they can leverage what they're doing in asymmetric outcomes, so that if they do this and concentrate on this and leverage their experience here and this person and this person and that situation, it can explode into something big. And so, as an entrepreneur or someone in a business, You can take these kinds of chances over and over and over again because they don't hurt.

[00:16:33] They don't cost that much. It might require a little bit of effort, but the potential outcome is gargantuan. This is how millionaires become millionaires and become a hundred millionaires and become billionaires by taking small risks. And this is also why when you ask them.

[00:16:51] How did you get here?

[00:16:53] What did you have to go through?

[00:16:53] What was the series of just unbelievable steps that you made to this Nirvana?

[00:17:00] And for the most part, most of these people will tell you that they failed many, many, many times. And that is because they also use this principle of asymmetry. That is really what it's all about.

[00:17:17] Asymmetric opportunities.

[00:17:20] As I said earlier, one of the greatest things of putting on these asymmetric opportunities is because your risk is so small and it's not that you don't really care. You don't have this laissez-faire attitude that, oh, the risk is small. So, I don't care. Of course, you care about every little thing that you do.

[00:17:42] That's why you concentrate on the process, but because the risks are small, you're not putting a lot at risk, and you know that you'll have more opportunities that you can keep skin in the game and there's a psychological component or a benefit to that. Because it's not going to bring you through the ringer as if every decision that you make could totally wipe you out or ruin you.

[00:18:08] It's not that at all. As a matter of fact, it's just another step, another try another swing of the bat. And because of that, you can keep a clear mind and you can make logical reasoned clear-minded good decisions. And so your psychology. It's healthier. And so that's another benefit of asymmetry.

[00:18:33] Let's see, we have some questions here. They're way up there.

[00:18:37] Zero gravity says.... So self-doubt or second guessing gets me often, unfortunately.

[00:18:43] Yeah. And that's part of the problem. And it's part of the problem in this service when people come. For the first time and they're trying it out. And this past week was not a good week. We had three losses this week, but last week we had three wins.

[00:18:59] And the week before that we had three wins. So, if you're starting this week, it seems like, well, this is, you know, what's going on here. It's an unusual week for us having three losses, but they were very, very tiny losses. It's a matter of fact, the win on Friday. Vastly outshines the three losses that we made this week.

[00:19:22] So we're still well ahead.

[00:19:25] And so that points to something else that trading asymmetrically is trading the way life works. Life comes in spurts. In unknowable, little black swans or events opportunities, and you just need to be prepared to take advantage of those opportunities when they come. And because of that, you don't grow at a steady rate. You grow in leaps and bounds.

[00:19:55] You grow in a leap and then you settled. And you absorb, you learn and you practice and you become better. And then another opportunity comes and you leap again. And even the development of humans in all of history, that's how we've developed. We didn't develop in small, incremental steps. There were huge and society, huge events that shaped who we are and where we came from.

[00:20:23] Asymmetry is a natural order of things. And that's why we trade the way we do.

[00:20:30] Let's see, Lance's asking...

[00:20:34] in a trade, you're risking a hundred percent of what you paid. I noticed members, take tranches off around 50 to 100% for asymmetric returns, to manifest shouldn't you be holding?

[00:20:47] For at least 2X risk. Well, that's a, that's just a strategy, Lance. So what he's saying is that what some traders are doing is that instead of having a singular position that is asymmetric, they may have multiple positions so that if you start moving towards that winning side, and now you're up on.

[00:21:12] 200%. And you have three positions on one of the strategies that, members will do is they'll take off two of those positions and lock in or realize those profits. And what that does is guarantee that no matter what happens with the third position, they're a winner, they've won something they've, accumulated or realized more than they could possibly lose.

[00:21:34] Even if that third position goes to a maximum. That's a strategy that we use. We call that the free ride strategy. If you only have a smaller account and you're not able to trade three positions, then you're stuck with that one position. So, you're limited to those two, a different set of strategies.

[00:21:54] It doesn't make it worse. It just means that you don't have as many options to play, to scale in and scale. So, it's not necessary lens that you have multiple positions in order to play the strategy. The strategy in of itself is giving you that asymmetric opportunity. But when you take on multiple positions, that gives you a more diverse way of playing that opportunity further increasing your edge and making profit.

[00:22:21] So. You got that? Let's see. Ryan's asking, can you show an example of an asymmetric trade?

[00:22:30] Well, yeah, so, uh, let's see, what can I do here? I will turn on the iPad. Let's do that.

[00:22:38] All right. Here's the iPad. Here's the iPad pencil.

[00:22:43] Let's get a little bit closer to me. All right. So let me first demonstrate the concept of asymmetry. We'll create this chart where we have, gains and losses right now, and an asymmetric opportunity. If you were to plot the P and L or the profit and loss of it. And let's say that this is where you start, the center line.

[00:23:13] That's where you begin. And so you could either go to the left or go to the right. And so let's say that there's a 50, 50 chance that you go to the left or to the right. If you could design returns in such a way that they look something like this.

[00:23:29] So you have a limited amount of loss. But potentially unlimited gains. These gains might even level off like that. So, you still have some sort of asymmetry. So, there's a good example of what an asymmetric return looks like. Now let's look at what an actual trade might look like.

[00:23:53] So a typical trade that we take is called the butterfly. And what I'm going to draw is a risk graph. Very similar to what I just drew, but we'll assume that right here is the current price, right? And let's say that based on our analysis of the market or something that happened in the morning, there was an economic report that was very positive for the market, and it started to move up.

[00:24:26] And then we, through our analysis, determined that prices likely to go to a certain place. Let's say that that place is right here is our target.

[00:24:36] We could put on an option strategy called the butterfly, and it would create an expiration, a profit and loss diagram that would look something like this,

[00:24:46] where this is our max profit. And then this right here would be our maximum.

[00:24:57] And so if price started to go in this direction and we can get underneath this profit area by expiration, then anything above here is going to be profit. Anything below here, it's going to be loss. So, our loss is limited, but appears to be, relatively unlimited. It's not unlimited, but now what happens when this happens and I'm going to have to go to a different color, let's go to a different color.

[00:25:30] We'll go to blue. Oh, go to green, a green.

[00:25:35] So the tent thing, that's the. That's the profit and loss diagram at expiration, but we don't have to wait until expiration. When we first put on the trade, the PNL looks something like this.

[00:25:54] And as time goes on, that PNL starts growing like that until. And then growing until it at expiration, it completely fills up the shape of the butterfly at expiration. So, prior to expiration, once we're in that trade, if you notice we don't have to go all the way to the prophet tent. In fact, we can make profit anywhere.

[00:26:26] I'm going to use a different color.

[00:26:27] We can make profit anywhere from here to here, anywhere from here to way over here. And in some cases that P and L line will, when it, when we first get into it may even grow above our initial starting position so we can make profit anywhere here. And then as time goes on, we're riding this wave.

[00:26:52] It's much like the tide in the ocean. You could just be sitting there, and the tide rises. And so, you're being lifted up. And so, you're a distance to step onto the dock is less and less and less, I guess you could say.

[00:27:09] So that's how we. I have this sort of spectrum. And if we're lucky enough that price moves all the way into our target area, then our reward might be as much as this compared to our risk, which is that. All right. So hopefully that describes what I'm talking about, putting on a trade that gives you an asymmetric potential return.

[00:27:38] There's another question.

[00:27:40] Can you explain further the answer you gave to Lance about taking off tranches?

[00:27:46] Sure.

[00:27:47] So any trade that we put on any position that we put on, there's a minimum size position that you could take. So for instance, let's say that you have a butterfly and the cost of getting into that butterfly or the max risk is a hundred dollars. And then the max profit is a thousand dollars. So that's not saying that you're gonna make the thousand, but you can make, like I had demonstrated, uh, on, on some spectrum.

[00:28:20] So if you're only going to risk a hundred dollars, that's good. And that might be good for somebody that has say a 3000 or $5,000 account. They can risk a hundred dollars at a time, but let's say you had a 20,000 or a 30 or $50,000 account. Let's use something small, let's say a $15,000 account.

[00:28:40] Well, you could afford very easily to take three positions. Now, those three positions. There is part of that could be your total or maximum size position. So, no matter what kind of thing you're you trade, you would never trade say more than $300 as an example, if you determined that is your standard size.

[00:29:07] But when we put on these trades, you could put on three different positions in order to come up to your maximum size because. Or a three of these butterflies, we call that a part of the total position and in a word for that is called a tranche. So that means that you could put on three trenches up until your full-size position.

[00:29:29] So now you can play certain strategies. You're presented with this opportunity to get into this butterfly. And you start off, you can put up to three tranches, but you start off with one and then price moves against you a little bit. And you still, the thesis is still good. So, you decided to put on another, but it's at a better price.

[00:29:52] So now you have two of these on, and it's at an even better price. Price starts moving up again and you decide, okay, it looks like it's going to go in my direction for sure. So, I'll put on that third. Now you have three. And so now you're sitting there with maybe a small amount of profit and it's moving in your direction and everything's going great.

[00:30:13] You've scaled in with three different positions. You, there may be some cases where you never get into that third position and that's okay too. But let's say that you got into all that. And you've moved closer and closer to the prophet tent close enough so that you are now have maybe a hundred or 150% return on three different positions.

[00:30:36] You could take two of those off, which would guarantee that even if the third one went to max loss, you would still guarantee it. So that would be a case where you take two tranches off and let the other one ride. We call that a free ride. As I had said earlier, now you can take that one position and potentially it could move into the profit tent and make even more returns with no risk.

[00:31:03] So you're sitting there with no risk and a position that could potentially make you, 5, 10, 12 times return. That is an example of how you would use tranches to scale in and then scale out of a position, hopefully that makes sense. Edward

[00:31:22] all right.

[00:31:23] Hopefully I convinced you that asymmetric trades are the way to go. They promote a lot of different things. Firstly. You're trading in a way that is coincidence or natural to the way the market provides opportunities. Secondly, you're able to put on these, this asymmetric trade where your loss is a very small and the odds are naturally in your favor.

[00:31:53] Even if you're flipping a coin, the odds are still in Europe. And the possibility is that you could make dramatic wins. And so, it turns into something that we call a growth strategy. You start growing your account instead of following this sort of false narrative that you can create income from trading, you grow your account naturally.

[00:32:20] And from a psychological point of view it allows you to keep a clear mind and make good decisions. So, you have all the components of a great strategy and a process. Now we do one more thing that we think that puts you in the best possible position. And that is that we teach how to look at your entire trading process and how to turn that into a continuous improvement strategy.

[00:32:50] So that you focused on the process. You're not focused on individual goals when you focus on goals and you have not yet achieved those goals, you're always a loser. When you are focusing on the process, you're always a winner because you're always getting better. And so that's what we do. We use something called an agile process to break down our trading activity into small chunks.

[00:33:17] And then we try to repeat our overall process and then perfect it and then do a retrospective or look back at it and evaluate it and see what we did, right. What we did wrong and what could be used or flipped back into the next small little process. And by doing that. We can maintain a constant level of improvement on our execution skills, our acumen, our understanding of the markets, these strategies, like tranches all of that.

[00:33:50] So that's what we do at 0-dte.com and slash try. If you'd like to participate in a trial.

[00:33:59] One more question. Let's see.

[00:34:02] So you were always using the same strikes for each tranche?

[00:34:07] Well, yeah. I mean, a full position would be for that position that we analyzed. So, we do the analysis upfront. We figure out what's the catalyst in the market. That's going to move price in a certain direction.

[00:34:21] We then analyze the market structure, and we do that using volume profile. We then create an options model like the butterfly. So, it models that idea that we've come up with and creates an asymmetric trade. Then we have to take positions. If you have a small account, there's only one position.

[00:34:45] If you have a larger account, then you can employ different strategies for multiple trenches to try to get the best possible cost basis in it. And so you can scale in and scale out so that you can create a riskless position. I think. There are some cases where you don't even have to take off those trenches for the free ride.

[00:35:08] If, if price is moving fast enough in your direction, you might take the full-size position all the way to home and right to that center strike and get that max profit. That's a lower end case. That's an outlier getting to that center strike for us. It's about a 10 or 15% opportunity.

[00:35:29] The I'm making anywhere from a hundred to 300% is about a 60% opportunity, right? So, we have 60 10 that's 70, and then the rest of it, that 30% is variable. Sometimes it's a little bit of profit. Sometimes it's a little bit of.

[00:35:45] All right, that's it. Hopefully you enjoyed this. Talk about how asymmetry in my view the only way is really to trade. It puts you in the best possible position. Keeps things on a level keel. Allows you to react to the market, what the market is giving you, as opposed to trying to take from the market, something that is unnatural and allowing you to have a sense of calmness and clarity in your trading.

[00:36:19] Great. Tomorrow, if you were to try out the system, you could participate in our weekly retrospective, which is all part of our continuous improvement process. So, on Saturdays we get together and we review the three opportunities that we had during that week, as well as our overall strategy and see what we did, right.

[00:36:41] What we did wrong and what we could do better so that we can prepare for the next week. And there it is. 0-dte.com/try. Hope you have a great weekend. Take care. Okay. Peace. So y'all okay. Where's that off button. It's way up there.