Buy the Dip

[00:00:00] 3, 2 1. If friends, we are alive, are you doing Ernie here? And the zero dash DTE podcast today is Friday the end of a very interesting. We've made a new high, a new all time high today. Today was yes, a new all-time high made in the market earlier today. It wasn't necessarily breathtaking or anything like that.

[00:00:34] It was just dip your toe into the beyond. Find out that maybe it's a little bit too cold up there and then pull back and maybe try again another day. So it was an uneventful all time high, although it is an all time high, I think it's so something on the order of the 50th all time high this year or something stupid like that, I don't know who keeps those types of records.

[00:01:03] I don't know. But one thing is for certain is that there is a strategy that in this type of market would work very well in these consecutive all time high events. And it's almost become a meme. In fact, it is a meme. If you go and search it out, just look up this set of words and then meme, and you will find a treasure trove of memes around this.

[00:01:39] And that strategy is affectionately known as buy the dip, buy the dip. Everyone says, buy the dip. Of course, we always had those fun memories of Jim Cramer saying, oh,

[00:01:53] I don't know if he was saying. He just liked to say bye. And people like to hear him say it, but by the dip is a remarkable strategy. It's one that I've actually examined at in great detail over the years from a algorithmic and programmatic point of view. Often, you're looking for patterns that seem to work.

[00:02:16] And the pullback pattern in an uptrend is one of those patterns that works. Consistently, of course, it's conditional, it obviously wouldn't work in a secular downtrend. It's very difficult, but if you're in an uptrend, like we have been forever. And for some people, I believe that forever actually does mean forever.

[00:02:41] I mean, they've, their entire career has been spent in an uptrend. They know no other, they experienced maybe a brief. A very, very brief bit of pain that lasted a millisecond in the pandemic crash. We recovered from that in a New York second, and then it was just straight up. And then by the dip about every month, it was a buy the dip in almost like clockwork.

[00:03:12] As a matter of fact, you could have set your Rolex to the dip. Now the big question is, why does it work? And does it work for everything? And more importantly, does it work for what we do? And that is zero DTE trading where we trade or sell options on the very last day of exploration of those option contracts for the S and P particularly the E-mini S and P futures contract and the SPX, the index.

[00:03:46] Would it work for us now, just from a, an asset point of view, if you just look at any stock chart, you can see very, very clearly that in the trend over while since March of 20, 20, about every month, or let's say that you will start with you step back and you look at the trend. The trend is just a straight line, straight line, like 45 degrees.

[00:04:13] I guess, depending on how you fashion your chart, but let's say it's 45 degrees and about every so often on what seems to be a very regular pace. There's a little dip, maybe one, two, maybe 3% this past. Month. We had a dip that was a little bit bigger than most other dips. I think it went as much as 5%, but about 2% it would venture up, hit an all-time high, pull back about 2% and then there would be a little.

[00:04:51] It would venture up, hit an all-time high, pull back 2% V bottom, go up, hit an all-time high, pull back 2%, hit a VBA over and over and over and over. And it becomes, like I said, a meme where you just get used to buying the dip every time it dips. I've often said that, look. When is this trend going to stop?

[00:05:19] And my rule is, well, I'm just going to keep on trading it until it doesn't work. That is something that if you look at it from maybe a physics point of view, things go in one direction until. They are met with a immovable force or a, an equal opposing force or some force that will knock it off its track.

[00:05:43] And so really the only sane thing to do is you ride the train, you stay on it and you keep with it. And if you notice these patterns, then you follow them. If the pattern continues, you find. If it happens four or five times in a row with regularity, you go for it. And if it keeps on going and now you're on your 15th, 16th time, what are you going to do on the 17th time?

[00:06:06] Are you going to buy the dip? You bet your damn ass. You're going to buy the dip, buy the dip. All right. So, the big question for us. Being zero DTE traders. Now we're not trading the asset. The physical asset. It is represented by buy options, contracts, where we sell premium against this asset.

[00:06:34] And so there are certain conditions that make selling premium, very profitable. One is that we would prefer to have a situation where the. Thing or the contract options contract that we were selling was relatively bloated. What I mean by that is that it is expensive or there's more premium than normal or relative to where it was before.

[00:07:06] So everything in trading is relative by the way, there are no absolutes. And that's what you're really looking for. You're looking for. A something that you want to sell that is just overpriced. That is the best time to sell something. That makes sense. In virtually any context, whether you're selling clothes, cars, houses, whatever, if you are the seller, you want to sell it overpriced and you want somebody to buy it because if you sell it over price, then eventually on the back end, it's going to eventually regress back down to.

[00:07:41] Normal price. So, things get inflated, they regress inflated, regress. It's a cycle. Everything goes through cycles. Of course, these cycles don't are not guaranteed to last forever, but it's a pattern now on every dip, every dip, when price pulls back, that is a what appears to be at least if you're. In the weeds.

[00:08:09] If you're right up close, day-to-day a pullback appears to be bullish. I'm sorry. A bearish move. It appears to be bearish. You're wondering what the hell goes on here, man. It was just going straight up. Everything was happy. Hunky Dory and it pulled back. It doesn't love me. It does not love me when it does not love me.

[00:08:30] It hurts. And when it hurts, you start getting fearful. When you get. There's risk. There is uncertainty involved when there's uncertainty involved, volatility increases anytime there's uncertainty, volatility increases when volatility increases, particularly the implied volatility. That's the future expectation of what things are to come when implied volatility increases.

[00:09:01] So does premium in an options current. It also increases. In fact, that is the primary reason why premium would inflate. And that is because volatility would increase. And it just so happens that on every pull back on a buy the dip moment, volatility increases. In fact, if you take a look at the, the VIX, which is our indicator or our index for the volatility index, and you look at it since the 2020 crash of the pandemic crash, you will see a very definitive pattern.

[00:09:45] Now, the pandemic was the ultimate and pull backs. It was a huge back and a big mountain. And then after it was over or appeared to be over, at least the worst was over. Price started to go up, but the VIX, the VIX was up. In that moment. And then as price started to go back up, the VIX started to go back down and then every month or so on that rise of the S and P we would have another one of these dips and subsequently the VIX would pop up.

[00:10:23] Volatility would increase and then it would pull back. And then it would happen again, volatility would increase and then it would pull back, increase, pull back, increase, pull back, just like buy the dip, buy the dip, buy the dip only. It was the opposite. And every time that happened premium was inflated in the option contracts that we wanted to sell.

[00:10:50] So it became obvious then that the best time to sell an options contract was on one of these dips. Now, fortunately, very fortunately, let me first set this up. There's no way to tell when a dip is going to happen, it could happen on a Monday, the first week of the month. It could happen the second Tuesday of the month.

[00:11:19] It could happen the third Friday of the month. You don't know, you just don't know. And so, unless we had an opportunity that we could time coincidence with that, it's going to be, basically a luck thing, hopefully I will be in a position that I can sell premium at that time. And it will be right on the last day of expiration because we like that last day of expiration because that's the day that we have the maximum premium decay.

[00:11:52] So I guess what I'm saying is that ultimately, we would like that event to happen before we are ready to sell. So, we would like premium to be inflated as much as. Now with zero DTE on the S and P we get one of those events, one of those last days of expiration, an opportunity to sell premium three days a week.

[00:12:17] So we have such fine granularity that it really doesn't matter when the dip happens. It could happen on a Friday, or it could happen on a Tuesday, a Wednesday. It doesn't matter because either that day or the following day or two days after. There's going to be a contract and S and P contract that is expiring with maximum premium decay that I can sell.

[00:12:43] And the odds are that I can get premium bloated in that contract and sell it. So, one of the best times to sell zero DTE, the best times are. Right after one of these dips and we've reached the apex or the pen ultimate or the valley, the V bottom of that dip, because that's when premium is at its maximum.

[00:13:16] If I can capture it there, sell the premium. I've now sold something that is relative to any other time in the recent history, very expensive. And then as price starts to rise, as it always does after a dip, because we get that V bottom, what happens to volatility? It starts to contract when volatility contracts.

[00:13:42] So does the premium. So, if premium is contract. And I'm sitting there on a zero DTE day, the day when, regardless of whether there's a buy the dip or anything else like that, no matter what happens that last day premium's going to contract, but it contracts even faster. If I'm on that rising edge of the market or the falling edge of the volatility, that is why buy the dip is the ultimate.

[00:14:15] For zero DTE. Hopefully that makes sense. Now, of course, like I said, everything's relative. We can't always expect to get the exact bottom, the exact top. It just doesn't happen that way. We're more interested in the direction. So from a big picture, point of view, these dips may be happening over days. So we want to be on one of those days, we pick a day where.

[00:14:40] Well, we don't pick them. They come three days a week, Monday, Wednesday, and Friday, if we're on that leading edge after a dip and that leading edge could last almost an entire month. So, if we're on that leading edge and prices increasing, we're going to get our maximum return maximum rate of return.

[00:15:04] That is accelerated because we're doing it on the last day of it. Exploration, but aided in that we're going in the right direction from a bigger point of view. So, we're in the, we're in the trees, right? And the trees are easy to chop down and the forest has this big wind coming across, leaning all the trees in the direction that we want to try.

[00:15:34] How's that for an analogy I've never used that one before. That's a mixed metaphor analogy.

[00:15:40] So buy the dip, buy the dip is the ultimate setup for zero DTE. It's not the only setup. There are times when you're just not there. Everything isn't aligning for. However, that's what we're given. If we have that type of situation, then that is the most opportune time to take a zero DTE trade.

[00:16:10] And the real advantage that we have in doing that, if you were trading just the SPX right now, because it only trades during market hours, you have a very small-time window, a window of opportunity. That small window of opportunity from nine 30 to four o'clock in the afternoon is all the time that you must make a decision whether or not you want to sell premium.

[00:16:36] And in fact, most of that is really the first part of the day that you need to make that decision. And you may not be lined up with the way the market is going at that particular time. That is why trading the email. The E-mini futures contract is far superior to trading the SPX in this regard, because not only do, are we aided by the buy the dip paradigm, but because we're trading or we're able to trade 23 hours a day, our window of opportunity is literally six times greater than the SPF.

[00:17:14] Now, if you don't think that's an advantage, then I don't know what to tell you. It is a huge advantage. However,

[00:17:21] the SPX as of November 21st will be trading 23 hours a day. Just like the E-mini. And when that happens, I think that we'll be making very good use of that. But as it stands right now, that is one of the reasons people ask me all the, this all the time. Well, why aren't you trading the SPX? It's so much cheaper.

[00:17:41] The commissions are so much less. I said, yeah, but you know what? Having six times the opportunity and on top of that, not having to worry about the pattern day trader rule, if you have a smaller account, completely obvious gates, the idea that the. Commissions on the futures contract are quite a bit more two, sometimes three times as much as the SPX, six times the window of opportunity.

[00:18:10] Huge difference. So anyways, that's getting into some of the particulars about this, but now I know I think you understand why buy the dip is so well. By zero dash DTE traders. If you'd like to try out the strategy, you can go to zero dash. Notice how I emphasize that all the time. 0-dte.com/try. And we'll give you a four-week trial after that.

[00:18:45] After that four-week trial, if you want to become a member, I will refund the cost of the trial towards the middle. Excellent deal. And our brand of zero DTE trading is unlike any other that is out there. It's a matter of fact, all the other zero DTE services that are out there doing almost exactly the opposite, what we're doing, and their members are leaving them to come trade with us.

[00:19:12] That oughta tell you something.

[00:19:14] Oh, I think we have some questions. Uh, no they're saying no video.

[00:19:22] Well that's okay because, this is going to be a podcast. So, there's the video. So, what I'll do is I'll, um, I'll put a face up there. For the video. So, on

YouTube, I will be a black screen, but on the podcast, it'll be just me here. I am I'm here. It didn't matter because I didn't have any visuals.

[00:19:46] It was just all, all me, and quite frankly, who the hell wants to look at my face.

[00:19:50] And that's what all the questions are about. Can't see you where any screen is black video working. Can't see the big head around no video, no video. There's nothing to see. That's right. This is nothing to see here, but now you can see me. All right. Thank you very much for coming by. And listening to me, hopefully you got something out of this by the dip, the ultimate setup for our zero dash DTE strategy.

[00:20:23] All right. Time to go. I hope you all have a great weekend. Peace be with you. Take care.