Directional Bias without Technical Analysis

[00:00:00] All right, friends. All right. Today's uh, today's show is how to develop a directional bias without technical analysis.

[00:00:08] So first, Let's talk about what we're doing here. This is 0-DTE strategies. And that means that we do, we trade options on the S&P whether it's the SPX or the E-mini futures on the very last day of exploration. And that happens three times a week, Monday, Wednesday, and Friday today being Monday, there is a 0-DTE event.

[00:00:36] However, today also being a holiday. The liquidity in the market made it very difficult to get a good idea of what the directional bias would be. And of course, looking at the market today, you can see that is illustrated quite well by the fact that it kind of drifted up in the morning and now it's drifted back down in the afternoon.

[00:00:59] There was no real good directional bias here. Had we placed an asymmetric trade somewhere. It may have come into play in the mid part of the day, but then it would have moved away from it. And you know, who's to say that it would have gone up and then all the way back down like it did today. No one knows.

[00:01:23] And in general, in order to get an asymmetric trade on with an options play, you really need. Some sort of directionality in the market. Now here's the thing with, most 0-DTE strategies that are out there almost universally all of them, except for this one here, they're using iron Condors and credit spreads and they're putting on.

[00:01:53] Very high probability trades that produce very, very small profits and huge mammoth risk. And that's a problem. Most people that have entered this type of strategy have done well for a period until they don't. And when they don't the consequences are huge. They lose huge money, and it doesn't take too many times to get slapped across the face with a huge loss.

[00:02:21] That will sour your yourself to this strategy. Now, what we do is completely the inverse. We do what I call the inversion of risk, and we also have summit asymmetric trades, except that instead of the risk being huge and the profit being very small, our risk is very small, and our potential profit is very big, right.

[00:02:48] In order to profit from that we also benefit from premium collection strategies, but instead of using the iron condor or the credit spread, we use a related strategy, the butterfly, and the reason why we use the butterfly is that it has some properties about it that. Make our strategy work very well.

[00:03:11] One of them is having those two short strikes right there on top of one, another creates a concentrated area of premium collection that results in a, in the beginning, a very, very flat. P&L curve and one that will rise and have a very expanded range or area of profitability. Now, this is completely the opposite of what happens in an iron condor, where when you first start off, you center, your iron condor at the money, and almost immediately, as soon as price moves, you're underwater.

[00:03:47] And so that's really an issue. It causes anxiety. And a lot of times you will challenge your wings and then that will force you to make bad decisions. And quite frankly, using a lot of money to make a very, very tiny gain, isn't very capital efficient. So, what we do is exactly the opposite, and we have a much better.

[00:04:12] When ratio and a better return on capital. And we use one 10th, the amount of capital and margin to put the trade on in the first place. So, everything about what we do takes and answers the questions or the problems that are presented in a traditional or what is regarded as the regular way to do a 0-DTE.

[00:04:42] Now in order to get the asymmetry that we need and putting that butterfly on, we need it to be out of the money. In other words, we don't use the butterfly as a neutral strategy, a market neutral strategy, not at all. As a matter of fact, we use it more as a directional strategy. Now how far away we put those center strikes from where we are in the current price.

[00:05:07] When we put the trade on is highly dependent upon a wide variety of things. Some of it is the expected move, the volatility in the market, et cetera. And that will dictate how wide we can make the butterfly and how far away we can put those center strikes. Now what we need to determine, or another factor that goes into that equation is what is the directionality?

[00:05:40] What is the directionality of the market? Is it going up? Is it going down? Is it staying neutral? Is it going to just waiver and with what force or directionality or velocity will it be? So, we're looking for really this kind of vector problem direction and magnitude of that direction.

[00:06:03] How do we do that? There are several ways that we do that, and least of all is technical analysis. We do not use technical analysis. As a matter of fact, technical analysis is rather taboo in our philosophy. It's first, if you've been watching some of my videos for some time, or following me for any number of years, you will know exactly my stance on technical analysis and what it is about.

[00:06:32] In fact, I will tell you straight out that technical analysis is a scam put on by the brokers in order to advance their broker. Now. To extract money out of you to create more transactions for their benefit. The broker has no interest in seeing you making money. The people who make money with a broker who carry large capital-intensive positions, that are successful costs the.

[00:07:04] A lot of money to, to handle them, to carry them. All right. People like normal retail traders who are in and out creating lots of transactions are a cash, or I would say a pot of gold for the broker. And so, they advanced the idea of technical analysis. Short-term trading lots of transactions because it benefits them.

[00:07:29] So the, okay, so I went a little bit too deep there, but what I'm trying to say is, and there are many, many other arguments for why technical analysis does not work. Now, what does work is the concept of a catalyst? So, we are constantly looking for catalysts in the market that will provide some directionality to provide that vector, that direction and magnitude of that direction.

[00:07:58] Now you must also consider the market moves in one of two different ways. It is either trending or it is consolidating. Sometimes it is doing that within the context of a larger trend or consolidation. It's all fractal. So as day traders, our job is within whatever that larger, out of timeframe, trend.

[00:08:27] Where it's going, what its direction is. And then what the fractal trend is doing inside of that is very important. We like to get all those energies aligned and we're always looking for what kinds of thing in the market may push the market and there are a number of, or a variety of things that can push the market.

[00:08:51] Principally. That would be any kind of global macro condition, economic report, currency, condition, political strife, any number of things, fed governors, saying something dumb, which is commonplace. And we become students. Of this dynamic and the things that provide energy into the market. Now, the important thing here to remember is that we're not trying to predict long-term trends or vectors, so to speak.

[00:09:28] We're only trying to predict a few hours and that's all we need. If we can get something a little bit better than 50%. And quite frankly, we could argue. Um, a positive expectation. We have a positive expectation even under 50%-win rate, but with our methodology and the asymmetry, we can easily achieve anywhere from a 60 to a 90% win rate with using a very small amount of capital.

[00:10:06] Typically the amount of capital that we use. Compared to our average return is about one to two to one to four. And in some cases, as much as one to 15 or one to 20. So that is very different from what anybody else is doing. And in options trading, they're usually the exact inverse of that. Using nine to one or a three to one would be.

[00:10:31] It would be the balls for most traders. But for us, we won't even look at a trade unless the maximum profit potential profit is at least one to five. At least we're averaging about 150 to 200% return on our risk that we take about 10% of the time we do what we call pinning the trade that's where, based on several iterations. Number of turns, we hit that short strike about 10, 15% of the time. During most times, in some cases, as much as 30% of the time where we're making 800, a thousand 1500%.

[00:11:18] So all we need to do is predict. A little bit better than 50% and we're wildly profitable. Even if we're under 50%, we're still very profitable with very little capital put up front. So, we're also extremely capital efficient. So, some of the way I've already mentioned some of the things that we look at, we look at things like economic reports.

[00:11:48] We are students of economic reports, all the reports and an innate understanding of the potential for each different category of report. Some reports. But more potential in them than others. We also understand the market condition and the fed disposition, the Federal Reserve's disposition currently we're in a situation that we call opposite world where bad reports are generally taken as good for market price.

[00:12:23] And that is a result of the field. That if there is a good report that the fed may advance their tapering efforts and withdraw their quantitative easing or that injection of cash that the market enjoys so much. And in fact, is hooked on it as if they were a junkie taking heroin. So bad reports instill more confidence that the fed will continue.

[00:12:57] To inject cash into the market or buy assets. So indirectly they're putting cash into the market. Good reports cause doubt that they may continue that or there will be a time sometime on the horizon where they will pull that back. So, it's really a very interesting situation now trying to gauge these reports and the current market conditions.

[00:13:24] Listening to the fed narrative. When they bring out the, any number of fed governors out to support that narrative or to provide some counter evidence or supporting evidence, we pay attention to that because all those things will give us clues as to what the directionality of the market will be for that day.

[00:13:46] And all. It's vector it's direction and magnitude. And so, we use that also as a gauge of where we might put our strategy. So in other words, we create a model of what we think the market will look like for the next two to 10 hours, and then model that idea with a butterfly or a profit or premium collection strategy and taking into account the expected move and volatility and that vector, and that will determine how wide we make it and how far we make it from our current position and doing all this look, it's a, it's a discretionary strategy.

[00:14:34] There's no doubt. Take some practice to get good at this. Some people are of the mind that you cannot figure this out. You cannot predict which way the market's going. And I say, it's bunk. Of course, you can, you can ride the wave. For instance, if the market is, has momentum the market, if you think of it like a physical or a flu.

[00:14:57] Dynamic system when the market is in motion, it stays in motion. Unless there's some obstruction that will divert it or stop it or reverse it, it doesn't just do it spontaneously. Well, that's not entirely true. There are small number of cases where it appears as if it does it spontaneously or reverse reversal or a change of direction, but there's always something behind it.

[00:15:22] It's just something that we didn't see. So, we make a. Our study our work to try to have our thumb on the pulse of that market as best we can. And it pays huge dividends. It allows us to do a little bit better than guessing a coin flip of which way the market is going. And that gives us a tremendous, tremendous advantage.

[00:15:53] Tremendous. And that's all we need to do. So, some of those ways, as I said, some of those are evaluating these global macro conditions, economic reports, et cetera. Other others are looking at the market, as I said, similar to a fluid dynamics system. And then further. Is a study of the market structure using volume profile and understanding where support resistance, where a value nodes are that tend to provide a gravitational effect on price.

[00:16:32] And then the volume Wells, what some people call low value nodes. That tend to reject price or price tends to move through it quickly. And with that understanding of price behavior, based on that study of Sebring, all of this together, it's the study of the market structure. It's the dynamics of a price vector, and then the modeling of our strategy.

[00:16:59] We're able to create an incredibly effective plus the edges that we pile on top of that in terms of the stark difference or the arbitrage between implied volatility being overstated versus the actual volatility. All this stuff creates what we call convexity and optionality, and we use asymmetry.

[00:17:26] To give us the best possible. And a lot of this is steeped in philosophy. If you go back to some of my previous podcasts, I talk about this at great length. So that's what we do. We do not use technical analysis. We use a variety of other methodologies that are far superior to give us that vector, that directional vector of price.

[00:17:52] It doesn't look like there are any questions on this guy. I guess I explained it just perfectly, let's see how far in are we into this

[00:18:01] 19 minutes? All right. I want to thank everybody for showing up Monday. Good. Start to the week. No trade today. Looking forward to a trade. On a Wednesday and we'll be back on Wednesday with episode number 46, this being episode number 45 of the podcast. If you'd like to try out this service. Go to 0-dte.com/try, 0-dte.com/try is so important.

[00:18:35] 0-dte.com. If you do not put the dash there, you will be directed to a place that will put you into the pit of hell of 0-DTE. So go to 0-dte.com/try. And we'll give you a four-week trial during that four-week period, you'll get an unparalleled education on trading options as well as volume profile, a global map macro analysis in a wide variety of other topics.

[00:19:11] And it is world-class support. That is what we pay, everything that we're doing on. We also practice a continuous improvement process. All of this makes us unique in this industry and superior to any of the other 0-DTE methods out there. All right. That's it for now. I want to thank you very much and we'll see you Wednesday.

[00:19:38] Take care. Yeah, as I said, no trade today. So, peace take care. All right. Got to find that off button. Here it is.

[00:19:52] Bye.