Hanging Orders for Big Wins

[00:00:00] How are you doing friends Ernie here? And this is the zero dash DTE podcast. Also, a live stream on YouTube. I don't know why, but I have an itchy nose. Does that mean I'm going to get into a fight? Yep. Itchy nose. It is Monday, I had to look up at the calendar and say, yeah, it's Monday, Ernie, wake up.

[00:00:24] You're with it today. Today is Monday, October 25th. And last I checked. What are there? 31 days in October 30. I can never, I don't know that rhyme. Do you know that rhyme, if you do that tells you what number of days are in each month? Because I have no idea. You know what I need, I need coffee

[00:00:45] here. I am. It's 15 minutes before the market's going to close and I need coffee. Today, I'm going to talk about something that may have the potential. It may have the potential to change your life. If you listen closely. And if you accept what I'm going to say, it's one of those life truths that, you know it's true, you know what's happened to you, you know it's the reason for a good deal of your trading success, but you won't admit it.

[00:01:21] You'll never admit it. You know it though. So, here's your opportunity to let it come out? Why you really. Successful in any one period as a trader. Now I'm not saying I'm assuming because that would be really overreaching, that you are overall successful in your trading, because the chances are, if you're a day trader or a retail trader that you're a loser pretty much, but you might've gotten lucky this year or the year before on maybe one or two trade.

[00:01:58] That you put on? Well, let's say that we'll just wink and say, yes, you put them on, or that were put on by accident or left on because of your sloppiness. And they ended up being the biggest winning trades, not only of your year, but possibly your… And of course, you'd love to just make and build a story around this and tell everybody how incredibly intelligent you were that you put on this trade that made 2, 3, 4, 5000% return on your risk.

[00:02:35] And it was all because you forgot to close that darn trade, or you got to sign some options contract, and you didn't realize it until a week later. And you were lucky enough that the market took off.

[00:02:48] I can almost guarantee that your biggest trades are exactly that. Wouldn't it be nice though? That might be like a real eye opener. So, you're working this systematic strategy and you've got all your parameters down, you understand the carry of their, where the value is, where the momentum is.

[00:03:09] You've got all these economic indicators and, you're doing all the right things. You've got an arbitrage grow going, and you're a little black box is feeding you trades and you're putting, and none of that is working. And then one day you wake up and you say, holy crap, maybe a Monday morning, holy crap.

[00:03:30] There's a hundred extra thousand dollars in my account and don't laugh. Cause it happens. As a matter of fact, there used to be a trader on the S and P E-mini floor. One of the floor traders, they referred to him as number one. And he was number one for a long time. He was very prolific, and he traded a huge amount of money, but it all came to pass.

[00:04:03] The reason why he got into that position in the first place was because of an errant trade. He was trading gold and he thought he was. Busted out of an account because of a trade that he made. He came back the next day and there was $50,000 in there. He had hung an order and thought it was a bad order that it was busted.

[00:04:28] And then from that he developed some sort of, I don't know, extra sense. He started to do more of these hanging order. Orders that he thought he would never make that they didn't comport to his strategy. They were way outside the realm of possibilities. They had unbelievable risk to reward. In other words, very small risk.

[00:04:57] If they were to hit in very large reward, if they were to run, they were hit and runs. And so, he did this, and he built them up and built them and built them and then started, he had such a large amount of money that he was controlling markets. Yeah. And he was number one. That's how, that's what they referred to him.

[00:05:18] Refer to this guy by name. It was just number one. So, when you listen to the floor, squawker, he would refer to him as number one, but that's how he came to be. That's how he became to be number one in the E-mini by a hanging order he had in gold futures that he thought was busted. Amazing. So, I am willing to bet.

[00:05:47] That your biggest trades were also mistakes. They were orders that you left on, you're supposed to, at the end of the day, check your order book, make sure nothing's out there. Sometimes we get lazy, or we get distracted, and we forget, or it could have been an assignment. And you didn't know about the assignment.

[00:06:09] Particularly a futures assignment is usually the typical way it happens. And then you wake up the next day and you've got this well, it's one of the other, either you got lucky, and you've got this a lot of extra money, or your account is wiped out. Most people, they do this often enough that there aren't ways their stupidity ends up busting.

[00:06:35] Or bringing them down to such a low level that they do whatever they can to try to grind their way back and then ultimately totally bust the account. It's a never-ending story. This is what most day traders are doing. Some of them think that they have a handle on things for a little while and then making some profits, then it all collapses on them again.

[00:06:57] But let me get to what I really wanted to talk about. And at first, I was going to talk about the difference between, or what is better being a systematic trader or a discretionary trader, a systematic trader, being one that. Essentially has a black box and the black box, whatever it does pumps out trades and you execute those trades.

[00:07:21] And a discretionary trader is someone who doesn't have a black box or has a black box, and then decides which trades they want to cherry pick or variations on the trade, or just uses their intuition or their research. Which is better? So that was what I was going to talk about but let me just say that most data shows believe it or not that the discretionary trader over the long-term.

[00:07:47] And when you look at prop trading firms that have both discretionary and systematic traders, you will find that the discretionary trader tends to outperform the systematic trader. And you might think, but how can this be. Oh, that research and calculation and computing, how can a person beat the computers?

[00:08:11] You must go back and remember that it was people that programmed the computers to trade that way in the first place. And for the most part, they're trying to use algorithms or technical analysis that have no business being put into an algorithm, but they think it does because they did the back testing, and they did the forward walking.

[00:08:33] They did the Monte-Carlo tests, and it still loses. And then occasionally, they also will make an error, either a programming error or the discretionary trader will hang a trade by. And after a while, there'll be a certain number of people that will recognize that and admit to themselves and admit to others that the trade that made them money that year was a mistake.

[00:09:00] It was a hanging order. I keep on saying hanging order, what is a hanging order? A hanging order is one that you don't notice because it is so far outside of the realm of possibilities. You never would have looked there. You never would've said, oh, I got this trade on and it's a hundred handles below the market price.

[00:09:17] I would've never put that trade on. I didn't even know it was there. And then the next day, the market crashes or drops suddenly 104 points and triggers the order. And then a little V bottom happens, comes right back up and you're sitting there with a hundred handles of profit. Yup. Happens a lot.

[00:09:39] It happens so much that I can say that almost every trader, if you've been in the business law, this has happened to you, and these have in fact been your best trades. They have. I know it. I know it for a fact. I've seen it a thousand times. Of course, most people won't ever consider that could be a viable strategy, a viable strategy.

[00:10:05] Oh, get the hiccups. A viable strategy, placing something. So outside of the realm of possibility that it was just ludicrous, it would never happen. Of course, if you always think back to those things that do happen, that sink you, you would, you are repeating. You will never happen.

[00:10:28] There's the bell. So why wouldn't these things? These outliers never have. They do. And they have, and you've both profited from them and got busted by them. What if he did them on purpose? It is an idea. Now there, there can be a little bit of a methodology to it. You can get extreme and if it doesn't hit, you haven't lost anything.

[00:10:55] But if it does, you could potentially make a huge, huge return. And in fact, we take a variation of this strategy or this idea and turn it into a strategy. And in fact, our last two trades were because of hanging orders today and on, was it Friday? Yeah, it was Friday. I think it was Friday.

[00:11:21] They were hanging orders. What do I mean by that? Well, we picked a price that was. At least a couple of standard deviations below the current price and put an order there, it was Wednesday, right? It was Wednesday and Wednesday. We hung an order because we weren't going to be awake. We thought, or I thought that price would drop overnight.

[00:11:50] I had no idea how much, but. Low enough down where I thought, you know, what, if it dropped this much, I would be happy with this trade. Never really thinking that, that's going to happen. There's a possibility of course, and price was already starting to retract, but I wasn't going to wait up.

[00:12:10] It was already 10 o'clock. I was tired and I had no idea when it was going to happen. Would it have happened in half an hour, two o'clock in the morning, three o'clock, four o'clock who knows. I figured, if it hits overnight, cool, I'll take it. So, we hung the trade and it hit.

[00:12:29] We get up the next morning. We're all in profit. Very nice. We manage our profits into the close. This is one of those deals where we're in this very low volatility regime and trying to. To manage trades or trying to derive the signal out of all the noise is extremely difficult because the noise and the signal obfuscate one another, the noise is almost as big as the signal or bigger than the signal.

[00:13:02] In other words, there's no signal. So, it's either you don't trade, or you do something. That's ridiculous that if it hits, you're going to make money, if it doesn't, you didn't lose anything. So that's what we did. on Wednesday, Wednesday night. That's right. Yeah, it was Wednesday night. That was a good day.

[00:13:23] It was a good day. And then we did something very similar this morning as well. Now it wasn't as extreme, and we were awake. However, we get up in the morning, from Sunday night, the futures had already started to move up. We were. Banging on the door or I'm sorry, sorry. On the ceiling of a new all-time high that was set almost a month ago, or maybe even a little bit more than a month ago.

[00:13:55] We reset it on Friday. That's right. And so that had established a new all-time high on Friday and we were banging on that ceiling. You know, it was. Overnight and then hitting in the morning, but really, we're not sure whether we could get into there. And there was no place. When am I going? It's moving up like that.

[00:14:15] Where do you get in? That's going to give you a self, a good risk to reward. There's really no place. The only place that we can get in is if it were to retrace or come down suddenly. We just make this, we conjure this up, we look at Friday and said, hey, Friday, it dropped down like that.

[00:14:35] What if it did that again this morning, before? Or right at the market open or something like that? Wouldn't that be cool. If we could capture it there, then we could put on this nice butterfly trade, and it would likely pop back up, why does it do this? Of course, everybody has a reason, that there are market makers out there that are trying to grab your stops or something stupid like that.

[00:14:58] But who cares? I don't care. All I care about is getting a good risk to reward trade. So, I said, well, look, if I were to put a trade on right now, and try to trade based on the market as it is with the low volatility. I can't really get a good risk to reward out of that. My risk is just way too much.

[00:15:20] However, if I had the same trade and my risk was one third, a one fourth of what we're doing, I would be good with that because that was something I could live. And if it worked out, then that would be cool if it didn't. So, you ma you took a chance. You put a small amount of money for potentially a very large return.

[00:15:40] So that's what we did. We hung a trade. We hung up. And someone had asked, well, how do you choose that Ernie? I mean, do you use some sort of calculation with the Greeks? No. However, it does require us to understand the Greeks. Now we're dealing with option premium collection strategies, right?

[00:16:03] So we know that if price were to pull back, then volatility would move. All right. If volatility moves up, then premium starts expanding and that would in fact, then raise our risk to reward. So, our risk would become smaller. Our reward would become much larger. So just the mere fact of price dropping does that all in one, one swoop, it would get us in at a lower price, expand volatility, give us a much better risk to reward in this case, almost three times better, or more than three times better.

[00:16:37] And you just choose, how do you choose where to put it in? Well, you put it in low enough where you think that it's going to find support and the best place to find support is usually on the edge of a volume node, either a local volume node or a new or recent volume node or one that's been well-established over a period or both.

[00:16:58] Right. And so that's. Put it down there. I put it a little bit above that, and it came all the way down and went past it. But now we were already in the trade at a really good price. That was great. And it went lower. And so, we're able to get in again and even better price and bring our cost basis.

[00:17:18] And so that's how we took the trade and this today's trade. Let's see, I think I got in for a total of maybe $2 and 80 cents. Something like that got out at $9 and 50 cents. That's a pretty good return. That's a darn good return. It's almost a 400% and all because I hung the trade, I just hung it out there, hung it out to dry.

[00:17:42] And is that a strategy? It is, but it's also something that you don't know if it's going to happen. You're not expecting it. It could, I would say that in these cases, it seems like it happens often, but you don't know if it's going to happen that day or not. And you had nothing to lose because the alternative was to play in a mud pie.

[00:18:07] Play in a mud pie that had no real opportunity. So, it was either do that or not trade at all. So, see what the hell I'll instead of not trading at all, I'll put an unreasonable trade on and if it hits, we make money and hey, everybody's happy. That is the concept of hanging at a trade now. This is not a new concept by us.

[00:18:33] I've done these many times, and my mentor, man. He made a living off hanging trades. Oh my God. He would hang trades in bonds and gold and platinum and the e-money and whatever the VIX, whatever he could, he would hang trades that were just so outside of the realm of possibilities. And when they hit it was like free money and those were his best trades.

[00:18:58] Rather than the grinding trades that you would do daily, thinking that you're smarter than the market.

[00:19:03] So that's what a hanging trade is. Now. Again, you can put some, theory or sense or swag, what I call a scientific wild ass guess SWAG, and put it someplace where you think, there is a possibility. And like I said, the bottom of a volume node or the middle of a volume.

[00:19:28] Well, what some people call a low value node are very good places to put it to three standard deviations down below with a current price. That might be another good place. Whatever you think is unreasonable. Do the unreasonable. The unreasonable is what usually works because as I said earlier, it seems that the unreasonable is what has been historically your best traits.

[00:19:57] I know that for a fact, it's the truth with just about everybody. Except for those people that really know what they're doing. They seem to make money, no matter what, we can do that too. If you have the right strategy and you know your edge. So anyways, that's what we do. That's how we combat situations.

[00:20:20] When the situation looks, I won't say dire, but just unattractive the market looks on a track. So, let's put on an unattractive trade. Right. And if it hits, all's good. If it doesn't, then we live to see another day, no loss, no less worry, but hanging trade, hang a trade, give it a shot and go nuts with it, because what is the risk behind putting an unreasonable.

[00:20:56] The risk is virtually nothing other than perhaps maybe tying up a little bit of money for putting something so far out of the money. And just for a period, just to see if it's like fishing, when you're fishing, as a professional fisher, I'm sure you can use your swag to put the right bait, the right hook, the right lore in the right spot.

[00:21:19] The. Pawned at the right time of the year, et cetera, to increase your chances. We can do that too, but ultimately, you're putting a worm on a hook and you're throwing it in there, hoping that by chance some big ass bass is going to come by and see it, smell it and then eat it.

[00:21:38] So that's what we do. We fish for trades by hanging trades.

[00:21:43] Let's see,

[00:21:45] Got a question. Mike says Ernie, from a portfolio perspective, do you solely trade asymmetrically, or do you do a blend of grinding the market and asymmetry? We never grind the market that's for sure. Yeah. Uh, all our trades are a kind of a variation on this hanging the trade, but as an, it is an asymmetric trade, but the asymmetry that we do has some statistical validity.

[00:22:18] In our zero DTE trade, we do a lot like what the experience fishermen does. We put everything in the right context, the right time, the right place, giving us the best odds, understanding the Greeks, understanding how volatility works. Premium, expansion works, et cetera, and then placing our asymmetric trade that has very little risk to potentially a very large reward.

[00:22:44] And we can make a darn good consistent return from that. But sometimes the market turns. Hang off the market is unreasonable. And, no matter what you do, you can't find that perfect fishing hole. So what you have to do is you have to find that deep, deep fishing hole that nobody wants to fish.

[00:23:10] And so you just throw something down into the big, deep, the big crevasse, and hopefully something will find your worm. That's pretty much it. I would say our hanging of trades to answer your question directly increases. Probably it's probably the only time we do hanging trades is when we're in this sort of low volatility regime where the VIX is well below that 17 level, that's our line of demarcation.

[00:23:37] Anything above 17, we call the Goldilocks zone. When it's below 17, we must be much more creative and hope for at least some short-term volatility or anomaly, the fed does something that upsets the markets that, we can grab a hold of or whatever. Other than that, we can invent trades.

[00:23:59] We can invent things that, because our momentum is in one direction, we know which way we're going to go. And in this case, when low volatility occurs or a sustained low volatility, the direction is up. So, we're looking for pullbacks. How far to pull back? We don't know. We can sit there and sort of calculate what it would be, but your calculation would always be way too short.

[00:24:20] Right? You would hit it and then it would go way below, and you'd be underwater, and you'd be crying. So, we do things that are unreasonable, a sweat.

[00:24:33] And our swag, the two swags that we've put on in the last two weeks have both been winners. I think almost all the swags or hanging trades that we've put on have been winners. It seems to be something other than a low probability trade.

[00:24:51] Yep. Well, that's, it sounds crazy. I know, but what do you care if it works? It's all I've got to say. So anyways, of course, this isn't our whole strategy. Our whole strategy is much, much more than that. But when you have these types of situations, this type of. Volatility regime is what I call it. You must resort to these sorts of unreasonable measures.

[00:25:25] Well, I guess unreasonable isn't the right word. Off angle asymmetric, whatever else you want to call them? The hangar. And that's what you rely on because you've got nothing to lose. You're not going to dig into your losses here. Losses are virtually non-existent on hanging trade.

[00:25:48] It's almost all when, if in fact it hits and usually the biggest wins. That's the crazy part when everything else is dire and there's our mud. You come out with this sort of shiny little.

[00:26:02] All right, that's it. If you'd like to take the trial for the zero dash DTE service. Trust me, it's way, way more than just hanging trades. I thought I'd put that out there because it's just an interesting artifact of our trading. But if you'd like to try have a four-week trial go to 0-dte.com/try.

[00:26:26] That's T R Y 0-dte.com/try. We've got a four-week trial. If at the end of that four weeks, you don't think that you've learned a lot, or if you think that you let me put it the other way around, if you think that you've learned a lot and that there's a lot more to learn, then join the membership and then I'll rebate the cost of the trial.

[00:26:52] In either case you're going to get an outstanding education. And exposure to what everybody in the service now I think agrees is one of the best strategies they've ever seen. It's the best strategy I've ever seen, and I've been around for a while. So, there you go. I'll be all. Have a great day.

[00:27:13] Peace. We'll see you Wednesday. Okay. Off button. And the stream and.