To Compound or Not

[00:00:00] All right. We’re live, how are you doing friends? Ernie here. It is October 1st. It is a Friday, the last zero dash DTE trading day of the week. And we're going to finish off a very nice week. With our third winner in a row, it’s more like our sixth, seventh, maybe eighth winner in a row. If you were going to count all the other previous zero DTEs and this is going to be a particularly good one, it looks like we may have a chance to pin the trade outside chance, but at least a 400, 500% return, which is pretty good.

[00:00:44] And that's all good. That's fantastic. We love days like that. We loved and weeks like that, of course we'd love every day of the week to be some of this could be attributed to the fact that we are now officially in October, because September is a sucky month for any kind of trading or market gains or anything going back decades and decades.

[00:01:07] And it's no different for us here at 30 to eat is our poorest month. However, September was still a very profitable month, Joe. A little bit more effort was required to achieve profit where normally it comes very easy. We had to think a little bit, and there were some trades we couldn't take.

[00:01:29] There were a couple of losses that we took, so. It was unusual compared to our normal month was, which just seems like, um, you know, peaches and ice cream and no, just kidding. It's never just peaches and ice cream. Of course, I guess that it's all in perspective for us here at the zero dash DTE service.

[00:01:53] Our strategy, compared to any of the other services in an extremely low anxiety stress. So we've got that in our favor.

[00:02:06] Today's episode is number 42. Now we do three of these episodes every week. I think I missed Friday last week, which was unusual, but I try to do three every week, one for each trading day. And we talk about the trades, the trades for that week, the strategy, a particular topic and the topic for today.

[00:02:30] Is a follow-up to, uh, another topic that I did, I believe it was the last episode where we talked about growth strategies or whether this is growth or income. And what is the difference? And let me just say right off the bat, that there really is no such thing as an income strategy for traders, the market is unforgiving.

[00:02:55] The market doesn't care about you. It, it, it has is a matter of fact. A hostile relationship, the relationship you should have with your market, because it is looking to kill you. Not, not consciously, not consciously, but there are millions of other people out there that financially are trying to kill their competitors.

[00:03:17] They've of course can't really target you directly, but that's what they're out to do. They're out to take your money. They're competing with. And so, if you think that you can just go to it as if it's a cash machine and just take out your weekly stipend, you are mistaken. It just doesn't work that way. So let me get back again to what today's episode is about.

[00:03:39] And that is how do you treat your account and your position sizing? Is this a place where you try to achieve compounding, like as an interest, you know, A little bit, you just keep on throwing it back and the account keeps growing and then the interest based on the account size allows you to keep growing.

[00:04:01] So the implication there is that you take positions that are exactly a proportional size to what your account size is. Now, of course, that isn't strictly possible when you're, dealing with positions that can range anywhere from 50 to $200 in risk. It's very difficult to proportionally size your position, especially when you have a smaller account.

[00:04:29] Now, as you get to a bigger account, it gets much easier, or should you do a fixed size trade? And then just keep on building. Your account value as it, as it comes. What is the most appropriate strategy? Well, I'm going to say that it is a combination of the two. Now, strictly speaking, if you were to take the proportional size position size proportionally to your account size.

[00:05:00] So for instance, if. Put at risk, say 5% of your total account size and you keep on growing and then your account gets 10% bigger. Now it's 5% of the original account size, plus 5% of the 10% of growth, right? So it just keeps on getting bigger and bigger, but there is going to be a point where until you get to a certain amount of growth, you won't have enough to be able to justify putting another position on because the positions themselves have some granularity.

[00:05:29] Now. As I said, a combination of this fixed position size and proportional size. If you were to look at any kind of growth strategy, the proportional size hands down win it every time. So, in other words, you grow your position size proportional. To your account size. There are times though when that becomes impractical, or it makes more sense to have some kind of levels where you decide where you're going to increase your position size.

[00:06:11] So let me give you an example. Let's say that you started off with a very, very small account, say $3,000, three or 4,000. With an account size that size, let's say that you wanted to start off with, I don't know, 5% risk on every one of your traits. Now that would be reasonable considering that, you know, 5% risk would give you a lot of instances where you could be wrong, particularly when you're first starting out and learning a strategy and still have skin in the game and be able to continue to.

[00:06:51] Play the game. There are also other limiting factors. When you have a small position or a small account size from the broker themselves, they may have a requirement for a minimum sized account. Now, if you’re trading futures that minimum size, you know, it's almost a don't care, but some brokers, for instance, TD Ameritrade requires that you have $2,000 in your account.

[00:07:17] Some require a thousand dollars, some require 10,000. I believe interactive broker requires 10,000 in your account. So, you're limited, first, to, to your account size and whether you can even trade any size based on how you know, based on what broker you have. But let's say it's TD Ameritrade, the most popular we're trading options.

[00:07:39] And that's one of the most, or the most popular options trading platform. They require 2000. Let's say you start with 3000 to give yourself some room. And we'll say that we're going to start off with a 5% position size, which would be $150 at risk for each position that would give me about six trades that I could lose.

[00:08:01] If we're all my position sizes were the same before, I would be out of the game. And then I would have to refinance and add more to it because I would be hitting that $2,000 barrier because after 2000, after I go down below $2,000, they say, hey, you can't trade anymore. And with TD Ameritrade, you need at least $2,000 to trade.

[00:08:20] These features positions. So, you would have to perhaps go back to work, save up a little bit more money, bring it up to 3000 again and try again. Now that's. That you're in this learning mode and you just are losing every trade. Of course, I am not saying that that's, what's going to happen here. I'm just saying that you always must plan for what is the worst possible condition, but $3,000 would give you six opportunities or two weeks of zero DTE trading to at least come up with a trade that's profitable and allow you to keep on playing in the game.

[00:08:55] Now in general. When volatility is in our Goldilocks zone, which is about 85% of the time we're running on about an 80-to-90%-win rate. So, the chances are that you're going to be able to go a long, long time before you have, or have any possibility of breaking down below that minimum amount. So, you're good with a single position size.

[00:09:24] If position sizes were all $150 a piece now, as you grow your account, and let's say that you're, you're in this growth mode, you're very careful about what you're doing. You're hitting that 80%-win rate. I returned a typically around 150 to 200% of the risk that we put on. So, every trade you should be making 150 200, $250.

[00:09:51] Approximately on average, some days you'll lose the hundred and 50 completely some days you'll. Make 50% of that risk that you put on some days you'll do two times that risk. Some days like today, you might do four or five or even 10 times that risk.

[00:10:11] All right. So, it all kind of evens out after a certain amount of time, you're going to make a conscious choice that I want to add instead of. One contract or one position size at a time. I want to do two. Now they come in chunks, let's say $150 chunks. That means that. Now you're going to move up to say $300 of risk, but your account might not be up there yet to get to three, $3, $300 of risk.

[00:10:44] Let's say that you're at a. $5,000 while $300 of risk would be around 7% of your account every time. And that might not fit within your goals. So what you're really doing is you're trying to look at well, what is the amount of, or percent or average percent of the position size that I want to put on for every trade?

[00:11:07] Assuming that I could run into say a streak of loser. Even if you're at 80%, there is the possibility that you could lose four or five, 10 times in a row it's remote, but it's possible. There are also other things that come into play here that a lot of people.

[00:11:24] Really consider, you're not a robot, you're not an automaton. You can't get in there and be this perfect trader. Sometimes you make mistakes has nothing to do with the strategy has everything to do with you and your ineptness or lack of skill, lack of patience, lack of intestinal fortitude, or courage or lack of confidence.

[00:11:50] Any of these lacks could impact whether you are able to achieve the potential for that day. So, you must take that into an account. And it's a real thing, a very real thing. And in fact, it is probably the most prevalent reason why most people that trade lose. And that is because of this lack of skill, execution skills, strategy, skill, confidence.

[00:12:17] And what they're doing, understanding what their edge is. Those are the reasons why they lose. And a lot of times. To compensate for these things. If frustration takes over, they may put more into a trade than they should. Instead of taking a 5% risk, they might take a 30 or 40% risk. Maybe they had four loses in a row and they decide, oh, I'm going to put half my money on this and make it all back and get back to where I was so that I can continue with my fantasy plan of income.

[00:12:51] What I'm describing for you is what most traders go through. I guess the biggest part of my job is to try to deprogram traders in that, from that mentality and start thinking about what this is. This is a growth strategy we cannot take from the market. It gives to us when it wants to give to us.

[00:13:16] So we need to be humble in the way that we trade, understand our edge. Also know our platform have absolute confidence in our execution skills and not try to take too much trade small wait for those opportunities. When we have those pin trades like today, don't chase after things. And then you will grow your account in little bits and then chunks, little bits, then chunks, little bits than chunks.

[00:13:52] And while you're doing this, while you're developing this skill for churning out a profit, you will also be developing your, your, several skills that you need to have, but also your confidence in what you're doing. You'll be able to make decisions that are rash. Logical calm based. And when you're in that kind of attitude, then you can start turning this into what it has meant to be.

[00:14:23] And that is a growth strategy. Now, again, you know, what has been shown to work over the long-term is a proportional strategy. But in the beginning, it's more of a linear. You stick with say one contract until you've developed these skills until you develop that confidence, all the things that I was talking about, you build your account up until you're at a point where you can afford to go to two contracts.

[00:14:48] Sometimes you might want to build it up so that you go a little bit beyond that. So, you have some leg room because what happens if you lose some? Now, when you build up and you're up to two position sizes, you can also lose twice as fast, as well as wind, twice as fast. So, if you had a, if you went to two, as soon as you got up to that level, where you think that you can go to two, what happens if you have a string of three or four losers, you're going to lose twice as fast.

[00:15:18] And as soon as you get to. Level and you lose once. Do you stick it to contracts? Because now that's what you have achieved, but you've fallen back into an account size that doesn't justify two contracts anymore or two positions. So, these are the things that a lot of people that are,

[00:15:37] that don't have the right mindset that are gamblers more than they are traders. That they don't have foresight on to where they're going and whether this is in fact a growth strategy and that you are trying to grow and build on top of it. And when you get beyond certain levels, then you can take another level of risk or turn up your site, your position sizing to be proportional so that you have the same kind of risk as you get to bigger and bigger accounts.

[00:16:10] This kind of proportionality starts dwindling even more. And the reason for that is that as you can put on more contracts, you can start developing more sophisticated, um, entry and exit strategies. You don't have to put everything on all at once. Perhaps you start with a smaller position. If you pull back a little.

[00:16:38] You put on another position to improve your cost basis. You start running and it's apparent that you're going to keep on going. Then you add to the position until you get to your full max position size. Each of these little chunks of positions that you put on, we call tranches. But in the big scheme of things, you're sticking with this idea that I have.

[00:17:02] The scalability is built in, and you have a very well-defined predetermined level where you start that. You start with one, a position size of one. And then when your account gets to a certain size, you go to a position size of two. You need that to grow to a certain size that you can go to a position size of three.

[00:17:25] Now, once you're at a position size of three, you can then start experimenting. Entry and exit strategies. Do you put on one at first, then two, do you put two on at first, then one, do you take off one? If you get to a certain level, do you take off two? If you get to a certain level where you guarantee profit and then you can let the other one ride, you know, there's a nother degree of complexity that you need to work into your execution skills.

[00:17:56] It's not as simple. And I know that some people want me to tell them that, you know, oh, all you must do really is, you know, whatever your account sizes, divide that up into 5% chunks. And that's the size of your position. If it were that simple, everybody would be doing it and everybody would grow, you know, compounding their account and turning it into something huge.

[00:18:21] The truth of the matter is that your account is going to be kind of level for a long time. Then it's going to slowly grow slowly grow. And then at some point that point where you've developed those skills and enough capital and. A better strategy and better execution skills on that strategy. It's going to start going up faster and then you will be in this new paradigm, this new trajectory.

[00:18:51] However, getting to that point, getting beyond that slow ramp up can be frustrating for some. But that's what you must do. That's what you need to be focused on. You need to be focused on the process rather than some goal of how big you want to make your account. So, the market's not going to give you things in irregular, even keeled, every day you're going to get this X amount of dollars.

[00:19:19] It's not going to happen. The only way that you can achieve more consistency. More consistency of execution, not necessarily of growth because the growth will come. If the execution follows, if execution is there and your skill level is there and the confidence is there and the knowledge is there, then the growth will happen and it will happen at a faster rate, but it takes time.

[00:19:47] And so you must accept that you must accept the fact that in the beginning, I am going to. Focused on the process, not focused on the position size. So, in the beginning, it's a linear position size because that will present the least amount of complexity and allow you to focus on that, on that process.

[00:20:10] And then once you've gotten beyond there and you've developed some mastery, then you can go to the next level and then the next, then the next and so on. So hopefully. That will describe your journey into growth of an account.

[00:20:29] The worst thing that you can do is go into this game and think that all right, I'm all set. I've got my growth strategy and set. That's my goal. Once you set the goal, you've immediately lost because then you are no longer focused on the process. When you've set the goal, you've immediate law immediately lost, and you're already a loser because you have not yet achieved that goal.

[00:20:58] And every time that you have a setback, it's going to dig on you. It's going to grab you and then say, but I must achieve that goal. I must keep on. Building the account and get to that point. Otherwise, I'll never reach that goal. And then you will obvious skate what you should be focused on that will allow you to achieve these apparent goals.

[00:21:24] And that is the process, those skills, the confidence, the knowledge, the edge.

[00:21:29] It seems like a paradox almost, but that is the secret. To building and growing an account is focused on the process, not the goals, develop execution, mastery and confidence at each one of those levels. And then when you get to the next level treated just like you did the first level, no different and then S and so on.

[00:21:56] And so on, on each other, a low level that you achieve over time, you will find that you will follow that kind of exponential growth. And you won't even know it. And that's the beauty of this. All right. Let's see. Do we have some questions from the peanut gallery? We did.

[00:22:15] Yes. What a day? Thank you for explicit profits today or any? Yes, it was a great trade today. All right. So, nobody wants to talk about. Position size or growth strategies. Cause they're all making money. So that's all they really care about. So we'll, we'll end it here and hopefully this little talk was instructive.

[00:22:35] It put things into perspective for you. It is, really what we do here, and every trader isn't left on their own. So that's. Problems when you're trading alone is that you get into these mindsets, these bad mindsets in these funks and other things that get you off the real purposes that you should be focused on.

[00:23:02] And that is the process. If you're not focused on the process, then you can't achieve your, you know, what you want out of this. However, in this survey, you have me who is acting as your coach and mentor, I will help you keep accountable by having somebody that can help you keep accountable. We'll keep you on the right path to the best of my ability.

[00:23:26] Some people want that help. Some people don't. So, you can't help people that don't want that help, but that is a, a huge benefit of this service. So, if you do want to try out this service, I can guarantee you this. And I can say this unequivocally, that this service is superior to all the other zero DTE services.

[00:23:49] I've had some people in comments that have in the YouTube comments that have admonished me, castigated, criticized me for making this kind of claim. They said, well, where's your proof. I have plenty of proof, but I'm telling you that fundamentally our strategy is light years ahead of the others. It is the incomplete inverse of what they're doing.

[00:24:12] What they are doing is a losing strategy, focused on the things, the exact opposite of what I've been talking about that is designed almost unconsciously to make you fail where we are on the other side of the pond. If you want to try out our strategy, go to 0-dte.com/try that's. 0-dte.com/try. You'll be very happy you did. We have a four-week trial in four weeks. Even if you don't do the service, you are going to learn the strategy, a process, a skill, an edge, something that you can take with you for the rest of your life. But let's say that you wanted to continue with us. And most people do about 70% of the people that go through the trial ended up being customers.

[00:25:05] If you do, then I will rebate the cost of that trial towards your membership. And the membership is very, very reasonable. So, it's almost like another gift that you get. Most people make enough in the trial to pay for a full year of the membership, many times over some, it takes a little bit longer. Uh, you know, I can't guarantee success for everybody in the exact same amount of time, but I would say that a good majority of people do make that sometimes they make it in one trade like today.

[00:25:39] I mean, a lot of people I'm sure made enough today to pay for their, their service for the whole year. Maybe two years, maybe three, maybe five. All right. Let's see, where are we here?

[00:25:54] It looks like things are slowing here on the, uh, on the, on the internet front. So we'll say goodbye here. Peace to you all. We'll see you Monday.

[00:26:06] Okay. There you are.