How To Profit with 0-DTE at All Time Highs

[00:00:00] 3, 2, 1 we alive, but I'm not ready.

[00:00:08] Had some natural peanut butter. It stuck in my throat. All right. Are you doing friends? And it is Monday. This is a Thanksgiving Day, week. It is Monday the 22nd. Oh, I can hear much better now, Monday the 22nd. And it is one of only two zero DTE days. This week as zero DTE is off for thanks.

[00:00:36] That's good needs, arrest needs, arrest to see whether these all-time highs are real or not. Man, we hit another all-time high today. It's just one after the other. It seems like every day is an all-time high. And let me tell you if you were expecting it, if you thought for a moment that this could just keep on going, if you didn't have doubt.

[00:01:03] Then it would be a very simple matter of just going long every single time. However, every day is different. Every day you're presented with various catalysts in the market, various events, disruptors. All kinds of things that could send the market going anywhere and trying to figure out just how the market is going to react to any one of these things is really, and almost like an art form or maybe it's a Swami realm, right?

[00:01:37] You need to be in the realm of Karnak the magnificent, I don't know if you get that reference, but if you're my age, did you do that? Was Johnny Carson doing his act, mind reading ed McMahon anyways,

[00:01:53] I don't have a crystal ball, neither do you. And we don't know for sure that the market] is going to be going up that day, even though it's been going up almost every day. I guess you could say that the odds-on favorite are that it will go up. However, how much it will go up as equally as important as to what direction that it goes in, particularly when you're selling premium, because when you're selling premium, you're selecting an area where you think that the market is going to settle on where you can collect that premium.

[00:02:28] And really the only thing that we must go by in terms of definitive areas where we think the market might settle. I guess from a technical point of view from an analytical point of view is where the market has been before. So for instance, we use volume profile volume profile is volume at price.

[00:02:50] It's the sideways bars that come out and we'll show you the level of activity of trading at various price levels. So. Are very good view of what the actual activity and where demand is and where demand is not in the market. We know that when you have a very large volume node price, when it encounters one of these nodes from past, it will tend to hang out there because for whatever reason, the market has found affinity towards that level, it likes that level.

[00:03:24] It is comfortable there. Why nobody knows, well, maybe some people know, but it's not. So, you can put a strategy on that, where you're going to collect premium and with reasonable expectation, that price will go to one of these nodes and hang out there for a while. And time is really what you need when you're talking about collecting premium time, volatility, Delta, et cetera.

[00:03:50] If the Delta has made up its mind and says, hey, I'm going there. I'm going to.

[00:03:54] Then you say, well, you know what, I'm going to join you market. And I'm going to put my volume collection. I'm sorry, my premium collection strategy right there alongside with you. And we're going to wait out for a little while and maybe have some coffee, maybe a sandwich, whatever, look at the scenery, chase some pretty girls who knows we're going to hang out right there with you and collect premium.

[00:04:20] That's great. That is great. If you have that kind of market history, whether it's recent or even a little further in the past where you have that kind of market structure that you can rely on because the market doesn't always go up, it can go up, down, up, down. And when it's inside of its range, it's got to deal with all this market structure.

[00:04:41] And those are things that we can predict. But when you're in an all time high, there is no market structure just. This air, that's it air. So how do you know, how do you know how high the market's going to go and what will stop the market? What is the extent? When will the market run out of gas and what gives a gas?

[00:05:08] These are tough questions. Now is there a DTE? These are questions we like to answer, because that is really a lot of what gives us our higher probability of profit and our probability of touches. Having a basic swag, a swag SWAG is an acronym, and it means scientific wild ass guess. So, we need to make a swag of where we think price is going to hang out so that we can put on our time-based option strategy because it's time-based because it's zero DTE, zero last day of expiration.

[00:05:51] It's going to expire within the next few hours. And we'd like to hang out there for a few hours if we could please, but there is nothing up above. So, what do you do? There are two things you can. Now, first, you don't know if you're going to go up and stay up there, or if you're going to go up and what so often happens, complete reversal, go the other direction, find someplace else to hang out and find some pretty girls or beer or tea or coffee or whatever you're looking for.

[00:06:23] So we're left with this unusual. We don't want to overtrade we don't want to guess. So, we do something that is akin to a straddle. Now, a straddle putting on a straddle, a pure straddle

[00:06:43] where you buy a, put, buy a call and they both had the same strike price. It's a very expensive trade. If price doesn't move that exacts a huge. Amount of risk and with also a very wide range of prices, a full standard deviation from whenever you start. So that's a tough thing to put on. However, with a strategy like the butterfly, we can create something that we call a poor man's straddle.

[00:07:18] What is a poor man's straddle? A straddle is something that if price goes up, it profits, and if price goes down, it profits, but it doesn't start profiting until it crosses that zero line. And there's a spread. Right? And on top of that, it's very expensive. The costs, the risk that you put on putting on is very tight.

[00:07:40] However, you could simulate a straddle because now a straddle is unlimited. On the upside and the downside, but you know that you're not going to have unlimited price movement. In fact, you think that price may move approximately so much, and we can give a guess by looking at the expected move, which is nothing more than a.

[00:08:03] A measurement, a statistical measurement, given the current volatility of a one standard deviation move. How far price might move now? It doesn't mean the price is going to move that much. That's just a guess another swag, a technical swag. But what you could do is you could put a butterfly. Now, why would you put a butterfly as opposed to a spread?

[00:08:26] You could put a butterfly, a bullish butterfly and a bearish butter. Use them as directional as the way you would use a bullish spread vertical or a bearish vertical, but with a butterfly, you get many more different characteristics that are conducive to collecting premium. And when you put one of these butterflies on either side, the wings that you place on the butterfly, Control the width.

[00:08:56] And you can also control the distance that the short strikes of the butterfly are from the point that you're trying to determine. Cause you don't know which way up, down, whatever. So, you can create what we call a poor man's straddle that in effect in a time-boxed. We'll give you the kind of performance that you're looking for, that bullish or bearish where whichever the way the market is going and give you what you're looking for.

[00:09:29] And because if it's going bearish, then you know that there must be a volume node down there somewhere. You can place that very nicely and you can place the other. The bullish one, because it's going to an all-time high. You don't know exactly where to place it somewhere in the vicinity of the expected move.

[00:09:47] That makes sense. Now you have all other types of things that you can do now that I gave you the basic case. Two symmetrical butterflies, put them on either side. We call that a poor me and] straddle. And the reason why it's a poor me straddle is that you get the same effect with. Boxed region, but with much less risk, sometimes very little or no risk.

[00:10:12] That sounds like a trade for me or any. And there are some caveats to that. Now, one way that you can reduce your risk and because you're using the butterflies and not just spreads, you can play some magic with these butterflies. You can create a broken wing fly, or a broken fly. And what a broken wing fly is.

[00:10:38] That's when the spreads are of unequal length on either side of the butterfly and the beauty of this is that the one that has the shorter line. We'll have less risk on that side. And the one that has the longer length, the wider spread we'll have more risk on that side. So, you could put the risk to the outside of the butterfly and the least amount of risk on the inside where you're starting.

[00:11:06] So you can create what is sometimes called the Batman strategy. That's because when you put these two butterflies on there, they look like. Ears of a bat. And that's one of our strategies. That is how we would naturally play something where we have not sure whether we're going to achieve another all-time high or going to pull back or just stay right there in the center.

[00:11:37] We'll use the Batman. That's what we'll do. Or the poor man's butterfly. I like Batman better. Batman is a much better. Name for the strategy then poor man's butterfly. That really sounds kind of lame now. Doesn't it? The poor man's butterfly now, Batman, Nan, and nnn, nnn, nnn, nnn, nnn, nnn, and ended up [00:12:00] that.

[00:12:00] That's cool. So, we use the Batman strategy and with the flexibility that you have with the. Butterflies using broken wing flies. We can adjust our risk on either side. Now, not only can we create a symmetrical risk adjustment where the insides have less risk on the outside to have more, but we can control how much more or how little more we can create a credit spread on one side or the inside or the outside.

[00:12:30] We can go even further and start thinking about ways that we might want to adjust this in the middle of the. So, if the trade moves very bullish or very bearish, we might take off the short strikes of the weak side, because those strikes will have. Achieved maximum gain. We can take the short strikes off and now we're just left with the long strikes.

[00:12:56] It doesn't impose any more risk because we took, we got every bit of juice that we could out of the short strikes that butterfly. But now if price reverses, we have a supercharged, ear it's as if the bat took its ear and then flipped it up,

[00:13:13] hopefully that works for you. Just made that up. So, the butterfly man, I wish it would call something differently because I don't like the name butterfly. We need a much cooler name for the butterfly. Now Batman is cool. Bats are cool. So maybe we'll use the, we'll call it the bat fly and a bat fly.

[00:13:37] That sounds gross. Returning visitor. All right. We'll work on that. And we'll come back with you with our renaming of the butterfly and the poor man's straddle, which is now the Batman and will come up. Now, the whole point of this is I was talking about trading all-time highs because it's so unknowable we can control or model our risk to the upside, to the, immediate at the money, into the downside.

[00:14:10] To any degree we want, we can make it a debit. We can make it a credit. We can adjust its size. We can have one strategy that is far out of the money. And one that's less far out of the money. And there are so many things that we can do. And all of that is predicated on. Understanding of the market structure and the catalysts that are in the market and the events that are happening.

[00:14:37] We bring all this together. We come up with our idea or scenarios of where the market might go, and then we can literally mold it's like molding. It's almost like taking clay and adjusting a, your own personalized premium collection monster. And you decide how much strength it has on either side and how it behaves on either side.

[00:15:03] And in that way, we can get the most out of these all-time high trades, even though volatility is super low, the market is erratic. It's thin ear up there. So, any little thing can move it all over the place so we can control our risk and our potential profit. Now here's the. When you're using these butterflies, we have flattened out our deltas and our gamma is flattened.

[00:15:33] That means that in the beginning, part of the trade, we have very little to no risk and very little anxiety because any movement in price, doesn't give us big price fluctuations in the value of our strategy. Instead, it gives us this nice, smooth. Until we get near the end of the day when price and time are winding down and premium is decaying faster and faster gamma risk is increasing, but all the while we still have our risk contained and we don't really care if it, if we miss, because our risk is so small, and our profit potential is so low.

[00:16:20] So there is a way that you can take an untenable situation, a very difficult situation, low volatility, low volume, unknowable, upside unknowable, whether you're going to reverse the quick introduction of volatility that can cause chaos and construct a trade, a strategy using some basic tenets, the butterfly.

[00:16:47] In some creative ways to model your idea of controlling risk and making profit. That is how you profit in an all-time high market using Xero DTE. We're focusing down now, we're coming down. You could put a long call or something and just, have it a day, but the odds are so woefully against you in that kind of strategy with the strategy I just described.

[00:17:18] There's a lot of moving parts, but it works. It really works. All right. Let's see. There are no questions we have people watching, but no questions.

[00:17:30] Maybe this was a little over their head. I don't know, talking about a lot of things, but, yeah, with a little creativity, you can create an asymmetric opportunity, very low risk, very high profit potential with a high probability of success. I know usually all those three things do not go to. But you can do it, especially if you understand the market structure, the underlying, structure of the market and how price is likely to behave and keep a close tab on market events.

[00:18:10] You got to remember that we're only talking about a few short hours and that's a lot easier to control. In terms of creating scenarios than say several long hours or a day or two days, every time you add more hours or days onto that equation, the complexity of all the things that can come into play increased dramatically.

[00:18:41] And that is the beauty of the zero DTE because you can compress it down to just a few short hours and control all the aspects of that trade. All right. We do have some, questions. When is the best time to enter zero DTE? I would say there's a. An area of opportunity. And I think that the best opportunity is sometime from the night before, until the market open, there is also sometimes opportunity, or you have to wait because of unknowable things that may happen.

[00:19:21] Like economic reports might come out just before the market opens that force you to wait to see how they introduce. Catalyst into the market and you might have to take the trade in the early morning hours of the market, but the best times I've found are somewhere between six o'clock. Which is when the future session opens the night before.

[00:19:47] So usually around, later in that night after the market is opened, it's the Asian market that is turning around. And then between there, and sometime before the U S market] opens, I would, go further to say that the period between about seven o'clock in the morning to nine 30 in the morning is probably the sweet.

[00:20:09] That's where you're going to get most of your activity. Now, there are some cases where we can put a trade on at six o'clock the night before it goes through the Asian market, goes through the European market, open this whole plenty of volatility, and we can have collected. We could have collected enough premium by the time the us market is rolling around to take the trade off before the U S market, even over.

[00:20:34] That's happened several times. So, there are opportunities when you're using futures, you don't have these same opportunities with the SPX. Now I understand today is the first day that the SPX will be trading, 23 hours a day. Just like the futures. However, not all brokers are supporting that. I see that interactive broker is supporting it, but TD Ameritrade, we think of swim are not supporting it.

[00:20:58] Tasty works. They're not. So, we're going to have to get on them and get them to support the SPX. Although I still prefer the E-mini S&P futures contract for zero DTE all around, even though it has a little bit more expensive commissions and fees, it is a vastly superior product for trading and for what.

[00:21:21] Because you have volume, you have 23 hours, you don't have any pattern day trader rule. It's just a better product all around, but some people are stubborn. They want to trade the SPX, which also has much larger margin. So you can't have the same kind of fine-grained control over it that you can with the future.

[00:21:40] Let's see, Thomas is asking, Ernie, great talk. Could you put up some risk graphs on the broken wing butterfly versus the unbalanced fly? I will do that, but not right now. I will do a separate video on that because this video is actually also the podcast, and the podcast is audio only. And I did that last week, but it really, it left the.

[00:22:05] People that were listening to use their imagination to a fantastical degree. So, I will do another video separately where I'll get on my iPad. Like I did yesterday, Sunday, and you can go, and you can see that video, the retrospective video, if you go to my YouTube channel where I use the iPad and did all the graphs and everything and talked about those strategies.

[00:22:29] That's about it and where we've come to the end of another zero, DTE zero dash DTE podcasts. Never forget that dash. That dash is so darn important because without the dash you have trash, you know what I mean? 0-dte.com/try T R Y. If you want to try out the service, you get a four week. If you want to join us after that four-week trial, I will rebate the cost of that trial.

[00:23:05] Regardless, even if you don't want to that four weeks, you're going to get such an education that you're going to pick up some skills that you're going to be able to bring with you for the rest of your life. And it is going to be life changing. I promise you all right now. Thank you very much. We'll see you Wednesday.

[00:23:26] That will be the last zero DTE day this week of Thanksgiving, a wonderful week. And then we have black Friday and then cyber-Monday, and then the whole rush to Christmas. Oh, it's a wonderful time of year, kinda, except for here in the Northeast, where it starts getting colder and colder. Now I'm rambling.