Moronic Variant of Volatility

[00:00:00] 3, 2, 1 life. I think I've got that down. All right. Are you doing friends or any here? And this is the zero dash DTE podcast episode number 61. And today's episode is entitled. Zero dash DTE is resilient. To the moronic COVID variant and market volatility. What is the Mar I'm sorry, I got that wrong.

[00:00:33] It's not the moronic. COVID variant. It's the Omnicom. COVID VR. It's a, it's another take on Greek letters. They ran out of, I guess they went from alpha beta Lambda, and now they're up to omega or Omicron it never ceases, but there is a variant of the COVID virus that appeared coincidentally on a day that the market was.

[00:01:08] Half on half off, very low volatility, very low volume in the, on Friday, right after Thanksgiving. And that's a day when anything substantial happens, you could easily anybody with any kind of force can easily move the market up and down. And it did it moved down significantly on the news of a new variant.

[00:01:35] A multi mutant and possibly vaccine resistant strain that they have now dubbed Omicron. Or if you take that as an anagram moronic, and yes, I said moronic on purpose because that's exactly what it is. There were, there was news that initially came out. Now, first, they've known about this strain for quite some time.

[00:02:06] I think since July, however, now that they chose that this was the time that they would bring it out, because I guess there were a few people that have come down with it. And by all accounts, this variation. This variety, this variant, this mutation, multimedia tint is quite harmless. Probably not much worse than the common cold.

[00:02:36] However, it is very transmissible, but it is the perfect thing to bring up it, particularly with some of the things that might scare people like multi mutant. Vaccine tall or resistant, highly transmissible. All these things are things that can bring up the IRR and people and the fear.

[00:03:00] And of course that is absolutely the point. It was really no reason to bring this up right now, other than to move the market. Why did the market need to move? You've got to think, when things like this happen, when you know all the backstory, that the virus or the variant has already existed for quite some time.

[00:03:21] And then it waits for this time when the market is most vulnerable, easiest to move. It's obviously what we would call in the business of false flag.

[00:03:32] Doctor came out almost immediately saying that they've known about this for a while, and it's almost harmless. However, you have the news outlets that are trying to push this as something potentially fearful because that's basically how they get eyes on their site. They are more interested in creating.

[00:04:01] Then reporting a story. And in fact, often not only will they embellish or add hyperbole to a story, but quite often they will literally make it up out of thin air. And for this reason, well, this is going to sound, um, maybe political, but I believe that the press is the enemy of the people. They are not necessarily the enemy of the Zara DTE trader because this kind of volatility we welcomed with open arms.

[00:04:37] I think that the world recognized that there was less to the story than there was. And even though the market moved dramatically on Friday, that move did not continue. And in fact, there has been a little bit of a rebound and it's been tough. However, there are still outlets. And some of them not part of the mainstream media, like Goldman Sachs and others, at least small factions of these outlets that are trying to still push a story that will instill fear in people.

[00:05:16] So you have these competing forces. Some people want the market to be tempered summit. Some wanted to come down. Some just want the air of fear out there so that they can benefit from that. And then others want to keep on pushing it up.

[00:05:31] So it's not like there's a grand conspiracy. There is this malevolent force that's trying to squash the market or do something with the market. It's a conspiracy of many people trying to manipulate the market and push it in their direction. And quite frankly this is not an unusual thing in the.

[00:05:57] The idea that the market is being manipulated often is seen as a pejorative or something that is illegal. And in some cases, it could be, but when people hear market manipulation, they think that, oh, it's these evil people power that are trying to subvert the market and have a do their bidding at the expense of the little guy.

[00:06:24] Which also is true, but it's not like a concerted effort by just one entity. It is anybody that has any level of power or influence trying to manipulate the market. And quite frankly, I would say that if you and I'm pointing at you, you, if you had the ability, you would also be trying to manipulate the.

[00:06:48] You would not be playing nice. You would do whatever you could to push the market in your direction, in your way, or set up the kind of condition that you want so that you could maximize your profits. And, understanding that is something that is innate. Not only you, the person who may castigate those or vilify, those that would manipulate the market, you would also manipulate it if you had the opportunity.

[00:07:18] And so when you look at it from that light, you realize that yes, the market is manipulated, but it's not a bad thing. This is part of the discovery process, several competing and fighting for. Pushing pulling or tugging, prodding, releasing conspiracy theories, doing whatever they can to push the market in their favor.

[00:07:48] But the fact is that there are so many of these at every stratum at every level that it creates a market that actually works that has some volatility. If we were all just sitting on our assess and giving a laissez-faire attitude to the market and just being passive, the market would never move. It would never move.

[00:08:11] And when it doesn't move, when there is no volatility, when there is nothing, no signal, it's just noise. The market dies, nobody benefits. So, I would say that things like. The moronic variant is quite beneficial to traders. Now, some traders, there's a level of volatility where they cannot handle.

[00:08:38] In fact, they cannot handle any kind of volatility because most traders are morons and they're using things like technical analysis and other pseudoscience in order to try to predict market movement. There's virtually no edge. And they are the pawns of the market. They are the fodder for the people who have better tools, better understanding, and can manipulate the market.

[00:09:11] We need their money. We need them to contribute to our retirement funds, but from Xero DTS point of view, we need volatility too. Volatility is absolutely a necessity in our market and it's like the Goldilocks and the three bears. We need to be in the Goldilocks zone. What is the Goldilocks zone?

[00:09:41] If you remember, Goldie locks tried, the porridge one was too cold. One was too hot, and one was just right. Try the bed. One was too soft. One was too hard, and one was just right. We need that Goldilocks zone in terms of volatility, we need enough volatility that we can find a signal. And from. From that volatility from the implied volatility, create enough premium that we can sell and use our strategies to enact an edge from there, but too much volatility and things get chaotic.

[00:10:18] Now, the levels for us, if you were to equate that to the Vicks are between 17 and 34. That is the, what we would call the Goldilocks zone. Anything below 17 starts getting anemic and very difficult to distinguish between a signal and noise. When we start getting up into the twenties, mid-twenties, upper twenties, things start really clicking.

[00:10:47] It is almost like you can't help, but make money in those, in that. And that range. And for some people that, that might seem completely outrageous because on the S and P when you're up in that range, you can have an expected move. As much as 50 points, 50 points can be relatively significant that in a market like this, that could be one and a quarter percent, one and a half percent, which is a significant move in the market for most people.

[00:11:17] That is a very difficult market. But as an option seller where we can isolate price and then expose the volatility as premium, that is the ideal market. Once we start getting above that 34 level things, start getting chaotic again and a little bit out of hand and a little bit chancy, but to tell you the truth, I would prefer it to be at the high end, outside of the Goldilocks zone.

[00:11:51] Then at the low end below the Goldilocks zone below, there is nothing. There is death. It's anemic. Low blood pressure to the point where you're just not getting any signal. It is virtually impossible to trade that not impossible, but very close to impossible. At least when you're in the upper ends of the zone.

[00:12:20] And you've spiked because of some story or problem in the market or crash or whatever it is. They are short-lived and they tend to spike and then retract. And that retraction is actually very beneficial to the option seller. We call that Vega negative feta positive. That is when premium has expanded.

[00:12:54] Or has become overpriced and we're able to sell it at this overprice level with almost a certainty that we're not going to maintain that level, or very rarely do you maintain it. You usually spike and then come down in a stair step fashion when it comes down. That's when the volatility starts contracting.

[00:13:17] And if you've sold it, that contract. Is acquainted to the premium flowing into your account. So ideally the best situation would be a market that is trending up normally, and then a quick, but abrupt pull back that causes volatility to spike, enter the trade there, purchase or sell premium at that at the bottom of that pullback.

[00:13:46] And then continue its way. In the previous trend and when that happens, the volatility contracts, that is the ideal situation, but there are other situations that work just as well, any kind of volatility or sustained volatility can sometimes work and it's, and it really doesn't have to be super elevated.

[00:14:09] It's relative volatility from where you start to where you go and where you end up. And I don't know if that makes sense, but that's generally what we're dealing with most of the time. Let's see, we have a question here.

[00:14:23] Lance says I'm shocked that so many people don't realize this about volatility. John says, I noticed on some days that the market drops after there has been a pre-market pop, is there any science to this, or just coincidence your thoughts? The market drops after a pre-market pop. Well, when you say a pre-market pop, you're living in the world of the U S market.

[00:14:52] You must remember that the market is continuous. That, although there's the cash market during the Eastern time between nine 30 and four o'clock, there's a continuous worldwide market. That's going all the time. And in fact, our S and P we have, that's what we have futures for us so that we can play that market all the way through.

[00:15:12] And that pre-market pop is nothing more than another market or another predominant market that where something is happening there. Now it is less consequence to us, us traders, because the size of those markets, namely, that market that I'm talking about is the European market is much smaller and has less impact.

[00:15:34] However, there are still many of the same international concerns that overlap the European market in the American market and then the European market is still open when the American market is open until 11 o'clock in the morning. Is there some science, there is no science.

[00:15:53] That's going to tell you that when you have a pre-market pop, that somehow there is going to then be a drop right after the open, that there's nothing. There is nothing endemic. There is nothing statistical that will say that a pre-market pop will precede a post-market drop.

[00:16:14] In fact, sometimes it may continue. In fact, considering the fact that.

[00:16:20] As I said, the futures are open through that entire time. The same futures contract, the S and P is open prior to the cash market open. And it repre is still representing all the same major concerns that are in that are part of the U S market. They are international concerns, and they are effective across the globe.

[00:16:44] So just because we have that time. At 9:30, when we transition into the U S market, all where all that really is, is just opening the flood gate for several traders that do not have the ability to trade prior to that timeframe.

[00:17:01] So that really has, if there is a drop after that, there's nothing specific about those markets opening that would cause that drop or be statistical to the point where you could say that there's a sea change or anything. It's all continuous. It's just the players that you allow into the game at that time. Now, one could say that there, there are some that are bent to fade a move in the market. So, if we open the market, the cash.

[00:17:35] And the previous close was lower. So we open up and we gap open. There are some people that have the idea or the notion that there is some statistical evidence behind fading, a gap, or the idea that a gap must be filled. In other words, once we gap up, we must come back down and fill up that gap. Now the gap is only in there.

[00:18:03] And their world of a cash market that has a limited window, that gap doesn't exist in the futures market. It's a continuous thing. So, for them, there, there might be some validity to that. It's big. It's the parable of the man in the cage. That sees a shadow from a light from behind him, but he can have a look behind him.

[00:18:24] So he only sees the shadow cast in front of him. And he must discern what the world is like by looking at that shadow. It's the same way for people who are in the U S cash market, they do not see or understand the other markets that are overlapping or happen before or after. And that, and they don't see that continuity.

[00:18:45] They see nothing but gap and to them. Has meaning they don't know what it is? It's just the shadow from the light behind them.

[00:18:54] So Vega negative, feta positive. What that means is that's describing the characteristic of the strategies that we put on. So, Vega is a. As a measure it's think of Vega and theta and Delta and gamma as being controls or dashboard signals that will allow you to look at the nature of the behavior.

[00:19:24] So think about these Greeks, they are nothing more than a peer into a way to describe how an options contract is behaving. And that's what they call the Greeks Vega is a measure of volatility and how it affects the price of an options contract based on the change in voluntary.

[00:19:51] And of course, feta is also a measure of the flow of that premium or the decay, the rate of decay in that options contract based on the underlying price movement. Right? So, to say something is vague, a negative is saying that an options contract benefits when volatility is country. If it were V Vega positive, that means it would benefit or it would increase the value of that option if volatility was increasing.

[00:20:24] And then also for theta positive, that would mean that the underlying contract would benefit when feta was increasing. That's really what those terms mean. They are nothing more than a dashboard signals that are looking at how an options contract is behaving, and Delta, being the change in price up and down and gamma being the rate of change of price up and down.

[00:20:51] So all these things are, like I said, nothing more than dashboard signals for us to look at. I understand the nature of how one contract might behave versus another. So, when we, what we use our premium collection contracts or strategies, which is a collection of different options calls and puts both long and short that give us a certain characteristic and that characteristic is designed to help us collect.

[00:21:22] We sell premium. We want to sell it when it's inflated or overpriced. And then as it contracts, then that is the income that we make. That is the result. That's how we realize our profit when your contracts. And so, what we really want then is we want a way we want volatility to increase, to inflate the premium.

[00:21:44] We sell it. And then we want volatility to decrease Vega negative. And the rate at which that premium decay is the feta. We want that to be positive. We want it to be that rate to increase. So, both of those things happen when on a pullback, after Vega is high, and then we start, then price starts going up.

[00:22:11] Volatility tends to drop, and Theta tends to increase as we get closer and closer. To the expiration of that contract. So, Theta is more time-related, it's the time left for that option to expire. And then as we get closer and closer to that time, feta starts increasing. So that's why zero DTE is so important.

[00:22:34] We are at that very last day of expiration. Where we make most of our money through feta as we approach that exploration because the premium is decaying at an ever-exponential rate, and we want Vega to be negative. We want that premium and that's there to decay even faster through the process of volatility decreasing.

[00:23:01] So that's what Vega negative feta positive means.

[00:23:05] So that's what we do. We are Vega negative, feta, positive wanks, we're waiting for the right situation where we can sell overpriced things and then buy them back when they're underpriced or after they've shrunk. And we use the last day of expiration will increase our probability of that very thing happening.

[00:23:37] And that is really the underlying basis behind the zero DTE trade. So, zero DTE, meaning zero days to expiration the last day of expiration. When all these things, this condition Vega, negative state of positive happy. And happens at an ever-increasing rate. The closer you get to that expiration. Now, our job is to make sure that price and our strategy are aligned with this.

[00:24:06] This event is Vega negative feta positive event. And we do that by simply analyzing the market where we think price is going to go and how it may behave. As it's going there by looking at the market structure and then placing and modeling that idea with a premium collection strategy, using options over that market structure, giving us the best opportunity for price to be in that area when, or as the contract expires and goes into the very waning moments of that, of its life.

[00:24:47] At the end of expiration, three times a week, Monday, Wednesday, and Friday. So, it's a powerful strategy. A lot of things are in our favor, including this time. Constant time is constant., time is going to come to an end, relative to, or in the viewpoint of an options contract at the end of the market at the end of the market time at 4:00 PM every Monday, Wednesday, and Friday.

[00:25:14] This week, by the way, we have an extra zero DTE day that is brought over from last week because we had the holiday Thursday and Friday shortened day on no trading on Thursday and shortened day on Friday. So, where we would normally have the zero DTE on Friday. And sometimes when we have a holiday on Friday, we move it to Thursday.

[00:25:37] But in this case we couldn't because it's Thanksgiving and Thanksgiving is always on Thursday. So, what they do is they take that zero DTE and they push it to the next week on Tuesday. So, this week is one of the only weeks. This may also happen during Christmas sometimes too. It was one of the only weeks where we have four, zero DTE events.

[00:25:58] We have one today, Tuesday, Wednesday, and then Friday.

[00:26:01] So it's a very special week for us. One of the problems though, with. Four zero D T E events. You may think. Well learning. How could that possibly be a problem? You have four chances to make money instead of three or two, like last week. And the answer is that overtrading the beauty of the Xero DTE trade.

[00:26:26] And having it only on Monday, Wednesday and Friday, is that it provides a natural cadence where we can get all amps. And concentrated on that one day where we have that zero DTE event. And then we have a day of rest where we can recharge. And it's meditative get back into the right frame of mind so that we can look at the next day, with fresh eyes.

[00:26:48] When we have consecutive days like this, it doesn't allow us to do that. And I would expect that in the long run, if we had many of these consecutive days, that we, our performance would not be. And in fact, I think that this is one of the principal failings of people who day trade that want to trade every day when they trade every day without having a natural cadence to their trading, without the ability to reflect or retrospect what they are doing.

[00:27:19] They, if they get into a tilt situation or a bad situation or bad choices, they tend to spill over to the next day and then amplify. And then they get into a constant spiraling down spiral into hell. And so having that natural cadence, I think is one of the real benefits of zero DTE. And this week it's going to be a little different, but because we're, I think already well attuned to.

[00:27:47] And it's only one time out of many. And we had an extra-long break last week. I think that we should handle it with no problem. It's not like day traders that are doing this every single week and quite frankly, day traders besides the fact that they don't have that natural cadence. And also, because they are using technology or analytical methods that really have no relevance and no statistical edge.

[00:28:14] They're at a great disadvantage. And it's probably one of the reasons why day traders that are using TA and Fibonacci and price action generally are failures. 95% of them are failures. This natural cadence that we have this effort, and then rest effort than rest effort than rest as far as superior.

[00:28:37] Besides the fact that we're working with actual edges known edge. Like the overstatement of volatility, which is a known thing and a measurable thing.

[00:28:49] So anyways, that is what we do.

[00:28:52] So we had another great, zero DTE day today. It was a probably, somewhere between a 200 and 400% day, depending on when you got in, when you get out, how you managed your profit. Some people may have done better. Some may have done worse, all in all, it was a good zero DTE day. Very low stress, very typical of zero DTE, low stress, easy going.

[00:29:19] Small risk, a very large profit potential, and now the market is pulling back. We're good with that. We have a longer-term trade where that pullback will benefit as well. So, there you go. Another zero DTE day in the bag. Now, if you'd like to try it. The 0-DTE service go to 0-dte.com/try that's T R Y.

[00:29:52] And you'll get a four-week trial after that four-week trial. If you decide to come on, we will rebate the entire cost of that trial. And you may be asking, why do you charge for your trial? Because during that trial, the price, first, for the trial is insignificant compared to what you're going to.

[00:30:11] And potentially what you're going to make, which often is enough to pay for multiple years of the service, but you're going to get an intensive education in that four week. And then once you've decided that you want to continue which most people do, I will rebate the cost of that trial.

[00:30:30] So the worst that's going to happen when you take our trial is that you are going to get a fantastic education and infused with a strategy that you'll be able to use for the rest of your life now, like everything else, the reason why you would become a member is because you're going to have only half the truth, right. You're going to be half practiced and it's like learning chess. You can learn all the.

[00:30:57] All of the moves and some may be some of the basic Oak opens and that sort of thing, nothing of the expanded open or position or the middle or the end game. And then that's why you choose to hang out with us and that's the real benefit. All right. That's all I've got to say. I want to thank you everybody for showing up here.

[00:31:21] Thank you for the questions. Really appreciate it. And there will be a, another zero DTE podcast tomorrow and Wednesday. Normally it's Monday, Wednesday, and Friday, but I vow to do a podcast after every zero DTE day and as to the Corona virus, variant they're moronic variant, bring it on

[00:31:46] peace to everybody.

[00:31:48] All right. We need the off button there. It is in stream.