Something from Nothing

[00:00:00] Okay. 3, 2, 1 we're live eight brands like you doing or any here. And this is the 0-DTE podcast. Episode number 57, 57 episodes. Doing about three a week casually two a week. Depends on what happens, but I try to do three a week for every single 0DTE opportunity there is. And today is one of those opportunities.

[00:00:34] Today is Wednesday. We have three opportunities every week, Monday, Wednesday, Friday, where options on the S and P you gotta turn this off here. Options on the SMP. There we go. Whether it's the E-mini futures contract or the SPX index, they expire three times a week. What is this? What is this you say? It's incredible.

[00:01:07] I thought weekly options expired once a week and then monthly once a month. That is. However, these are special options that expire three times a week because they're there to serve us. And one of the great things about trading options, one of the things, depending on what side of the fence that you lie or stand, and that is options, expiration and premium decay.

[00:01:37] Most people that are trading options are trading them long and they fear, they literally fear premium decay because it is constantly something that they must fight against. The premium is decaying. The long option is getting weaker and weaker, and they're hoping that it will go in the right direction, and it must outrun the premium decay.

[00:02:02] That is what most people would. And consequently, most people are not taking advantage of that opposite side of the coin, the edge, and they're losing money. The sellers of options. On the other hand, have the other side of the coin or what you would say the reverse as opposed to the averse little numismatic lingo there.

[00:02:28] And they are selling that premium. So that premium, that is decaying or going away from the long option holders. Where do you think it goes? It just doesn't go into the big bucket. No, it's going into someone else who is selling that same option and that's what we do. We sell options premium on that last day of expiration.

[00:02:54] Three times a week, because there is an incredible edge because option premium is decaying at an ever-exponential rate faster and faster until you get to the end of the day where it's all gone. Or in other words, it's all in our pocket. If we're selling it, that's a wonderful thing. Now we get three chances to do this every week.

[00:03:18] Now we have a particular set of strategies. Designed to maximize our ability to collect that premium and the number one strategy that we use, or the family of strategies, because there's more than just one basic of this type is the butterfly. Now the butterfly, as most people know it, that are in the long side of the world, they think that the butterfly is a market neutral.

[00:03:51] How often do you find that the market is neutral? Not very often today might be one of those days where the market is worth going sideways. And one might argue that the market is neutral today, or is it sure it's going sideways? Had you placed your butterfly at the open today? You probably would have stopped out sometime during the day, based on most people's idea of an option of a butterfly strategy where they place their trade at the money.

[00:04:31] Right on the center strikes on a symmetrical butterfly. It's like a triangle, right?

[00:04:37] Because they place it at the money, they're taking on a fair amount of risk. Now they do the same thing with it's the same, really the same strategy. When you're talking about an iron condor, the differences that the iron condor takes, the two spreads and spreads them out. So, it doesn't come to an apex, but it's the same day.

[00:04:58] Only with the butterfly. There's even less chance of those people that are trading at the money of ending up in profit because the gamma risk is huge. What the gamma risk means is that is the. Of the profit and lost curve at the time they enter the trade, it's not flat, but it is circular, or dome shaped.

[00:05:19] And eventually it's going to fill up that triangle of the butterfly and fill it up until it gets to expiration where it fills it up completely when they first get into it. That dome is steep because of where they are entering that trade. It's giving them a very large risk to reward. And then the dome that they're sitting on top of that is the gamma or the steepness of that dome pays, or exacts a particular stress on most options, traders that are trying to trade this butterfly.

[00:05:57] And that is because if price moves up or down, it falls off the edge of that. That is the deceleration of, and that's the gamma risk that they fall into. And it's real. What can happen is they can get into the trade price moves just a little bit. And they hugely out of the art in the negative. They have, unrealized losses and it may get to a point where they say hey, I've had enough of this.

[00:06:26] I don't know if price is going to come back to my sweet spot, which is right at the short strike. So, they'll stop out or they just hope that they're going to end up somewhere in the middle. That is the game that most zero DTE traders play. Now, most traders do not use the butterfly they'll use the iron condor because it's unlike a butterfly where it comes to an apex it's spread out.

[00:06:51] It's a circus tent. Wide with the walls are spread apart and they have a much wider range where they can be right. The difference between this and the butterfly is that their potential profit is much smaller. However, the gamma risk is still very similar.

[00:07:10] So that's the game that most people that are doing zero E play it's really. An anxious game. It is a tough way to trade yet. Somehow people have made this popular and they'll tell you that, oh, it's a strategy that we can extract income from on a regular basis, which is all BS. Quite frankly. Now what we do is something very different.

[00:07:33] We never play these strategies as market neutral strategies. We have found a way to trade them in a way that they are directional strategies. And even better than that, unlike a vertical where it must move in your direction for you to win our strategy does not have to do that. It does not have to move directly into our, it can stay the same.

[00:08:03] It can move somewhat towards our direction or can even move away from our direction to some degree. And we still. Tremendously. And when I say tremendous, that is because when we place our strategy, when we place the butterfly, we always place it out of the money. So, it's far away from the current price.

[00:08:24] And by doing that now how far we place it, that is a matter of our art, our strategy and where we place it. Also, again, part of our art and strategy and discretionary stress. But where we place that we place it far enough so that the risk gets reduced dramatically because of that gamma risk, that curve we're not sitting on the top of it, we're sitting on the edge of it.

[00:08:49] So the risk gets squeezed. And so now instead of a lopsided risk to reward where most of their, a DTE traders are trading, where it. Five to one or 10 to one or 15 to one. Ours is the exact inverse of that. Our risk is one to five, one to 10, a one to 15, one part risk to 15 parts reward. Now, are we trying to get into that those center strikes or what you would call a pin trade?

[00:09:23] Is that our goal? Now we would like. It happens about 10 or 15% of the time where we get close enough to that, where we can ride that strategy almost all the way through to expiration and get tremendous profits realizing almost that entire 15 times or 1500% return. But most of the time it gets somewhere between where we start in that center strike, or even beyond, that's where the game is played.

[00:09:51] That's where we can realize. On average, about 150 200% return on our risk with virtually no anxiety about where our position is between the time we take the trade and the time where we exit that's because our risk is always extremely small. Now, what I'm here to talk about today is another aspect of this stress.

[00:10:19] The title of this episode is something from nothing. There's something from nothing strategy. Every time I say that I'm thinking of that old Dire Straits MTV song, Money for Nothing and chicks are free.

[00:10:37] That is what we're playing here. We can place this strategy out of the. And then the price can go exactly opposite our direction. Now, in most cases we say, oh gosh, we missed it again. But we only had that small amount of risk we're out of that risk. Let's play another day. We could do that, but we don't what we say is, oh, we still have those short strikes.

[00:11:07] And if you watch their value, they've achieved maximum value. Once the price has moved away from us far enough, why not take them off? They're in profit. Let's take them off. Sure. It still will show us at a negative gain or negative realized or unrealized at that point or unrealized profit. However, now we have secure.

[00:11:34] That entire amount that had, that could have been gained from the short strikes. What does that bias? In a neutral market price still moves, but it's moving a small amount. It's moving back and forth. And so, it may move towards our original goal. Getting close to the butterfly where we can realize a profit, either outside of the profit tent or even inside of the.

[00:12:02] But now we've taken away those short strikes. So, we don't have the benefit of that premium decay in that rising profit line. However, we still have premium decay that can work in our favor in the short strikes, because they will be active long enough that if price after we've removed the short strikes, which is offsetting the gains that you would make from those long strikes.

[00:12:31] After we've removed the short strikes and they've achieved their maximum profit. They can no longer balance off the short strikes as price, maybe oscillates back down towards our direction, even if it doesn't even come close to where we originally wanted to go, because now we've already realized that entire short strike value.

[00:12:55] And now we have two long strikes. That have unlimited profit potential. And so, if price just moves down a little bit, we can profit from them as well. And it doesn't really have to go down very far for us to profit dramatically. And that's exactly what happened with us today. And, you know what I'm going to do.

[00:13:15] I'm going to demonstrate this, and we'll turn on the iPad. There's the iPad. And we'll draw, we'll start by drawing the profit chart.

[00:13:29] So here's profit and loss and here's price. So, let's say that right here is at the money.

[00:13:42] Let's call it the strategy. And now we put on, a butterfly that's out of the money. Let's put the center strike right there.

[00:13:51] So when we do that, we have a profit curve prior to exploration, and you've seen this on think or swim that will look like this.

[00:14:05] All right. And then over time that profit curve will start growing like this until we finally get to expiration where it fills up the butterfly. Yeah. In a day, like today, price went like this and let's see, we'll use a different color for price. We use red.

[00:14:28] So price when I started here and started to go towards our butterfly and we were happy, but it never reached there because then it reversed like this way to the right. Up here until our butterfly now was completely out of the money and the short strikes, which are right here in the middle, became worthless.

[00:14:55] So this profit line came down to zero. So when price was right about here, way to the right of where we originally started, those short strikes have achieved all their value.

[00:15:09] If I didn't have the puts on there, that would be a successful trade. Those short strikes would've made plenty of money. They're short puts. So why not take them off? We took them off. And what you're left with after you've taken them off.

[00:15:24] I'll make a new one here, again, profit loss price, after we've taken the short strikes or the butterfly off, we're left with two long puts.

[00:15:37] So now where the butterfly was right here, like this, we are now left with two long puts that essentially give you something like that.

[00:15:49] All right. And we're sitting here right about here and the profit curve. Now it looks like this.

[00:15:57] So now after we've taken the short strikes off, they can no longer affect the strategy. They won't do what the butterfly would do. And that is diminish the value of the long strikes. Now when price moves back down here, as it tends to do or oscillates.

[00:16:17] When price comes down like this, we now have an unrealized profit in those short strikes. Now price could in an oscillating market or neutral market. It's probably going to keep on going back and forth. Which it is today. That's exactly what it's doing.

[00:16:33] Every time it comes back down towards where the butterfly used to be. It's juicing up those puts. And so, we can take them off. First, we'll take off the one closest to us, cause it's the most valuable. And then the other one, which is the least valuable. We'll wait to see if later in the day we get a stronger move down here where we can take that one off as well.

[00:16:58] Now, I know a lot of you are hearing me on a podcast and you can't see this visual. So, what I would suggest is that you go to the YouTube channel in the description below and check out the video. But what we've done here now is we've taken a strategy that looked like it had no chance of profiting, took away the short strikes and exposed the long strikes.

[00:17:28] In the event the market would move back down. As markets in neutral markets tend to do, they tend to go up and down, but settle back where they started so that when it moved back down towards where the butterfly used to be. It will then activate the long puts, thereby giving us profit. And in fact, in this strategy today made as much as 300% without ever coming close to where the original butterfly was placed. Remarkable. And that's why the strategy is called what it's called something from nothing, because that's what we did.

[00:18:09] We extracted something from nothing had we done nothing, and we just left the butterfly on as it was the chances of us profiting would have been quite small. Let's see it. We'll go. Here. Here's the original butterfly. This profit curve would continue to fill up the profit tent of the butterfly and move further and further away from us at a relatively rapid rate, unlike the puts, which wouldn't because they were much closer to us.

[00:18:47] So we would still have the benefit of the. Of the premium that was left in those puts to ride them, even though we're not going to reach the original location of the butterfly. So again, that's the something from nothing strategy using an out of the money, butterfly price moves against you. You realize the short strikes in it because.

[00:19:14] They no good to you anymore. Might as well take that profit off. And that exposes the remaining longs if price would reverse or even just oscillate back and forth. If it oscillates towards where the original butterfly was that activates those long strikes, and then there's profit that you can gain in that, move, that reciprocating move.

[00:19:39] And then you can realize that profit for an overall win. There you go something from nothing. We always like something from nothing, but you must work for it. So, it's not really from nothing. It was it’s from nothing. If you did nothing, if you did nothing. Yes, you would get nothing. But when you have nothing and you do something, then you get something.

[00:20:02] So something, plus nothing equals something. Hope that logic works for you.

[00:20:07] That's my episode for today. I hope you liked it. If it made sense to you, please give this video a thumbs up. If you're on the podcast, give this episode five stars really appreciate it. And if you'd like to try out our service, the zero dash DTE service, then go to 0-dte.com/try. It's a four-week trial during that four-week trial, you're going to get an education like you had never before, even if you're a novice to options trading, I will turn you into an options expert.

[00:20:51] Hopefully, but it's not that hard. Really? Again, that 0-dte.com/try. I want to thank you very much for showing up here. It's been another successful zero DTE day. Monday was fantastic. 500% return today. Fantastic. Something out of nothing about a 200, 300% return and Friday who knows what Friday holds, but it doesn't matter because we've already made our weekly profit for sure.

[00:21:25] But Friday, I'm looking forward to that for another operative. To attack those three opportunities a week that zero DTE opportunity, the zero dash DTE opportunity. Never forget that dash because there is another service out there that doesn't have that dash. And I guarantee you they're doing it the other way, the painful way.

[00:21:51] That's the way they do it. They do it the painful way where they're using huge risk to grab very tiny return.

[00:22:00] And it's a losing strategy for sure. All right. Thank you very much. Peace to you. We'll see you next time.

[00:22:08] Okay. I always, this always happens. The windows get clogged up. I can't find the off button got to move that there it is. And the stream.