Insane Profit with High Volatility

[00:00:00] How you doing friends Ernie here?

[00:00:01] This is the zero-dte.com or just zero dash DTE podcasts. The zero days to expiration podcast found on iTunes. Spotify, Amazon, I Heart lots of other places. And of course, we stream live on YouTube. This is completely unscripted, and we are here today. That's right. We are here today to talk about, this concept of high volatility trading with zero DDT.

[00:00:40] Now in general, high volatility trading for most people, especially for a day trader, is a difficult thing to master. As a day trader who's, maybe using technical analysis, it's virtually a landmine. However, when you're selling premium, we dream for days like day, we dream for that overpriced premium so that we can sell it and collect on it.

[00:01:10] However, there are some trades that you put on. There are some positions that you create, that can be quite a bit or a little bit tenuous only because the PNL for your trade during the mid-part of the day, while you're approaching expiration can be a little bit confused. Particularly when you're putting on a trade that is negative Vega or Vega negative and positive feta, meaning that it performs better, or the trade behaves the way you expect it to behave.

[00:01:43] When volatility is decreasing. Now volatility decreasing is a relative term. It must start somewhere and then go down for. Act the way you were expected to act when volatility is coming down, the amount of premium that you're collecting per minute is increasing, or the rate of premium collection is increasing.

[00:02:07] So that's all a good thing.

[00:02:13] This, during a day, you've got all these gyrations, the market's going up, it's going down. It's in a high volatility situation. The expected move is huge. You've got to expect a lot of back and forth, a lot of noise. And during that time, you're, let's say that you have a. And which is what we generally trade.

[00:02:34] And we trade all different types of butterflies. We trade the symmetrical butterflies, which most people are familiar with. We trade the broken fly or broken wing butterfly where you have uneven legs, and that gives you different risk parameters. On one side of the butterfly versus another, we trade the unbalanced butterfly, which is essentially a broken wing butterfly with a credit.

[00:02:57] Lapped right on top of it that shares the same short strikes as the underlying butterfly. And that can provide all other types of risk adjustment. Let's say. And maybe a little bit more juice, a little bit more credit for you to collect. Now, all these things have their place based on the trade, the market profile, the market structure, the day, what's happening that day, the catalyst that may have been involved, is it a bullish or bearish day?

[00:03:29] All of these are situations that we evaluate and then put on a butterfly. One of these three types of butterflies with the proper risk adjustment on one side or the other, depending on where market started and where we expect it to go to give us what we believe is the best opportunity to profit. Now, most people will be looking at that butterfly and thinking that, oh wow, butterfly, that's a really low risk situation.

[00:03:54] You're going for that. Pinned trade, which means that you want the trade to end right on the short strikes, which is a very low probability occurrence. It only happens maybe 10 or 15% of the time. And I would say to them, no, no, that is not our goal here. That is just not our goal.

[00:04:13] We're not trying to pin every trade. It would be nice. We pinned every trade. And in fact, when we have what I would call high volatility, Market's a high volatility situation. We tend to pin trades way more often than when we have low volatility, which almost doesn't make sense. You would think, higher volatility, the Mo the market's moving back and forth much with much greater, veracity and in speed and breath.

[00:04:40] How can you hit the pin trade more often? That's a good question, but if that seems to be what happens in any event, while you're. While you're, in the trade. Let me get back to why we put on the butterfly. We put on the butterfly because it gives us this very flat P and L curve that grows in such a way that favors us.

[00:05:05] If we treat the butterfly as a directional trade. So, we put the butterfly way out of the money that gives us a great risk to reward profile. And so then. Price just moves towards the butterfly. Even if it doesn't enter the tent, the prophet tent of the butterfly. See, we're not really looking at the butterfly.

[00:05:26] What it's going to be at expiration. All we really care about is that profit and loss line that T zero profit, that T zero means what the profit is right now, and then how that profit curve will grow over time, going into expiration. That's what we really care about. And we can use the various shapes that you can.

[00:05:50] That you can fathom by creating these different types of butterflies, the symmetrical, the broken wing, or the unbalanced, and you can create these various shapes and you can start off with a credit. You can start off with a debit. You can have the near side risks, small in the far side, whereas big or vice versa, whatever you want.

[00:06:10] And if you put it far enough out of the money, you can create this great risk to reward profile, where you have a very small amount of risk to huge, huge, potential profit. But that is not our goal. Our goal is still just to try to create a good profit and we don't care if it doesn't end. The prophet tent of the butterfly.

[00:06:31] All we care about is that we get a positive effect, and we get the kind of profit that we hope to receive based on the risk that we take. That's what we're after. And on average, we're returning anywhere from 150 200. Return on the risk that we take, which is remarkable. I mean that, that's our average with many trades though, ending up with 300, 500, a thousand percent return.

[00:07:00] Now, when I say many, I mean, an inordinate amount compared to what most people are doing, where we're going for that meat, where about 68% of the time, we're going to get that, 200% return. And then a smaller portion of the time. We'll get lucky and we'll get that huge return. Now I think that is going to be the case today.

[00:07:25] Today we are in just such a situation where we are going to, it appears at least from now with about, an hour and a half left in the market that we're going to experience a huge return. However, if we get out right now, We will still get a very large return. When I say large, I'm saying, hey, we can get out with a hundred percent, 200% return right now.

[00:07:48] If we left the market right at this very moment, that's what we would return. But if we just wait just for a little while longer,

[00:07:59] then we can perhaps get 3, 5, 10 times the return that we can get right now. So, is it worth the wait? Is it? If the price starts challenging the far side risk, which could be substantial.

[00:08:18] That's a good question. I think it is right here because I, I believe at least looking at the market profile, the market structure, the volume profile, it appears that we have a very good situation. We have a lot of support under, underneath. And what I mean by support is that we're on the edge of a very large volume node.

[00:08:39] There's very large volume well below us, when you have a situation like that, you know that there are a lot of traders out there with orders willing to protect that edge because that's where they found substantial value over the past several trading days, the several last or past weeks. They're there to defend that area.

[00:09:00] So I feel comfortable that we're going to stay above that volume well, which puts us right smack dab in the middle of this prophet tent of the butterfly, giving us a very high likelihood that we will come close to that pin trade. Those short strikes, where we received the maximum amount of.

[00:09:22] That's ideal. Those are the dreams, but we don't go for that every day. If we went for that every day, we would be losers most of the time. So however, we set it up in such a way that gives us a potential for doing that. What we're really setting up, as I said earlier, is the potential to get that meaty trade, that meat of the matter, that 150 to 200%, which is low hanging fruit.

[00:09:46] That's what we're really going on. Now, one of the problems though, with this type of trade, is that if the market moved more than you expected earlier on in the day, and then went to the middle of that profit tent, the actual PNL may start dropping off dramatically towards the far side of the trade, which has the larger risk profile.

[00:10:09] And so you're looking at this trade and you say, man, I'm right in the middle of the prophet tent yet. I just have a tiny little bit of profit, or I might even be flat or even a little negative. And then if I go too far, I'm going to be underwater, and it looks like I should be profiting what's going on here or any.

[00:10:26] And then the next moment, suddenly. Volatility maybe takes a little backseat, maybe price inches up just a bit. And all of a sudden, you've got tons of profits. You are wondering, oh my God. Now I'm in tons of profit. You get sick schizophrenia. Although this is a very high-quality problem to have that you're sitting there wondering if you're going to make a little profit, are you going to make a lot of profit?

[00:10:48] You're going to make a little loss, what's going to happen. So, the thing is that the market is constantly pricing. What it believes is the move for the end of the day. And you have all these competing forces pricing for that. And then sometimes because of that volatility, that profit curve becomes unsafe.

[00:11:12] And it will move way down or move way up, and it will just send you a tizzy wondering, my God, what is going on? And the truth of the matter is that it is reflecting the reality that there is a good chance that you could go to the extreme, large profit or large risk zone. There is that possibility, but there's also the possibility that you could get that.

[00:11:35] That is what the market is telling you that you're sitting right on the edge of. Annihilation or Nirvana. It's never really like that because we never really take enough risk to make it an isolation. However, it may feel like that while you're in the trade because everybody wants to win. Right. And we all want to win big.

[00:11:56] And when we see those big trades coming our way, we want to be there and we get disappointed. If it just slips away from. Right now, it doesn't look like that's happening in this particular trade. We're pulling back into what we might call a safe zone on the safe side of the butterfly.

[00:12:14] The time is sticking away. Now it's 2 45. There is only an hour and 15 minutes left before this market ends. And if it ends here this trade. Let's see. It would be. Yeah, it would be very close to about an 800% winner for me. Everybody has a different place where they got into the trade or whatever, I'm sure that everyone would love to see that happen.

[00:12:39] And this market would have to drop at least 30 points from. 30 points in an hour and 15 minutes is very doable by the way, and particularly in a volatile market, but from where we started, we've already dropped well over. What was the expected move now? Does that mean we could drop further? I guess what you could say is, when we chose that expected move, then it was around 35 points, maybe a little higher, but that was from the beginning of the day.

[00:13:13] Right. And so expected move is a measure from where you are at that time zero. So, let's look at what the expected move is right now. Right now, the expected move is about a little under 20 points. So, there's about a two thirds probability that we're going to come in and, [00:13:34] Sorry. I am. My trading platform is frozen. So, what I need to do is force quit out of it and restart it. Never good to have a frozen trading platform. Let's see where is price? I'm safe. Okay.

[00:13:57] I just got one of those, spinning beach balls on my Mac and I'm running think or swim. And the trading platform was frozen. So, I didn't really know what I was looking at. So, I went over, and I looked at, trading view where prices and I'm good. So that's fine. So, I need to restart it and see that everything is cool.

[00:14:23] This is real life, man. This is real time. Podcasting and let's see let's type in

[00:14:38] the password and see where we are so that I can talk intelligently about where we are. Yeah. Happens occasionally. Now that goes to risk again, what do you do in a case like that? I would consider that part of a potential disaster. If you couldn't get to your trading platform, if it were the spinning ball or systems crash, what do you do?

[00:15:05] You should have backups and I do, I have backups, but I'm sitting here podcasting and I've got the thing in front of me. And I want this to work. I don't care about my backups, but I do have backups. I have a uninterruptible power supplies. I have second systems with the same platform on it.

[00:15:21] I have another computer over there that I could spin up very quickly. I know my broker's number. If I had to, I could call them. I could call up think or swim on my phone. I get the phone app, so I'm covered.

[00:15:35] So we need to go to this trade and see where we.

[00:15:54] Yeah, there we are where we're like we're right there where this is very close to a pin trade. So, the market is currently a little bit above 4,500 here on a Friday. There is a great deal of open interest, in the market, right at 4,500. So, I suspect that's probably where the market is going to end up.

[00:16:18] Generally you don't want to bring these things to expiration, especially if you're trading the futures. When you're trading the futures and you have in the money, legs to your position.

[00:16:29] You want to be able to get out of that because if you have anything in the money, there's the potential or you are going to get assigned. A futures contract and that may or may not be what you want to do in my case. It's not what I want to do. I just don't want to deal with it. So, you would have to exit that trade prior to expiration.

[00:16:53] That would basically shield you from getting assigned. Now these are European type assignments. That means that the only time that you can get assigned to a futures contract in an options trade when you're the short seller is at or after expiration. And if you're in the money, there is an absolute guarantee.

[00:17:12] You can just be in the money by one penny, you will get assigned that futures contract. So, the simple answer is to just simply. Exit the trade prior to expiration. Now there's the rub, you're getting down near the end here. Premium is growing super-fast, faster, and faster as we get to that end.

[00:17:30] Every minute could mean the difference between collecting say a few hundred dollars or a few thousand dollars. I know that's crazy, isn't it? But that's the way it is very high-quality problem to have in zero DTS. We're sitting pretty here, but the market keeps on wanting to threaten the downside of this trade.

[00:17:53] And so generally what I do in a situation like this, I am not all hyped up about getting that pin trade. Now, if I had an, if I had equal risk on either side of the trade, I would probably let it go and see what happens. But when you have. An asymmetric risk. You have, I have a credit on one side and a substantial risk on the other, you don't want to necessarily take all those chances.

[00:18:23] So I'm going to probably take off part of this trade prior to just to take some of the risk off the table to realize some of that profit I've already made quite a bit. I am at least. Up 200% on my risk. That's where we're at now, earlier in the day, if we were in this exact same position, it would have shown perhaps no profit or even a little loss based on how the market is pricing.

[00:18:57] The strategy or the, those contracts at that time of the day with that amount of time left until expiration. But now as we get closer and closer in time and premium start kicking in, because this is a feta positive, although it's vague a negative. Where, and if volatility is then going against that's not a good thing, but it's also feta positive, which means that time is on our side.

[00:19:23] So volatility going up is against us, but time is with us. So, there's these competing factors. And so, while we're here waiting for a time to. Expire the situation or my ability to stay with the trade longer becomes easier and easier that profit line starts spreading out widening. And so, I have a greater range within my trade where I'm going to be profitable.

[00:19:54] Even if it gets outside of the profit tent, I can still be proud of. So, that's the interesting thing here. And it's really, I think the mistake that most people make when they're trading the butterfly, they think that the butterfly, everyone, when they're trading options, they're always thinking in terms of the price at exploration, but in most cases, you want to get out of a trade before expiration.

[00:20:19] Why bring something all the way to expiration when you don't have. So right now, we're a testing that the edge of that volume node again, right at about 4,500 today. And if we go back to that pricing, you'll see exactly what I'm talking about. We'll see how this day ends up, but right now everything looks good.

[00:20:40] Um, a lot of the members were asking me about this fluctuation of the P and L line. When it looks like you should be in profit, and it seems to be going against you. How do they do. How do they reason that what is happening? And that's really what it is, it's the time that you have from where you are until expiration there's time risk.

[00:21:05] And in that time risk, the market is pricing in what it thinks the risk for that trade is. And even though at expiration, it looks like that will be beautiful. I'd had expiration your before then, so that there's that risk involved. So, you're getting the reflection of what that risk might be.

[00:21:23] Now, as we get closer and closer to expiration, we're getting a different story. We're getting something that is easier to handle because even if we were to go outside of the expiration prophet tent, we could still be profitable. So, there we are. Okay. Hopefully that explains how to deal with a trade during high volatility times during high volatility.

[00:21:54] This is a benefit to the zero DTE trader. When we enter a trade, when volatility is elevated, we are taking advantage of one of the greatest edges ever in the history of trading. And that is overpriced bloated options. We get to sell them. We get to sell overpriced things and people are willing to buy them.

[00:22:20] Imagine if you owned. And you could overprice everything by 200% and people would just come to that market, and they would buy it all up. Wouldn't you be happy? Of course, you would. Well, that's how we feel too.

We get to sell things overpriced and as they approach expiration, that pricing starts writing itself.

[00:22:42] Right? So that's where we're at right now. It is writing itself and it is showing us the benefit, the way of Zara DTT. Let's see, are there, it looks like there's some comments

[00:22:59] w to the peanut gallery. Let's see what they have to say.

[00:23:06] Kevin, no, we had a lot of great trades this week. We had a longer-term trade that we put on that made unbelievable amounts of money. And that's what, Kevin Rutledge is saying. He says he hit 2700% this week. Can you imagine that? I, for one trade and I think he risked about 75 or a hundred dollars or something ridiculous like that.

[00:23:25] Chris says bulls and beers, having an all-out round house bar fight at 4,500. Yeah. And we get a front row seat, and we get to collect the door is that what they call it? When you go into a club, we're collecting the door, one worm army. I love that name is.

[00:23:47] OTM out of the money flies are going to take some time to understand I'm too vertical spread oriented. Yes. Yeah, that's the thing, the out of the money butterfly is perhaps one of the most flexible, most incredibly, lucrative trades that you could ever put on. Now, of course, putting it on in the right spot at the right time.

[00:24:13] It takes a bit of skill, and you must follow what our strategy is, but it is an incredibly flexible type of trade. It allows you to create incredible risks to reward opportunities, the asymmetric trade, and take advantage of very, novel, premium collection strategies. So. Just starting out. So, there's plenty of time.

[00:24:38] Let's see if I am this nervous, it's probably, I have too big of a position size since I couldn't figure out the best way to size the position for the credit type by, yeah. That's usually the case in any kind of trading, if you're nervous about a trade and you're worried about the risk that it could entail, then you probably are positioned to.

[00:24:59] Jacob is saying, noticing the VIX hit 35. When does it get too high? And can you explain how it impacts our trading? 35 is really the limit. And if we're up at 35, I would say it's probably a good time to exit this trade. 35. Is, it is really the limit. Our Goldilocks zone is between 17 and 34 is like what we used to say or what I like to say.

[00:25:23] At least from our experience, 35 is just starting to get to the point where it's getting a little bit chaotic. So, let's see. Let's, take part of this trade off and reduce the risk of let's just, hold on. Let's see what happens. The market is moving down right now. It looks like it's having a conniption as we go into the very latter parts of this day.

[00:26:01] Let's see if it rebounds at all. Now the cool thing here is that we're still in profit, even though we're moving down like this, we're flirting with the heavy side of risk on this trade. There's no doubt, but we're still in profit. Now we must see whether this volume node is going to hold.

[00:26:25] Now, there was, an employment situation report this morning and it was hard. It was horrible. Now, normally that would be bullish for the market because the market likes bad news, because that means that there is a higher likelihood that the fed is going to continue or push off their tapering program.

[00:26:46] But for whatever reason, I think the market now has digested that and thought that maybe this bad news is bad for the market. And for. And so, the market has fallen significantly. Let's see. We were at one point, let's see, we were as high as 46 0 6 and now we're at 44 95, 94. Wow.

[00:27:10] 110 points down from the high of today. That is an incredible move. Really incredible move. So, there we are. Let's see any more comments.

[00:27:23] Lance says already looking forward to Monday, let's see, Joshua says, what would you, what would be your object button on the trade or a dip below?

[00:27:41] I don't know. Look at it the trade right now, and if I get out, I'm in profit, if we go too much further down, then I'm going to start breaking even. And from there, I'm going to be wondering, I spent all day today watching this trade. It was in profit for most of the day and now I need to get out with, without a loss.

[00:28:02] That's probably where, what I'm looking at. If I am going to have to get out of this trade and I'm really the only thing I'm going to pay for the commissions, I feel okay with that. There were three opportunities every week and that's fine. If you're not going to profit that trade, that's fine.

[00:28:24] Then just put it aside and then go to the next trade. Now it's Friday, our next trade will be on Monday three opportunities at this every week. And with heightened a heightened volatility that gives us that edge that we're looking for, where we can sell overpriced premium. Now, see, just by waiting a little bit, the market picked up, we got a little boost in the market.

[00:28:48] Now it's pulling back and now the vega-negative aspect it's kicking in, the premium and the Theta positive is also kicking in at the same time. And now our trade is incredibly profitable, just in the matter of a few seconds, just a few points. It's an incredible, but yeah, the market pulled back.

[00:29:10] It hit a bottom, came back, were established. The bottom now is pulling up again. We only have. Less than an hour to go in this market. I expect volatility to start really, really ramping up the Theta positive. The time aspect is going to start kicking in right now that profit curve is going to start rising and rising and rising.

[00:29:32] And that's going to give me a great, a breadth of price movement that I can work with. So, waiting until this time, even though it's threatening on the heavy side of risk of this trade, I I'm still in a good shape here to profit tremendously. So, I feel good about. Unless the market decides to just totally tank here, then that would suck.

[00:29:59] All right. So there you go. This is an unusual, zero DTE trade for us. Most of our zero DTE trades. We're not on the edge of huge profits or potentially a loss and the loss by the way is only minuscule. There's plenty of time to get out of this trade with a no loss or just a couple of dollars of loss.

[00:30:20] So just losing out on the commissions, but by sticking right where it is right here at that 4,500 mark, where there seems to be a tremendous amount of open interest, there's the potential. At least from what I'm seeing here to make over a thousand percent interest with just 50 minutes left in this market.

[00:30:45] Every 10 minutes that I wait. My profit goes up by another a hundred percent. That's powerful. Usually, we're dealing on the other side of risk with these trades because we don't expect such a huge move like this. The move went almost three times what it had predicted at the beginning of the.

[00:31:05] Imagine that. So where three standard deviations? At least two, maybe two and a half standard deviations above what the expected move was. Now. You don't get that every day. So, by hanging on here and waiting for this to work out, we'll get paid off. And that's what it really comes down to. We are going to get paid.

[00:31:30] This is about as exciting as it ever gets. And it's a high-quality excitement here where we're not sitting here wondering if we're gonna, break the bank or whatever. Even the heavy side risk isn't really that big, that might cover last week's gains. For instance, however, if we stick it out and pin this trade, we may double last weeks gains.

[00:31:52] That's where we're at. So, I'm looking up, I'm just, okay. Probably should get off this podcast and start managing our profits. I want to take off at least one of the positions I must reduce my risk and reel in and realize some of those profits now. Alright, thank you very much for joining me.

[00:32:11] I hope everybody has a great weekend. Peace to you. If you would like to try out the zero dash DTE. Service go to 0-dte.com/try that's T R Y, 0-dte.com/try. You got a four-week trial. If you decide to go with the membership, after that, I will rebate the cost of the trial. Yeah, we tried for the trial because during that four week, you're going to get an education and you're going to be treated just like any other member of the service.

[00:32:44] And that means that there's going to be a tremendous amount of attention paid towards you. All right. And then if you decide to go with the service, I will rebate the cost of that trial, and then you can become a full-fledged member. All right, there we go. Again. Peace to everybody. Take care. We'll see you Monday.

[00:33:04] Have a great weekend.

[00:33:09] All right. Now I need to find that off. Can never find it. There it is in this.