

Ophir Gottlieb (00:06):

In this video, we will introduce the buy the sell off technical trigger First disclaimers. This is not a solicitation to buy or sell any security ever. This is not investment advice. The results here are provided for general information purposes. As a convenience to the viewers, the materials are not a substitute for obtaining professional advice from a qualified person, firm, or corporation. And a reminder, please note that the executions and other statistics on this video are hypothetical and do not reflect the impact if any of certain market factors such as liquidity and slippage. By the time you're done with this video, you'll see the exact technical settings that have shown a buy the sell off opportunity and how this signal compares to the baseline. In this presentation, we will also compare the new model versus the old buy the dip model, the old model, which is still effective end in production.

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We said buying a dip is only a good idea if the stock goes back up. Otherwise, it has a different name buying a losing stock. In that model, we were focused not so much on buying the dip, but when to buy the dip. In that model, we waited for the technicals to recover. Buy the sell off is the opposite. This is a speculation in the face of complete technical failure and extreme oversold conditions. This trigger does not wait for a stock to turn around. It is intentionally early, so what makes a good buy The sell off trigger, it would have certain characteristics. First, it would have a higher win rate than the baseline, and it will have one more often than it has lost. And second, the average return portrayed is greater than the baseline. There's no use in using extra analysis if the result is a strategy that doesn't even beat the baseline bullish strategy.

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Some quick definitions for RSI, we use the 14 day period. This is different than the prior models which used the 20 day RSI. We started with an idea in mega cap companies due to liquidity, there is no risk of failure and there are embedded institutional holders. When stocks get oversold, there is a natural bidder in place to pick up the pieces. This is at every step using historical data and trying to draw conclusions from the patterns in the past to extrapolate them into the future. This is a backtest. This is a hypothesis test. We start with an idea and we test it. The goal is to find a trading truth one way or the other. Either there is a combination that meets our criteria for a good buy, the sell off trigger or there is not. We enter with no bias and are happy to find either conclusion and here is the setup.

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We looked at one year, three year, five year, and 13 year returns. Further, we looked at 2007 to 2009 holistically. That is a bear market and the rip out of a bear market and in particular from September, 2007 to March, 2009, which was the great recession. For the record, these are the dates we used for the 13 year test. It's 13 and a quarter, and these are the dates for the five year, three year, one year tests. These are the dates we used for the great recession where the standard poors was down about 50%, and when we say 2007 to 2009, we mean all three years. Now. We review the study groups. Our end sample was a random sample of companies above 100 billion in market cap. Our two out of sample study groups included a random selection of companies above 100 billion in market cap that were not in the sample, and our second out of sample was a random selection of companies between 50 billion and 100 billion in market cap.

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After tens of thousands of back tests, we landed on two technical open settings for the first time ever, a technical close setting, one custom diagonal option strategy that is short near term options. This resulted in two closing rules, either the technical closes hit or the front month option expires, and here is the model, the technical open settings. The 14 day RSI falls below 25, which is an extreme oversold

condition. In most cases, A 14 day RSI below 30 is considered oversold. We went further for true technical failure. The second technical open setting is that the stock must be down on the day. The two closed settings are that the 14 day RSI gets above 40 or the front month option expires after thousands of back tests. We landed on one strategy long, a 50 delta or at the money call closest to 60 days from expiration short, a 20 delta or out of the money call closest to 30 days from expiration.

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This is a call spread and a calendar spread, which is called a diagonal. We note that because the technical entry waits for total technical failure, this means that the first day after the trigger may very well be down. This is unlike the by the DIP model, which waits for technical failure to reverse. This is a longer term strategy and an approach to a dipping stock since it initiates. As the technical conditions are worsening and in failure, only use such a trigger if you're comfortable with the risk. Now, we'll look at the returns and the win rates together first over our 13 year period, the baseline, which is just owning this diagonal and rolling it every 30 days, returned 7% over the last 13 years, such as the beauty of a bull market. The model, however, more than tripled those results. Further, the win rate over 13 years for the baseline was 51%.

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The win rate for the model and the technical open and close was 71% in the Great Recession. Simply owning this diagonal every 30 days lost 12% a month. The model, even during the Great Recession, returned 20% a month. This is the goal of the model to find liquid mega caps that even when they are in absolute technical failure in the middle of a bear market, the returns are still positive. During the great recession, the baseline model had a win rate of just 35%. The buy the sell off model had a win rate of 69%. From 2007, 2009, the baseline returned to just 1%, whereas the model returned 21 fold. The win rate from 2007 to 2009 for a baseline model is 46%. The buy the sell off model had a win rate of 66% over five years, three years, and one year. The model dominates the baseline.

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Similarly, over five years, three years in one year. The model dominates the baseline with regard to win rates. Remember, the goal of this model is to find robustness. We looked at the mega caps because of their liquidity and that even during a bear market have the ability to outperform and in fact deliver positive returns even as they fall into technical failure. In conclusion, these are the findings. We have an open trigger. The 14 day RSI dips below 25, while the stock price is down on the day and we have a closing trigger. The 14 day RSI goes above 40 or front month option expires. We can now turn to a few charts as examples. This is Amazon from July, 2018 through the end of 2019. It triggered twice in Amazon during this period. This was the first trigger to get in. This was the trigger to exit.

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This was the trigger to get in. This was the trigger to exit. Note that for both entries, the stocks were in a total technical failure. Now we can look at a chart for Netflix for 2019. In the last six months of that year. Here we find a trigger. As the stock has gapping down, it is in total technical failure, and note that the first two days of this trigger saw the stock go yet lower, yet it still showed a winner when the stock recovered. Similarly, here in late 2019, the trigger set off as the stock was collapsing with no evidence of a technical reversal. That's the goal, and the stock then rallied. We can see it for NVIDIA as well, both in the end of 2018 and in the middle of 2019. The model triggers as the stock is in total technical failure and then triggers a close when it has recovered. This happened twice in a two month period for nvidia. This also triggered in summer of 2019. This is another example of where the stock was collapsing and entry was triggered. The stock continued to fall until it finally turned around. Thanks for watching and happy trading.

