

Jason Hitchings [\(00:00\)](#):

Today is about the custom strategies and you can use a custom strategy to do any of these as well. But if you want to do something like a time spread or a broken wing butterfly, something like that, that's a little bit more involved, then the custom strategy is going to be the way to do it. Now that might feel like a lot or like a complicated topic when you're new to trade machine and that's completely understandable or not so much new to trade machine, partially new to trade machine, partially just if your options trading has been a little bit more focused on one or two legs and not creating complicated strategies or going across different time spans.

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That said, I think many people find as they trade options over time in order to be successful frequently, it does take both a combination of buying and selling options. It's hard to be successful if you're just buying naked options and hoping for the best. I'm sure it can be done, but you'll find that a lot of the strategies inside trade machine when you're just owning an option every day, it's counting against you. It's like time is running against you. And so by having more than one option, if you're both long and short options in the same strategy, then you can start to counteract some of those effects. You can counteract how time affects you. You can counteract how stock movement affects you. You can counteract how a movement of volatility, like if people's expectation of volatility in the future changes, then you can offset all of these things.

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You just have a lot more control. As a fear likes to say the only way to hedge an option is with an option. So I just started with the real basic example of just buying a call and I just want to show you starting very simply how to do the same thing with a custom strategy. So when I click custom, you're likely to find if you've been clicking around a trade machine for a while, quite a few custom strategies in here. And that's because when you open a custom strategy from a link, like for instance, this is a custom strategy that we'll go into a little bit later, it'll actually create the custom strategy in your own list of trades. And so you'll see quite a few there, but just for the sake of the example, if I'm going to add a new strategy, I can say basic call and you can just do the exact same thing with a custom strategy that is here, but then you can take it a lot further.

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So something like this, a 60 day 50 delta call in a MD would be same strategy that you're seeing that we just went over previously, but now this little label says custom. It's no longer using these deltas because I have my own custom delta set. So wouldn't matter what I put here when I'm using a custom strategy, it's using this delta and you can add up to four legs here. So looking back at this, that's just exactly what I did. This is the sort of basic call. This is a 40 delta instead of a 50 delta, but the same concept and I can just reconstruct any of the strategies that you're seeing in

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The normal sort of default trade machine through the custom strategy. You get the exact same results in both places. And as mentioned when there's a share link created, when I click that share link, it's actually, it populates this, and if I don't have it in my dropdown, it will just create it for me. So when you'll see a list of these strategies and deleting, it should just delete it for you. It shouldn't impact anyone else when creating a custom strategy. These custom strategies are only the legs of the stock. I mean if you have stock, it's the stock position that you have and it's the legs of the options. A custom strategy doesn't have anything to do with if you have a limit set, if you have a technical open set. So if I click technical open, that's where you could pay. If the stock crosses up above the 50 day moving average, I want to enter the trade, that kind of thing.

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That's all of those things are completely independent of this custom strategy, earnings limits, all of those things. However, these are a list of saved back tests. Now these back tests and we pre-populate pretty much all of the back tests that you'd find on the today tab when you first plug into the product. So all of these spread the sell off macd, they all, if you click a question, there's a detailed video or an article on it. All of those are pre-list in your saved back test list. These, when you load one of these, this will actually load all of the settings. So I'm clicking load here and you'll notice that the start date and end date changed, the ticker changed. This says, now put spread short, never trade earnings technic globe, et cetera. So all of these settings change. So these back test links, these saved back tests, save everything exactly as it is.

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So when you're working off these, then now all of a sudden it'll be at a previous point in time and we do that intentionally so that when you are looking at a back test or you see a share link or you see something in the pro scanner that when you load it, you're getting exactly the results from when it was run in that point in time. It's confusing if you're looking at a result on the today tab and then you're looking at a day later and the results are different, but if you want to update it to more recent data, simplest thing to do is just click a little test length at the top and it'll update it to the current dates and then you can change the tickers. So that's the custom strategies are just the legs of the strategy and if you have stock or not. And these saved back tests are the whole back test and everything going with it, including the start date and end date. So there's a little button here and it says close all legs at the front month options. So I'll look at a little example here. I've already saved it, the short call long leap roll together, but I'll just kind of create one just as an example of why you'd want to create a custom strategy. So let's just say

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That we want to own a long dated option, like we'll say roughly a year out, we're going to buy an at the money call and we want to sell something shorter term that is out of the money. And so if we were selling an option, say 30 days in the future and buying an option, buying a call in this example, that's at a lower strike out in the future, now we're creating a diagonal time spread and there's different ways you might want that front of the position to constantly roll that over or not. And that's what you can affect here. So just for sake of example, I'll do this long call. I'm saying 50 delta. So at the money I'm saying roughly 360 days or ballpark a year. I could say 365 is in the future. I'm going to add it. I'm going to say I want to short a call that's a little bit out of the money and I want to do it about a month in the future and I click add.

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So now I'm going to say long leap, short front of the month call, whatever I want to call this strategy. In my other examples in the slide deck, I used a MD, so I'm just going to switch to a MD here for no, doesn't really matter. Okay, so let's see. There's some technical conditions here. So I'm going to remove the technical conditions. It says gains above, so this would close it anytime you made a 50% return on the trade. I'm going to set that to zero. So I'm kind of resetting this thing to the very basic settings. When I click on this, you can actually look and see all of the trades that are happening here, and I don't know if you can see it on your screen, maybe I'll zoom in a little bit so that make that a little bit easier to see.

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And what you see is that we're starting back in May. We're opening this long call and this is May of 2021 and it's opening something as close as it can find to 360 days in the future, which in this case it doesn't

have every single month when you look at year out. So it's finding something in March and saying that's the closest and stock prices around 80 and it's finding something around 80 to, yeah, 50 delta at the money option will actually be slightly increasing over time. As you look at an options chain that has to do with interest rates and sort of cost to carry, it's something you don't need to worry about too much, but you might notice at the money is sort of above what looks like the current stock price in the future. And then it's also opening on the same date, the short calls, and this is May and it's opening something in June pretty much very close to exactly 30 days in the future. Now as we get close to this June four expiration, it says roll close that position. So these short calls are expiring out of the money here, these short calls that are expiring in June, but it's also closing this long dated these 2022 options. And so each time

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It's closing, not just the ones that are expiring, but it's closing the whole position and you can kind of see then it's reopening the whole position and closing the whole position each time. That's what this little close all legs with front month options means. It means that you're going to close everything all together. On the other hand, if you're saying like, Hey, I see no reason to keep, I am owning this long dated option, why would I want to have this close every single time? I kind want try to turn this out of the money option into a little bit of a dividend and then hold this long-term haul and be profiting from selling this thing out of the money over and over and over, and I don't want to keep paying commissions and giving up the market width and all this kind of stuff over and over by unclicking that.

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Now I click save. Now when you look at this, you can see, okay, I'm opening this long dated option still out in 2022, but now it opens the short calls and then they expire out of the money and then it opens again the short calls and then it closes them at expiration and then it's opening them closing them. But now it's happening much more with the short positions and it's only occasionally closing the long ones once we get closer to date in question for those longer dated options. And I'm just walking through basically that exact same example here that when we have that close all legs at the front month options selected, then everything's getting rolled all of the time When I unclick that. Now those options, it's just the short ones that are getting open and closed over and over and over. So then the question becomes, okay, what if we are doing a technical open?

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So at that point with a technical open, so if for example, I say, so this one actually said never trade earnings. And so we were seeing it close before this earnings date, I had never traded earnings and so it'll close two days before the earnings. So we are seeing it close the whole position because of earnings. So if I click nothing special here, then we'll see that behavior where it's like the short calls are getting rolled over and over and now it's not closing before earnings. It's just rolling. It's either the 'EM expire out of the money or it's rolling, it's closing them and reopening them the next day over and over and over. But the behavior changes a little bit. If I say, well, I only want to open to position and if I use as an example, if the stock price processes up through the 200 day moving average and I'm choosing one that happens less often, stock could be above the 200 day moving average for a long period of time, but it's only going to cross the 200 day moving average much less frequently. So I'm intentionally choosing something which happens less often. SL in that run for a second, and now we can see that these little green arrows in the chart are showing you when stock is, I mean when the strategy is opening a new position.

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And so you just end

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Up with a couple trades in this scenario when looking here, you can see that we open these positions and then these front months expired at expiration, but then we went instead of immediately opening front months, even though it's the same settings in terms of when it would reopen the positions, it's not going to close all of them and reopen all of them together. But that egg that is short, that expired out of the money, it doesn't reopen it until November. So it does not just immediately roll it open because the technical open says only open to position when the technical conditions are met. And so we see it wait all of this time to reopen the position for that front month option that expired. So it's kind of waiting for the right time to reopen it. Now you could close, if you had that option selected to close all the options together, then it would close the whole position and it would wait I think until November to reopen the whole position.

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But if you're not rolling them together, it's going to keep the long leg, but it's not going to reopen the short leg until this happens again. So that's the behavior. Once you have a technical open with a custom strategy, any kind of open it does, whether it's for both legs or just for one leg, won't happen until the technical conditions are triggered again. And so we see that big gap here from March until November before it finds the conditions to open it again, but it was holding the long dated options through that entire time. Okay. So I wanted to, okay, glad you did that. That felt pretty clear. Pulse has any chance of allowing more than four legs in a customer strategy trade setup? Yeah, there's nothing stopping us from doing it. It's not a request. We've had a lot, but definitely post that in community and ask if that's something that a lot of people would be interested in.

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We could certainly expand it. It takes some processing power, but that's fine. If people are interested in more than four legs, then that's something we could definitely look at. So looking at this example just from the today tab, so we see that there's the CML spread, the sell off. So when you look at this, it says CML said spell, sell the spread off. If you ever want to see the details of one of these, you click the edit button and then you can see how the whole strategy is set up. It's set up to be long, slightly out of the money. 37 delta put. All of the options that we're looking at are expiring 30 days in the future. So you start by being long, the 37 delta, a little bit out of the money, and now you're short, but you're short three at the 25 delta. So now your net you're short to. So once the stock goes below this 25 delta now.