

April 2024 Live Help Sessions

TradeMachine® Live Help 4/30/2024: Walking Through Executing a Trigger from TradeMachine®



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

Thanks again for joining today. The main focus of today is going to be to place a trade inside of Thinkorswim is the tool we're using. We're not pushing any particular brokerage. It just happens to be the one I use. Yeah. We're going to do a quick review of some of the things we covered last week and then kind of show how alerts like the ones we set last week, show up on days like today and then place a trade and then also put a limit order. We had some questions on that last time about how to place a limit order. I actually saw a question in community about it, how to place a limit order in think or swim for a multi-leg strategy. So that's what we're going to do and first I'm going to start off with the disclaimers as I always do, and we should be recording already.

([00:47](#)):

Great. This is not a solicitation to buy or sell any security ever. This is not advice. You should read the characteristics and risks of standardized options. 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. Trading futures and options involves the risk of loss. Please consider carefully whether futures or options are appropriate to your financial situation. Only risk

capital should be used when trading futures or options. Investors could lose more than their initial investment. Past results are not necessarily indicative of future results. The risk of loss in trading can be substantial. Carefully consider the inherent risks of such investment in light of your financial condition. Great. I'm Jason Hitchings. I'm the CTO at Capital Market Labs. I wrote trade machine code from a code perspective.

[\(01:34\)](#):

I worked on all the strategies with PHE and just from a product perspective and I've been in FinTech and options for quite a while. Yes, we're going to do a review of last week just to kind of keep it fresh and catch anyone up who missed it. I'm going to show alerts I received and then place a live trade and then place a limit to exit that trade. Then I'm going to show a new feature coming up, a little sneak peek of something coming up soon. Just a real quick recap. If you've joined the last couple of sessions, you've seen this, I'll just be really fast. We are firm believers in writing your trade down when you entered, when you're going to exit to kind of take some of the emotion out of it and helps you stick to your plan in order to figure out if a strategy is really working.

[\(02:18\)](#):

You can't just place a trade or two. There might be a strategy that has a 30 delta option and if you're winning that strategy 40 or 50% of the time, it could be a huge winner, but you place one or two trades and you have no idea if it's going to be successful or not. So taking a few trades over different market conditions, a few different strategies is going to help you hone in on what strategies are really working. And then just a matter of personal opinion, I think starting small until you start seeing some wins and then sort of scaling up with your profits is a nice way to manage risk from my just very personal opinion, this is an example just of how to write it down real basic. Just when you entered what it costs when you exit, if you made money, if you lost money, I put a share link as well.

[\(03:03\)](#):

Okay, so last week we looked at saved strategies. So on the top right of the back test tab you'll see some stray saved strategies and you can click in all the ones at the top are the ones that we've created at CML just looks like this. You just click save strategies and there's a bunch of strategies here. These are all in the today tab. So we tried one, I think we did the bullish burst and it loads a specific back test. You can save actual specific back tests, but then if you want to kind of make it current, this would save back several months ago, but if you want to make it current, you can click one of the buttons at the top and that will bring it up to the current date and then if you really want to start back testing with it, then you can change the symbols or you can click portfolios.

[\(03:49\)](#):

So we did the qs, the NASDAQ 100 and saw how that strategy did. Then we started playing around. We said, okay, what if we do a call spread instead of a call? How does that change the results? We looked at the total average trade percent, we looked at the percentage of wins. If the percentage of wins went up, the average trade percent went down a little bit. Then we said, okay, is there something else we could do here that could give us better than just a straight call and better than just a normal call spread? So we went in and we created in these custom strategies, which you would find down here and you could click add or you can load the strategies and we created this custom diagonal. So we were long the 40 delta 30 days out and we were short the 30 delta 14 days out and then we started doing some back tests

with that and we saw that it had a pretty good effect on our average trade percent and we tried a couple different timeframes and deltas and we're able to come up with strategies that worked well in different market conditions.

[\(04:55\)](#):

Looked over one years and two years and found that for what we were looking for in terms of average trade return, et cetera, that it was doing better than either one of the previous options that one of the previous strategies like either just a straight call or a call spread. Here's an example. So we went on the call spread, we are at 10% return with this diagonal call spread, which we're still long, excuse me, we took that up to an 18% return, so a significant average trade was a lot better. It took fewer trades because of the nature of the trade and then the win rate was down a little bit, but the total average trade return was great. From that we set some alerts and so I like to sort by average trade return and then just go down and click tickers that have multiple trades attached to them.

[\(05:42\)](#):

So I went down and then I clicked add alert and we set some alerts and that's kind of where we left that session off. So we're going to just pick up right from there. So with a very similar strategy, this is a 50 20 call diagonal instead of the 40 30, the timeframes as you'll see a little later are 60 days and 30 days instead of 30 days and 14 days, but very much the same concept. And so I got some alerts that came in on a strategy and so I wanted to use one of them as an example. Today we had two to choose from and this is an example of what the alert looks like when it comes into your email, so it just kind of gives you some reference information on the stock and then there's a share link and when you click the share link then it kind of pulls up the strategy that you had loaded.

[\(06:29\)](#):

It could pull up from multiple tickers and so you can just pay attention to which symbol you actually got a notice on because it might not trigger for all of the tickers that you set the share link for a little. Excuse me. Okay, so just for kind of sanity checking, I took that strategy, that same strategy, and instead of it just looking at it for these two tickers, I wanted to look at it for a basket. So I took the exact same share link, all that kind of stuff. I can update the end date till today and then I just did a portfolio back test with the qqs and just saw that yes, this has 21% average return, that's great, 56% average wins. That's great. So we were very happy with that and so then it's a matter of like, okay, which trade do we actually want to place for the ones that are active today?

[\(07:20\)](#):

And in terms of what this actual strategy is, as mentioned, it's you're long, the 50 delta 60 days out and you're short to 20 delta, I might've said 30, but you're short to 20 til to 30 days out. So very similar, just slightly longer timeframes. The technical conditions are shown here. It says in the last 30 days the stock was down 10% or more and the stock is below the 200 day moving average, and then in the last six months the ness of the doctrines has been below zero and that just means that how big the moves are, the tail tends to skew in that direction of the lower moves, not skew, but the actual size of the moves is relatively small. So looking at these two and trying to decide which one we wanted to do, wanted to look at the most recent stock movement.

[\(08:13\)](#):

They both just came off earnings and Comcast had a bigger drop and it was struggling to recover. It's like moving down a little bit more in the day and then charter communications just was it kind of tested some sort of downward pressure in the middle of the day and then came back up. I just felt that between the stock movement also this just had better portfolio, a bit better back test returns in the last two years ended up going with charter. And so when it comes to actually facing the trade, I can probably click that and pull that up. So for platinum members, so one this little green flag shows that this trade is active, so when I get a share link, it might be this or it might have a few more tickers in it, but I know that charter is the one that we're looking at and you can see that this is active and that little green badge as a reminder means that the technicals are true and that if there's earnings conditions, those are holding as well.

[\(09:08\)](#):

So if you're doing a seven day pre earnings strategy, it means that it's seven days before earnings today and the technical conditions are true even if you get an alert or if you see something on the today tab, if this changes, if the stock moves since whenever you looked at it in the direction that changes things, then this will turn gray. And then for annual subscribers we call platinum, they have this little convenient button called show options. This says, Hey, check, double check the data. It is a little bit delayed and then this is showing what you would actually do to place the trade. It's saying you'd get long the June 21st two 60 calls and that you would short the May 31st 2 85 calls. So you're going to be holding the option which is both further out in the future and it's also giving you a right to buy at a lower price.

[\(09:55\)](#):

So this is definitely a long strategy because the short leg, you have less time to do it and you have the right to buy this stock at a higher price so it's less valuable. So this is a long diagonal, but that's not the only way to do this. So if I click down here and look at the strategy, so I just clicked edit to see the details of the custom strategy and so again, we're looking for a 50 delta 60 days out and a 20 to 30 days out. And so another way to look it up, you can do this in your brokerage or I can do it right in the options chain. If I click the show options chain button, then this will load the whole options montage and you can scroll all the way down to look at everything. It generally will only show options that make sense where there's an actual delta.

[\(10:42\)](#):

If there's something where midpoint is underwater of the theoretical value or something, it won't show it. But otherwise, if you have a clean opposite chain, it should show all the options. There's a little quick filter here and it shows you how many days on the right hand side we are into the future and so we know that for the long leg here we want to be about 60 days into the future, and so the two to choose from would be 52 days or 108 days. And so 52 days is much closer and so then it's a call and here's the call delta. And so I'm looking for something as close as possible to the call of a 50 delta on the left-hand side here. So right now it's real clear that this two 60 strike in June is the closest one, so that's going to be my long leg.

[\(11:28\)](#):

And then for the short leg I want to be about 30 days in the future and we have an expiration that's 31 days, so that's real close. So that worked out nice and cleanly and we want to be at the 20 delta, so we're trading calls on the left-hand side and we just kind of come down and find the one closest to 20

delta and it turns out that there's one right at 20 delta, so that made it easy as well. So we're going to be shorting this 2 85 May 31 call. So yeah, just showing how can do the dropdown, you're just finding those deltas and strikes and it's coming up with the exact same information that click into show options did. So there's just a little speed up and the more legs there are the more helpful. Okay, so then I went inside my brokerage.

[\(12:10\):](#)

I use thinkorswim this time I use the desktop version because I think a lot more people use the desktop version. The desktop version has a lot more power than the web version. It's a little more complicated. There's sometimes more steps where you have to do things a little bit differently, but I enter a charter, I went down to the options chain. It's the same thing. This little thing in parentheses here is saying how far on the future, how many days in the future the options are expiring. You see that still it's kind of coming up with the same data. We know this is the information we're looking for. When I open that options chain, I'm still doing the same thing. I'm just looking for the delta. This is showing up 52 delta and so that it's coming up, here's that expiration. Then the strike is way over here in Thinkorswim showing that same two 60 strike.

[\(12:56\):](#)

So you can start loading that leg up and then the same thing. So I'm going out looking down the column finding 31 days in the future looking for 20 delta. Again, the delta is lined up perfectly. It could be off by a little bit. The data is 15 minutes delayed in trade machine, so you might see things slightly different. There's no harm in using the updated deltas from your brokerage platform, but we're seeing that same 2 85 strike for the short version. There's different ways to enter it into multi lake strategy in I think our swim desktop, one way you can do it is to right click and then say buy, diagonal, buy and then diagonal and then to adjust the strikes. So that's what I did here. So this is the diagonal and then I was kind of just clicking the expirations to update the expirations, clicking the strikes and then it default at to 10, each one of these is costing about 1100, so I just did it three times and then you just kind of try to set a price that feels kind of close to the middle of the market actually having, I've been using Trade machine or Thinkorswim web more recently.

[\(14:06\):](#)

It's actually in some ways I think a little cleaner. I actually like some of the information they display. There's less information, but it's kind of just what you need. So it was actually a little, took me more steps to do it in the Thinkorswim desktop version. But yeah, you enter all that information in it shows you what the effect on your buying power is going to be, and then if you want to take the trade, you click send and then you can see trades kind of come through on the trade list down below. So then the question becomes, okay, well when do we want to exit the trade? And so looking back at the strategy here down on the left hand side it says close trade when, and so it says close trade when the gains are above 80%. There could be other rules and also if it was an earnings trade, like a seven day pre earnings trade with custom earnings selected that it might say you want to buy the options seven days before earnings and sell them one day before earnings.

[\(15:00\):](#)

That's a strategy that we use to kind of take advantage of the sort of excitement going into earnings and the increased fall. But this one says nothing special, so you just want to make sure that you're not in the

middle of earnings. Right now we just passed earnings, so it's now showing that the next earnings is way out in the future unverified, but that's just because we passed earnings here. It shows on the chart here just a couple days ago. But when it comes time to exit the strategy, it says that we're going to exit when our gains are above 80%. And so we put the trade on for a little over 11. If I multiply that by 1.8, then it gives me about 20 bucks would be my target price to exit strategy looking down here. So when you had these actual positions in your think or swim account, if you're using Think or Swim, so for me, I had to select both of them by holding down control and then I could just say create closing order.

[\(15:53\)](#):

And I said this, sell the diagonal so you could either sell individual positions or sell the whole thing. So I clicked sell the diagonal, but I wasn't using the price that it pre-populated. I just came in and adjusted it pre-populated at the time it was bouncing around, but 10 15 and then I just updated it to 20 the price that I was looking for and I didn't want it just to last a day. I want it to last until it canceled. So I said good till canceled, and then I clicked confirm and send and sent that trade through and now it's just waiting. It's going to try to exit that trade for about \$6,000 total. And so then there's actually not that much more for me to do with this particular strategy, which is nice. There's not a lot of things I need to watch other than just seeing what happens with the trade performance.

[\(16:41\)](#):

You can also see in the little trades down below that it'll say one, those little buy and sell indicators come up saying that it's trying to buy and sell those two positions and that it shows that the trade is in the working status, not in the field status, and it'll be that way for a while and if that trade is a winner, then that'll get filled and I'll get a trade notification. So yeah, we had a little question about how to put in limit order with the multi lake strategy, so I just wanted to walk through that real quick trick for me on thinkorswim specifically was to click control, click every leg and then do right click and then close trade and then you could close the diagonal that way. Okay, last little thing before we jump into any questions that we have today, we like to keep these between 30 and 45 minutes, so hopefully I didn't go through that too fast.

[\(17:28\)](#):

If I did one, you'll get a recording so you can go through it in as much detail and as slow as you'd like to. And two, I'm happy to answer questions about it. I did want to give a sneak peek. We had a data feed that provided by SIBO that they stopped providing it to the retail market and so we ended up needing to take it from the product. We've been asking people for a while, Hey, is that something you miss? Is it something you would use a lot? Initially the response seemed to be it wasn't a big deal, but we've been hearing more and more that hey, people really missed having that feature and so we wanted to let you know we have some good news that we are bringing back the implied Volatility Index and the historical volatility index. So what we're doing with the implied volatility is we're saying, okay, look out approximately 30 days into the option montage of each stock, look at the call and put volatility, average them together.

[\(18:19\)](#):

If there's like a 15 day in the future and a 45 day in the future expiration, then we average all those things out and we come up with a implied volatility number that represents where the stock is. And then as those, so let's say a stock like Apple, let's say the volatility trades between 25 and 40 during normal

circumstances, we then take that range of 25 to 40 and we turn it into a percentage from zero to a hundred or one to a hundred saying that basically to let you have a little more granularity and so that you don't have to worry about the specific vol of every stock. We're not saying that you need to know what the specific vol level is in order to trade it. We're saying, okay, from a percentage perspective trade, if the percentage is relative to that same stock as above the 50th percentile or below, and you'll also be able to say if the implied volatility index is above the historical volatility and the historical volatility is just telling you how much the stock has moved recently. So those things are coming back, they're in pretty good shape. We're kind of just doing some testing, but we have a lot of good progress on that, so we are expecting have those in the product hopefully if everything goes smoothly sometime in May. So we're happy to say that those are coming back. Great, and that's all I wanted to cover for today. If we have any questions, I am very happy to take them.

Amanda Kelley ([19:43](#)):

I just had a question that came up while you were going through your walkthrough and I think it's something that is really good to cover with what you covered today and that is how do you get alerts regarding exit conditions? So since we don't have a built-in automated alert for exit conditions on a trade, how would you do that?

Jason Hitchings ([20:07](#)):

Yeah, okay, great. That's a good question. So I'm going to give the today tab and I'm going to use an example that's easy to work off of. So short answer is on limit for limit trades with options, it's a little, we can't specifically notify you when the options have reached a certain value at this point. We can set a stock price so you can say like, Hey, if the stock goes up \$5, let me know so I can check in on my position. So you can kind of approximate with stock. If you look at the Delta, you could kind of come with a ballpark of where the stock would need to be, but I'll look at one that has a little bit more of a concrete answer. So this strategy is a pre earnings seven day call. It involves buying a call before earnings but not holding it through earnings, just exiting right before the earnings date.

([20:53](#)):

So I'll just kind of pick one of these at, we'll say random actually what I'm going to do, I'm going to use this nice little platinum feature and I'm going to set the liquidity of the options saying basically tight markets and nothing below \$5 is what the four means and come back here. So I'll look at BHF, so that's called brighthouse Financial. And so if you look at the custom earnings here, it says I want to open the position seven days before earnings, but I want to close the position one day before earnings. And so the question becomes, okay, so I just put on this position, but how am I have to put something in my calendar? I don't want to just be looking at this thing every day. I don't want to miss it. I don't Anna accidentally hold it through earnings. So how do I do that?

([21:36](#)):

So you can actually just pretty easily. So it says that the next earnings is on May 7th, so that logic pans out. So I can just take BHF and rather than clicking ad alert, you could, nothing wrong with doing it that way, but I can just enter the ticker. I can say days before earnings. So we started this position seven days before earnings, but we want to exit the position one day before earnings and so I can write myself a note and say the exit trade then if you had a share link from the strategy originally, if I did something like

this was the share link, so I can just copy this link. If it says share equals or you can click this button, it'll create one for you.

Amanda Kelley ([22:16](#)):

Or if you select the ad alert, it's going to pull the share link in

Jason Hitchings ([22:21](#)):

For you. Yeah, it will. So when you're adding alert, it's going to use this technical condition? Correct. So you'd have to change that. So different approaches, they all kind of get the same way. But yeah, I'd say exit trade and then I'd send myself a share link and now seven days before earnings, I'm going to get a notice. I'm going to need a share link, and so when I click that share link, it's going to pull up the trade and say, Hey, exit this thing. You can also do calendar alerts. I'm going to delete that because it's not something I'm actually trading. So another way to do it is if you just know a certain day you can set a calendar alert so you can kind of do the same thing that way. Or if you have technical conditions, then you can just set the same alerts in the technical.

([23:04](#)):

So if you wanted to exit, if you set a technical close saying this is opening when the stock is above the whatever, 200 day moving average, if you wanted to exit when the stock price is below, for instance, just I'm picking something randomly, then you could when you're adding the alert, pay attention. So that was the 50 days. So you add alert and it shows you the technical conditions. It says, I'm going to get alerted when the stock is above, but you could change it. You could say set technicals and say below and whatever your technical conditions are, and you can get alerted that way and you'll still have that share link attached, which is kind of what Amanda was alluding to. So a couple different ways, if there's a limit order in a stock and you knew you wanted to be notified, then yeah, you can approximate it with a stock price alert.

([23:52](#)):

This was a different trade, but you could say stock price above, and so this wouldn't tell you concretely it's time to exit per se. You'd still need to check your brokerage to see what the options chain has done, but if you know the stocks rating at whatever, it's two 50 you could say, or I think it's more like two nine, you could say when it reaches 300, see if options or see how the options are or something like that, check limits. But easier than that is just to set the limit in your brokerage account and it can automate that part of the process for you. So yeah, I guess when it comes to an actual limit in terms of being notified when to close, if it's based on a limit, then I would say, yeah, I would set it in your brokerage and it'll sort of automate that for you if you feel comfortable with that. If you just wanted to sort of check back in on the price, if the price moved, then you could do it this way. You could sort of set a price to be notified when it gets back to that price and if it was like an earnings condition or something like that, then you can just very directly set the alert and the tool.

Amanda Kelley ([24:51](#)):

Perfect. Thank you for going through that. Of course. I thought that was a perfect question and it came in during live help.

Jason Hitchings ([24:56](#)):

Great. Someone said that they set alerts and haven't received them, so we can check to see if they're bouncing off of your email or your text. So yeah, just let us know if that's happening. Just email support and we'll look into it for you. I'm trying to figure out how to turn my CML alerts that I created into trades. I get emails, but when I click the link, it populates all of the QQ stocks all over again, then I don't know what to do. Looking at the today works well and is easy. Yeah, so we might right now when you click a share link, if you create a strategy with multiple tickers or whatever, then when you create a share link, which is the same thing that the Backtest uses, it populates all of those tickers for you. There's pluses and minuses to that, but yeah, this is causing a little bit of confusion for people.

([25:44](#)):

Really the easiest way is when you get that alert, I'm just going to pull it up on another screen to save. I don't want to make anyone dizzy by going through 500 screens. Okay, here we go. When you actually get the alert that the subject line will tell you what the alert is, and so then when you pull it up, when you pull up the actual share link, then what you can do is, so let's say that this was the share link and let's say here we'll do an example where it's like the qqs, I'll simplify it to the Dow 30, so it's a little faster to run if this is running a little faster than you're used to on your side. I'll just make a note that platinum users get access to some servers that we're able to reserve a year ahead of time and we can get some faster servers. So if the speed of the back test is important too, then you might want to consider jumping over to annual here.

([26:39](#)):

If I'm setting a whole bunch of alerts when I create that share link is the same link that is going to populate when actually get the alert. So you're seeing all these different things and you're saying, okay, I don't know what was active. That's not helpful. One, we're going to try to put a little green dot, it's a lot of computation on our side, but we know it would be helpful for people. So we're going to try to put a little green dots so people know which trades were active. I know that would make things a little bit more helpful for people, but I just want to say that in the actual alert text, it'll say what the ticker was and so you can just update this to that ticker and now you'll just be looking at that one stock and it'll say whether this is a different strategy.

([27:19](#)):

So it's not showing active, but it should show that that strategy is active if it is still active. And then if you're platinum and you can click the show options button from there. So if you get an alert with 20 tickers in it and it's a little confusing, just go back to your email and then from the email just enter the ticker at the top and all of the other conditions are going to be the same. The important part is that the technical open and any kind of customer earnings, all that kind of stuff can be exactly the same. You can look at it at one ticker at a time, but it's helpful to do these sessions too because we get a lot of the same questions and then when we see that something is causing people headache, we just improve the product so it's not causing people headache anymore.

([27:56](#)):

And this is clearly one that is a little confusing, so I think you could expect in the next month or two that we'll do something to make that a little simpler. I would like to see trades that were or are alerted, is

there a running p and l statement or a monthly summary? Yeah, that's another request that we get quite a bit is to track, be able to track trades essentially like paper trading. So you can kind of do it manually by clicking a trade. If you go to alerts, you can look at your history. I have a lot of history. I have a tunnel of alerts, so it's taking a second to load, but what you can do is you can set the start date to be equal to when the alert was received. So if I received some particular alert, so this says from March 28th, so if you want to see how that thing has done, then you can set start date to March 28th and then you can kind of see how it's performed since then.

[\(28:52\)](#):

But we know that people would love to see a portfolio of trades or basically almost like a paper trading account where they could say track trade, track trade, track trade. I think we can say with Puria confidence that we'll get that in the product before too long because it's a pretty frequent request I joined as a simpler member. Are there specific strategies that Simpler has on the trade machine platform? Yeah, the Squeeze strategy, the Bowl and Bear Squeeze are inspired by the TTM Squeeze. They're very small differences and I think you might be getting some announcements on your side about some more collaboration that we're doing sometime soon.

[\(29:29\)](#):

Thanks for the continued educational efforts. I still struggle to some extent because I have a membership to CML, pro Trade Machine and Pattern Finder and I find myself not sure what guidance or ideas to source from what, not complaining, but I feel like I'm not using methodical approach to research my proposed stock. So CML PRO is a research service which is really phenomenal. It's just performed extremely, extremely well, but it's a little bit of a different animal. It's really about stocks more than anything, it's done extremely well. It's a list of stocks, a list of top picks, and we've tracked those with an auditing firm they've done really, really well. That's much more of a buy and hold situation. And then there's research that you can read Now I'm going to go, we don't give Trading advice, but I'm going to give you my personal take on it, is that putting a small amount of money in a wide range of CML Pro stocks as opposed to trying to cherry pick and kind of starting with the spotlight top picks and working your way down and putting a small amount of money across a lot of different stocks and then you can keep up with the research just because you're interested to know what the stocks are doing and if Fear says that he believes it's time to exit, then obviously pay attention to that, but that service is kind of a set it and forget it service in terms of trade machine, if you're, and first of all, thank you for being a member of all these different services, that's super awesome with Trade Machine, if you're getting started and feeling a little overwhelmed, I would just pick one of the strategies that says beginner or intermediate.

[\(31:03\)](#):

I'd watch a video on it and then I would say, okay, I feel comfortable with the buy the dip or fade, the dip or bearish bursts. I would go up to today's tab alerts and I'd pick those strategies. I might say, just alert me when it's the largest 500 or the largest 100 and then I'd probably just wait for the today tab alerts to come in. I'd click it, I'd look at the actual strategy, make sure it's still active, and then if I like the returns, if it's seven wins and two losses with a nice 200% return, then I would say again, personal opinion, take a small trade in one of those for a couple hundred bucks, 500 bucks and then watch it down, see how it does, and then do that a few times and see if that's strategy is working for you, record those trades and then if it is, then keep doing it and scale up.

[\(31:55\)](#):

And if you're not having good luck with it that try another strategy, eventually you're going to find one that's working well and then you can really start to scale up the size of your trades and see the returns pile up. And we owe everyone a pattern finder specific webinar too, so we'll do that soon. That's a really cool product for swing trading. Is there now or will there ever be a way to create custom strategies for backtesting using expected move for a given X expiry other than Delta? So Mark, it depends what you mean by expected move because in a way implied volatility is expected move, so we're adding implied volatility very soon, but it's not directional, it's up or down. So it depends how you think about expected move. Feel free to follow up with another question. Are you saying that maybe what you're saying is if a stock is trading at a hundred now, then I would want to enter if the stock is 10% above where it is now or something. Basically the moving average is sort of capture that in a way, but if you give me a little more detail, I'll try to give you a more concrete answer,

Amanda Kelley ([33:03](#)):

Jason. He says I usually approximate by at the money call plus at the money put.

Jason Hitchings ([33:09](#)):

Yeah. Okay. So if you're looking at the money call and at the money put, let's say they're each trading for two 50, so that that'd be like a \$5 move and let's say it's trading 40 days in the future. So you're saying, okay, now I'm talking about I want to trade this. If the sort of expected range of the motion is \$5 in the next 14 days, so doing that on a per stock basis, obviously when the stock is trading at \$15 versus if it's going up to a hundred dollars or back down to \$40, it'd be pretty hard to say if the width of at the money straddle is or the total value of at the money straddle is greater than x trade it, I think it'd be pretty hard to actually create a system to do it that way. That would be consistent.

[\(33:54\)](#):

But the good news is that's basically exactly what the implied volatility is. It's looking 30 days out in the future and it's saying that the implied volatility is saying what is the amount of motion in the stock that the options market is telling you there's going to be, so there's historical volatility, how much does the stock move? The implied volatility is a forward-looking view of what volatility is expected based on the, and in this case it would be at the money option prices. So basically what you're talking about is an implied volatility index, and the good news is if because we're treating it as a percentile, instead of you trying to say if those two things are above \$5 or something, we can say if it's above the 50% mark or the 70% mark, then I want to trade it or not trade it. So I promise that was not a plant, but it was a perfect question leading into what I just mentioned, that we are bringing the implied volatility index back into the product and that's going to say the market is forecasting a certain amount of volatility and now you can trade it based off of forecast volatility and you can choose whether you want to include the previous realized volatility as well.

[\(35:07\)](#):

So product, once that feature is out, we'll do a dedicated obsession on just that feature and we'll go into a lot of details. If you're used to looking at an options montage in terms of the midpoint on the bid ask of the call and the put completely understandable way to look at things, and we have a lot of great resources to understand how implied volatility captures that information in a more scientific way. On

the learn tab, there's a lot of great resources, so if you go to educations, then you can get into, there's a lot of stuff on implied volatility and there's actually full on classes here that have 90 minute deep dives on things. So part two might be a good place to start to, if your framework is to think about things in terms of the price of the option, and we're saying, Hey, we think that thinking about it in terms of the implied volatility is going to be better for you to really maximize your profits in the options market, this is a cool place to start.

[\(36:08\)](#):

Okay. But yeah, great question. Long answer answer is it's coming very, very soon and it might be a little, yeah, just a variation of what you're asking. Max says, could you please show a specific back test how to copy a link so the back test can be displayed in community? Sure. So I'm going to create my own back test. I'm going to look at a MD, I'm going to say when it's carried over a bunch of other conditions. I'll say when the technical open, I'll just keep it simple, stock cross up through the 10 day exponential moving average. There's some gains and limits set here. You can reset any of these things that you want. I have a funny timeframe set here, so I have a one day timeframe. Okay, so now I'm sitting here and say, Hey, I want to show someone the trade.

[\(36:52\)](#):

This doesn't do anything right now that's just going to lead people to the back test tab, this little button which shows one dot leading to two dots at some point on the internet, people decided that's what sharing, sharing icon should be. When you click that, you can either click any of these to post something to the social media or if you click this little thing, these two pieces of paper, this is like a copy button and so now it's copied to clipboard. Also, when you click this button, the link up here changes, and so now this becomes a share link, so I can just copy this. I can go to community, I can promise that I'm going to be nice to everybody and then just paste it in here. Example webinar, this is not a real one, so I'm not going to post it. It'd just be noise for everyone in community, but that's how you do it.

[\(37:38\)](#):

How do I get text alerts? Steve, when you are on alerts, when you set alert, just enter your phone number as well, so if you enter your phone number, that should get through. Occasionally your carrier might block it or something, but we can actually see when that's happening and let you know There's workarounds if there's an issue there, but most people receive them and in the not too distance feature, we're actually going to make an installable version of the today tab, and so the nice thing about that is once it's installed on your phone, we can send you alerts and there's no one to block it. You can turn them off, you can block it, but there's no outside person, which is going to tell you you can't receive the alerts because they've decided it's spam. When

Amanda Kelley [\(38:15\)](#):

You start entering a phone number, you should see a message pop up towards the bottom and it has a phone number that it's coming from. If you add that to your contacts, sometimes it will work around the block doesn't always, but if you add that to your contacts, it's possible that it will prevent it from blocking it.

Jason Hitchings [\(38:37\)](#):

Yeah, I'll see if I can pull, put a text alert because I get so many alerts. I've kind of slowly moved over to more alerts via email. But anyway, I can actually, if you're interested, just message support. We can actually send you the phone number to add to your contact list under alerts, under history, as you should see alerts for things you custom set yourself there. If you feel like you should have received alerts but don't see them, let us know. There's also today tab alerts, which don't show up there, so on these kind of alerts, just go straight to your email. We have a log of them being sent, but we don't put that in your alert history since it's a little bit of a different, it's not a sort of custom version of the alert, but yeah, if you're having any issue with alerts, then just email support and we'll make sure to work it through with you.

Amanda Kelley ([39:21](#)):

And just to clarify a little bit, all alerts and trade machine have to be set by the user. We don't have anything that's automatically sent from us, whether it be trade, the Today tab alerts, you have to go in and select which ones you'd like to receive via email or you have to set your own personal alerts. So if you haven't set any alerts, that could be the reason why you're not receiving them.

Jason Hitchings ([39:45](#)):

Yep, sounds good. Yeah, if you set a today tab alert, but you've never set a different kind of alert, then it might have a hard time tracking down your info when it's trying to send you it. So yeah, you can just go into the alerts tab and just say, you can do an on a calendar or day alert, actually use this to whatever. If my kid has a dental appointment or something, I'll be like, Heidi dentist. So you can set alerts that way and you can send a text message to yourself. It's also a good way to make sure that the alerts are working, or you can set a stock price above alert, like \$1 for a MD. Now the ticker will actually matter and you can say, yeah, you can set a phone, so you should be getting a text alert the same day, and that will validate that the alerts actually are working.

([40:27](#)):

You might set alerts for AI conditions that don't happen very often, so you might say I'm not getting alerts, but if you set seven alerts or 25 alerts with things that don't happen that often, especially as market conditions change, set a bunch of things altogether, which are based off of the market moving up or moving down, but the market's not doing that, then just like on the today tab, there'll be groups of things that don't trigger on a certain day. So the spread off is an awesome strategy. It's a great, when it does, it doesn't trigger that much. The ticker Snow was sitting on here for a long time. That was a trade that you really had to bear with, but it eventually did reach its 80% limit, which was great. If you weathered the storm with me on that, then I'm glad you did, but that's kind of expected for this trade by the way that you're catching it as it's going down, it's going to go down a little bit more to your max profit.

([41:18](#)):

If you're lucky and not keep going down or if it goes back up, that's fine too. So the point I was trying to make is that, yeah, depending on the type of alert you set, you might go through conditions in the market where things aren't crossing very often, where there's not Polish bursts where there's not whatever, and so you might go a week or two weeks with no alerts depending on the type of alert you set. Now, if you set a wide range of alerts for up and down markets, that kind of stuff, then you should be receiving alerts, but I strongly encourage you to go into the alerts tab and just create a stock price

alert and say, when Google or Apple's above \$1, send me an alert and verify that you are getting alerts. I think that's just a great, it's really something that probably everyone should do when they first log into the product is just do that and you should get an alert the same day unless you set it in the last few minutes of the market being open.

[\(42:01\)](#):

Eldon, thanks for being here. Appreciate you, mark. Yes, we'll go deep on the IV session. If you want to actually email support and say question for a webinar mark and say and give an example of really exactly how you're trading, I know what you're saying about what the price of the straddle is. I'm not exactly sure how you're using that to trade, but if you give a deeper example, then we'll try to weave that into the webinar for the ib. Gary, I'm glad your alerts are working well. Yeah, I think for most people they do, but for some people they don't and so we'll work through it if you're having an issue one in there. Yeah, see there's a cost of annual question. Yeah, so Trade Machine Platinum is you're helping us out by paying for a year in advance so that we can pay for all our stuff a year in advance.

[\(42:45\)](#):

You actually get a discount. So if you're a person that's paying \$99 a month for example, then your annual price would be 9 95, and if you are paying 149 a month, which is the current price of trade machine, then your yearly price would basically be 1495. So you basically get two months free by going annual. Long story short, you basically get two months free. So yes, we'd certainly love if you go in the annual version, it helps us out and you get a lot of cool additional features and speed as well. Okay. We're almost at the hour mark. Really appreciate you all being here. We're going to do another one next week on Thursday, and I hope you have a lot of great trades between now and then. All right. Thanks everybody.

TradeMachine® Live Help 4/25/2024: An Expanded Introduction to TradeMachine®



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

Thanks for being here everyone. We're just going to give it another minute or two. Actually less than a minute. We'll give it another 30 seconds. We just hit the starting time. Usually there's kind of a last bunch of people that jump in, but yeah, thanks for being here. Hey Max, I dunno if it's Ivan or Yvonne, but welcome. So today I'm going to start by going over just in about a five minute summary, the things we covered last week that if you missed it, actually I say last week, but I really mean last recording on Monday. And so if you missed it could always just go back and re-watch the whole thing. It's kind of meant as a refresher for people that are relatively new to trade machine. They're going to be kind of part two where we're going to go into portfolio back tests and custom strategies, but I'm going to do kind of a quick refresher for people that either missed the last one or who just to kind of keep everything top of mind for people that are new to the platform and have only just started logging in and figuring it all out new.

([01:03](#)):

Alright, well welcome. Glad you could be here. Feel free to put messages in chat. Amanda's here, she might answer some of the questions as we go. And Max is here as well, and so feel free to type questions as you go and then I'll have kind of a dedicated q and a at the end. And as always, I am going to start with the disclaimers. This is not a solicitation to buy or sell any security ever. This is not advice. You should read the characteristics and risks of standardized options. 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. Trading futures and options involves the risk of loss. Please consider carefully whether futures or options are appropriate to your financial situation. Only risk capital should be used when trading futures or options investors could lose more than their initial investment.

[\(01:54\)](#):

Past results are not necessarily indicative of future results. The risk of loss in trading can be substantial, carefully considered the inherent risks of such investment in light of your financial condition. So I'm Jason Hitchings. I'm the CTO at Capital Market Labs. I'm the person who wrote the actual code for trade machine. I've also been in the options space since mid two thousands. Met fear back at a company called Val that got bought by sibo. So I've been working in options, analytics and options tools for a long time. As mentioned, we're going to do a quick refresh on what we covered last week just in about five minutes. Then we're going to look at save strategies, portfolio, back tests, adding alerts, and we're going to do some custom strategies in there and then we will answer any questions. Okay, so last week we watched this video on what is backtesting if you haven't seen it just when you log into trade machine.

[\(02:45\)](#):

That's on our homepage, but it has a nice sort of analogy for what backtesting is and what the benefits of it are. So it's a good way to have a mental framework for what the sort of engine behind trade machine is, but we're running hundreds of thousands of market simulations and we're finding strategies that tend to outperform the market in a variety of scenarios. And then we have various ways within the tool to alert you when the right time to enter would be if you want to do that strategy. We also talked about a couple tenets of being a successful trader. Real big philosophy around here is that you should write down the trades that you enter and that you should know when you entered it and when you're going to exit it. This kind of helps calm nerves if the market starts turning against you just to have a plan and stick to it.

[\(03:33\)](#):

It takes a while if you have a strategy that tends to return that wins 60% of the time. And let's just imagine that it's like flipping a coin where every time it lands on heads you double your money and every time it lands on tails you lose. If you could flip that coin a million times, then you're going to have an exponentially growing amount of money, but if you just flipped it twice, the chances are you're going to win one and lose one. And so it really takes a handful of trades especially spread out in different market conditions, ideally with a few different strategies to start having a long-term trend. And when you're writing those things down, you can start to see like, hey, this has been working well for me and I'm going to start investing more time into that strategy. So when you have a little bit of edge, you can really see that edge start to play out over time.

[\(04:17\)](#):

This is just a matter of opinion for me, but I am a big believer in starting small testing. Which strategies are working once you've started building up some wins and some profits, then starting to reinvest those profits to take slightly larger bets is a good way to protect your portfolio. Again, we don't give trading advice or recommendations, but that's a matter of, that's my personal opinion. So this is an example of writing things down. It's just open date, close date when you entered, why you entered the price of your trades if it won or lost and then just sort of tracking that over time. I tend to keep a share link to the backtest as well. We started by looking at the today tab has a bunch of different strategies and anything that has a blue today on it means that it's active, that the conditions were active when that happened, but that could change over the course of the day.

[\(05:05\)](#):

So you can keep an eye on that. Platinum members annual members have this liquidity button at the top so you can filter and only show strategies where the markets are tight and the higher you go the tighter they tend to be. That kind of eliminates some of the noise. Stocks that are trading at \$2 that are still, they're 50 cents wide on a \$2 stock isn't very helpful. So we looked at bullish bursts, we picked one and just a reminder, there's a little question mark here. You can do a deep dive on any one of the strategies. There's a show options button on the back test tab, so if you click any one of these pieces of text, it's going to open the back tester. It's going to give you some helpful information on that back test tab. There's a show options chain, you can filter by day expiration and then you can go down, you can look up your delta, look up your strikes, and then just the information you need to the trade.

[\(05:58\)](#):

So this is on a thinkorswim web version, kind of same concept. There's a delta and you find the right strike and then you can place your trade. Annual members have a cool feature where you can click show options and it kind of does that work for you. Simplifies things. This can be especially helpful when you have multi-leg strategies or if there's an earnings event. Sometimes one part of the spread needs to expire before earnings and the other needs to expire after. So this can kind of take some of the grunt work out of it. And then last thing I'll note before jumping into new material is just a few things on the back test tab to pay attention to. There's a helpful piece of information at the top here that says when the next earnings event's going to be. If it says unverified, then be very cautious with it.

[\(06:43\)](#):

Then our vendor is sort of guessing based off of previous data. It tends not to be super far off, but it could be things that are verified are concrete and they actually put a little money back guarantee behind each one. So they're extremely rare to be off if it's a verified earnings date. When you load a back test, oftentimes the end date, I mean anytime you save a strategy or have a share link that all of the information from the back test is saved including the end date. So sometimes you might see something from a few weeks ago or even older, so you just want to update the end date. You can click one of the buttons for back test lengths. One more little thing is and the tickers in the top, if there's a comma, then it will just run the middle delta and if you click the little settings gear at the top of your back test tab shows all the deltas.

[\(07:29\)](#):

And if this use my own deltas as checked, it's going to use these to run the strategies. If you run a single ticker, it will run all of these deltas and it'll use this for the second leg of the spread. But if you have a comma or if you have multiple tickers separated by commas, it will just run the middle one for each. And if these settings get kind of funky and you have maybe you're testing a straddle with a 40 delta on both or the strangle for 40 delta or straddle with 50 delta, if you then switch to a call spread, it's not going to like it because can't buy and sell the same option. So if it's acting a little funky, check out the deltas, make sure that's all making sense. Okay, great. So now we get to dive into the new stuff on the back test tab here and I'll kind of follow along in trade machines.

[\(08:15\)](#):

So I'll just go to the back test tab. When you first log in, you see the today tab here, but if you click the back test tab takes you to a back test and if you haven't clicked a share link then it generally is going to start off pretty fresh. So I'm clicking the saved strategies button and then listed here we have all of these

are pretty much the strategies that you see on the today tab. All these that start with CML in the front, everyone has access to these and then you can save your own if you click anytime you have a back test, if you click save, then it will add it down to the bottom here. Just for example, purposes, I'm starting with one of the simpler ones. This bullish burst, it's a single leg and I'm going to load it when load that strategy as I mentioned.

[\(08:56\)](#):

So whenever we added this, all these save strategies, they were a single save back test at that time. And so you can see that the end date here is October of 2023. And so this is how that strategy performed at that time. But if you want to know how this strategy has done as a whole, if you're trying to decide, hey, are bullish bursts like a strategy I want to employ, then first after loading it, you can update the date, but after that you're really going to want to look at more than a single stock and you can enter up to five stocks here, you can enter a few more stocks, but that still doesn't tell you a lot of information. Now you just know how well it worked or didn't work on three stocks. So if you click this portfolios, then what it's going to do is let you test against a basket of stocks.

[\(09:43\)](#):

And so now you can really start to refine your strategies and not just tweak it for an individual stock, but really start to look at strategies across a wider basket and that's going to give you a much better signal on if this is a strategy that's going to really have edge in the market and not just happen to work well in a single stock. So I'm going to click portfolios when I do that. The first one that's loaded is this NASDAQ Qqs. Everyone has access to all of these top ones that start underscore. So it's doing the NASDAQ 100 and because I loaded this saved strategy, it's keeping all of the settings from that bullish burst. So this is the technical setup of the bullish burst. There's a whole video on it. I won't go into a lot of detail, but I was trying to catch things where the stock is prepared to take a sort of short term move in a bullish direction.

[\(10:36\)](#):

So now it's just rerunning that. So question I'm trying to answer right now is do I want to use bullish bursts in my own trading? And so you can see it's going down here and it's doing all these back tests. If this looks faster than what you're used to on your back tester, it's probably because I'm a platinum member and platinum members have access to slightly faster, substantially faster back tests just from how we license servers and all that kind of stuff. So it's one of the perks of being annual. You can switch, of course I always make the plug, but you can switch to annual anytime and it does help us as we can just lets us normalize and license servers and all that kind of stuff in a way that works well for us. Okay, so in the last year, this strategy which is buying a long call that's a little bit out of the money, it's looking at something approximately 14 days in the future.

[\(11:30\)](#):

It's looking for the expiration closest to that. It'll just choose the expiration closest to that. If it doesn't have weeklies, then it's just going to choose whatever is expiring near there. And this strategy across the whole, across that NASDAQ 100 in the last year has a 50.3% win rate and the average trade return is 14.5% and that's respectful. That's pretty good. The market's been in a good place in the last year, so it's not real surprising that that has had positive results, but it has. You might ask, well, is 50.3% is that really a great win rate? And it's a very good question. In theory, you could be buying very out of the money

options that are very unlikely to win, but when they do they win big. So you might be buying 10 delta five delta options that only get to win one in 10 or one in 20 times, but when they do, they might make up for all the losses of the previous trades.

[\(12:26\)](#):

So one delta is kind of telling you how in or out of the money something is something that's 40 delta. One way to look at it is that there's a 40% chance that the stock will end up at that strike price or above. And in order for this to make money, you need to not only reach the strike price, but you need to also reach the strike price plus the options premium. If the option costs \$2 to enter, then you're going to have to reach the strike price plus \$2 to break even and you're going to have to make another penny in order to have a win. So 50.3% in this scenario actually is pretty respectable because you'd only expect if you're just buying the option with no prior knowledge, you'd expect to win about 40% of the time. Perhaps more importantly, the average trade return is 14.5%.

[\(13:09\)](#):

So that looks like a decent start, but the question is can we do better than that? And so instead of just trading a call, we could pick a different strategy here and we could pick a call spread so that we will buy a 40 delta call, but we'll also sell a 20 delta call and I know it's 20 delta from these custom deltas that I have here in the same expiration. And so I'm just letting that run through and I'll let that do its thing, getting down to the results here and then just save us 30 seconds of time I could kind of jump to the results. And then we see that now the results instead of being about a 50% winner or about a 55% of the time does it win and the average trade return went down slightly with the current settings we have, we also have a stop and limit set in there.

[\(13:58\)](#):

And so now it's kind of a matter of taste. It's like, well, we're winning a higher percentage, which is nice, the average trade return went down, so that's not bad. But what if we decide to hold it a little longer? The default settings on this bullish burst are that if you gain 40% to exit and if you lose 60% of the initial amount you put in, then you would exit. Spreads are a little different, the risks are a little different. So what if we just play with this and I just kind of chose 80 as a test point and so in this strategy here, so I think yeah, you can see this finished same results there. So this gains and losses, when I scroll down on the left, you see it down here, it's set at 40 and 60. I can set that for 80 and let it rerun.

[\(14:41\)](#):

That can save us all a few seconds here. And here's what we see. We see that the win rate went down, went down from 55 to 46 and the average trade return went up. And that actually makes sense if you think about it because if you're setting a limit, when you're starting to look at this thing, and this might be obvious to a lot of people, but it's interesting to think about it in the context of applying a strategy over a long period of time. When you set a limit, if you set a limit to exit the strategy as soon as you return, if you enter for \$2 and you set a limit to exit the trade when you hit \$2 and 5 cents or \$2 and a penny, if it's penny traded, then a decent amount of the time as the value of that option fluctuates, it's going to hit that limit.

[\(15:27\)](#):

And technically you can lock that in as a win. So if you set a very tight limit, you're going to have a pretty high percentage that at some point hit that limit. But if it's only 5% above price that you entered, then when you win, you're going to win roughly 5%. Now when you lose, if you don't set a similar stop, potentially you could lose the full amount. So you might win a high percentage and your win rate is going to go up, but your average trade return could get hurt because maybe you're going to win 80%, but when you win that 80%, you're winning 5% and a lot of the time you're losing a hundred percent. And so that might not be, even though you have a high winning percentage, it's not a great trade to set it up like that. So this strategy kind of let it run a little longer and we said instead of exiting at 40% exit at 80%, we saw that our winning percent dropped, but our average trade percent went up quite a bit.

[\(16:27\)](#):

And when we're looking at portfolio back testing, it's really these two numbers that we're looking at the most. We're placing the same number of contracts in each one of these stocks. So the total return is a helpful piece of information, but it's going to get a little bit skewed by the stocks that just have a higher stock price. So a stock that's trading at 500 or a thousand dollars five contracts, there is going to be a large number. And so the results can look a little funny based off of the kind of big components of that basket having an outsized weight. Whereas the win rate in this average trade percent, this is normalized across all the stocks. And so these are helpful numbers to look at when portfolio back testing total return is absolutely fine to look at, but it's not balanced. So this did what you'd expect it to do.

[\(17:17\)](#):

When we increased the limit, we saw the win rate drop some because we didn't exit our wins as early, we didn't lock in the wins, but our average trade percent went up as a whole, which is that's a good sign. This actually takes into account the wins and the losses in a sense your average trade return. So we can kind of see how that played out. Okay, so let's do the same thing, but now instead of just looking at one year, let's look at two years because the last year has been good, but if you look about the last two years, that's been a much more mixed market, kind of a bad year and a good year. As that plays out, we see that in the good year it did well. And then when you combine both, okay, you are slightly profitable, you still came out ahead in terms of the average trade percent, it went down quite a bit, but it's still from my perspective now that we're in a market that seems to be going the direction you'd hope it hopefully we're kind of venturing into a more bullish period in the market.

[\(18:17\)](#):

The fact that it at least broke even over those two timeframes feels reasonable. So then the question becomes, well, can we do better still? So now instead of just buying a naked 40 delta call, we also sold a 20 delta call. So we had a little bulk call spread, vertical call spread, and we could see the way that that changed the trade. Is there anything else we could do? So now let's look at if we want to get a little more fancy, so if these are the kind of built in strategies within trade machine, but we also have the ability to create our own custom strategies. So when I click custom, there'll be a list here I could choose from of things I've done in the past, but you can also add a new one. So now let's think to ourselves instead of having the option expire in the same month, what if the option I was shorting expired sooner and the option that I was holding expired a little later on but offset some of the cost of owning the option, the time cost of owning the option and we could just kind of test that scenario and see how it play out.

[\(19:20\)](#):

So if we wanted to try that, then we could do something like a, so this is the long 50 deltas. Let's try a long 40 delta, let's call it call dag and I'm going to go ahead and do it as five contracts. What a lot of these use as five contracts, but now I'm going to short, but instead of shortening the 20 delta and the same expiration, I'm going to look at a near term expiration. So something like two weeks out and because it's near term, I'm not going to use a 20 delta, I'm going to use a 30 delta in this example because as it's a little near term, there's not going to be quite as much time value built into it. So if I want to recoup a decent amount of time value, I'm going to use something a little tighter and what I'm hoping is that front month option expires and that I have a chance for my slightly longer dated option to continue to make some money.

[\(20:06\):](#)

So now I'm going to short that 30 delta call and add that and I named my strategy and now I can save it and I can see how that strategy plays out. I did this a little earlier today and so here's this same strategy and when it did this, so this is still in that two year timeframe, so that incorporates that sort of much choppy market that we had two years ago and we can see this average trade return went all the way up to over 15% and that was from 4%. So looking at these things side by side, this was the pure call spread. I think this was like a 14 day call spread and this is this diagonal that's using a 40 delta to 30 day and a 14 day 30 delta option. So over a two year timeframe, the average rate return went from basically 5% to almost 16% and the percent wins went up.

[\(20:59\):](#)

So this was just a real clear winner in terms of this strategy over the last two years. So that to me is looking pretty attractive. Something like this, these daal call spreads, if you're new to options that might feel like a lot to take on, it might feel a little confusing. That's kind of the benefit of investing into your own understanding of options and your own understanding of trade machine over time is that sometimes with slightly more complicated spreads that are a little more confusing initially, sometimes you can really get much better returns. And so while it's completely a great place to start to buy individual calls or do covered calls or things like that, starting to expand your knowledge and look at spreads and that kind of thing allows you to construct positions that do well in a variety of different market conditions. So it looked good at the two years, but how does a one year look when we do the one year, hey, this is solid, this is very good returns, 18%, 52% win rate.

[\(22:00\):](#)

So the straight call spread looked like this, it had 11% win rate, I mean 11% average trade return, 55% win rate. Our win rate went down slightly, but our average trade return went up quite a bit. And so to me, just from where I'm sitting, I'm saying, Hey, that's a pretty nice strategy. Okay, so great, so now you found a good strategy. Now because there's all these technical clinicians and how are we going to really figure out for different stocks? It's like okay, I have to wait and say, well, it's not an earnings event. And then for each stock I need to know when the stock crosses up through the 10 day exponential moving average, the stock's above the two 200 day moving average that the 50 day moving average is above the stock price. So the stock is below the 50 day moving average and the RSI is below 70.

[\(22:45\):](#)

So it's not overbought. Well, I mean it would be a full-time job if you had to do that on your own, but the good news is it might rerun this back to when I say it, I'm going to do a smaller, well, I'll just let it

play out. Good news is once this thing finishes doing the back test, what you'll see is this little checkbox that appears and I have it on a slide as well and right now there's no add alert button here, but when you complete the back test it will show up. I'll talk about that in just a second. So what I personally like to do is because within the strategies some worked better than others, some might've had a positive return, but the win rate, maybe it only was on one trade. So yeah, this D cm, it won, but it was only a single trade.

[\(23:32\)](#):

Do I consider that enough? Nothing wrong with adding that. What I like to do is sort by the average trade percent and then look at the number of wins and look for things that have more than one win. That's just my personal preference. So as this one kind of completes through, I'll just walk through it. When I save the technicals there, it reran the strategy. Okay, so see this little button here. So I like to sort by this average trade return starting at the highest and then I look for things with more wins and losses and more than one trade. So I can just kind of go down here. So this one, even though it was net positive, it won four times and lost five times. So I'm going to skip it. These are a one win, one win, but this is 2, 2, 2. If you click the actual ticker, it'll show you all the details and you can kind go through and pick the trades that you like the best, and then you go up here and you click the add alert button and it creates this little thing for you and it creates a share link.

[\(24:34\)](#):

And so you can also say, Hey, this is my custom diag, any other notes that you want to put. Now when you click add alert for each one of these individual stocks is going to constantly look to see if those technical conditions are met. It's also going to look to make sure that the earning conditions are valid if you're doing an earnings trade, like pre earnings or post earnings and it's going to notify you if you put a phone number, it'll send you a text as well and it will tell you the stock that these conditions were true in and it will send that to an email to your phone and keep you alerted in real time. So now when I add the alert, it adds those all and the helpful share link. Some people dunno what this is, it looks like a mess and so they get rid of the share, but the ShareLink will actually recreate that backtest for you.

[\(25:23\)](#):

And one thing I want to note is that the ShareLink includes all of the tickers that you checked at that time, but you'll want to look inside of your alert. The alert will say it was Google or Apple or whatever the stock was. That was true. And so let's just imagine for a second that it was Microsoft. Now when you pull up in Microsoft, you can see the back test for that and if it had triggered that day, chances are it would still be active and it would tell you right here that it's active and if had stock jumped over the whatever 200 day moving average and then dropped back down, then it would say not active that it's no longer active, but you can kind of check that throughout the day as time goes on. That's how a trade machine kind of takes a lot of that work of waiting for those signals and setups and then just notifies you when the time is right. Way our backtester works is it places straight toward the end of the day, so if you want to stick as close as you can to the trade machine approach, then you would wait to last 15 minutes or so of the day. That's also when the options tend to be the most liquid and then you could place the trade that way.

Amanda Kelley [\(26:26\)](#):

Hey Jason? Yep. I just wanted to jump in because I've had some users reach out and support and there's kind of a workaround. It does take a little bit more work, but because you can see five back test tiles at a time, if you save your alerts in groups of five makes sense. You can see all at the same time. So if you're somebody that doesn't want to change the ticker each time you go in, you can just save it in a group of five, it's going to load all five fact test tiles and it's just another way to see everything a little quicker just depending on what your preference

Jason Hitchings ([27:04](#)):

Is. Yeah, yeah, no, that's a great point. To Amanda's point, so because you can do five tickers where you actually see the whole tile and whether it's active or not, if you want to do these in groups of five, it's a very good point. You could click five of these, click add alert, and then when you get this alert, this way when it pops up, you're actually going to see the whole result tile and not just the summary. Okay, sorry, I had the wrong link here. And so for each individual one then you can see if a certain ticker is active and when you pull up that link you can kind of just do groups of five. So you could do those five and then clear 'em out and then do the next five. So yeah, that's a little workaround and it's a good point, so that way it kind of saves you a step. So you could just add in groups of five and that might keep it a little cleaner for you. So that's a good point.

Amanda Kelley ([27:52](#)):

Yeah, I've also had people say that join it this way, they can save them in their own little baskets of stocks that they want to compare readily so then they can see if when apple triggers Nvidia triggers at the same time or vice versa. So you can kind of be strategic as to which alerts you put together.

Jason Hitchings ([28:14](#)):

Yeah, yeah, that makes a lot of sense. Yeah, there's a lot of tech stocks reporting earnings this week. I could definitely see the advantage of grouping things together that way. So yeah, great point. I hadn't actually ever done that before, so that's a good one. Okay, great. So that was kind of got through the main stuff I wanted to present. I just want to make one note about these back tests. So another point of confusion is that sometimes people will do a back test and then they'll look at a ticker and it'll say, okay, they're looking at, I'll just do a single ticker right now Microsoft, and they'll say like, well, it's not showing that it opened today, it opened back here, but it didn't show an open right now. So very likely the end date isn't updated, so you're just not seeing it at the very end.

([28:58](#)):

Another possibility is that the back tester opened a trade seven days ago or some amount of time where the position is still open. And because this is simulating a market where it's imagining you're executing a strategy where you open a trade when it signals, but you don't open a trade again until it closes. So if you got a signal right here, so if I scroll down here, I can kind of replicate it a little bit. If you got a trigger, let's just imagine that you were right here. The back test said, well, this said it opened the trade four days ago, but it's not telling me to open a trade right now. That's because the back test is bringing in the history of trading that strategy into the back. These alerts trigger basically as if the start date of the back test was today. So you're just entering into a brand new back test.

([29:50](#)):

So in a sense you're starting at the very beginning, it's like starting the back test here, but if the back tester already has a trade open, it's not going to reopen one. So you might not see a little green arrow here, but what you will see if everything's active is it'll say active as of this time, if that makes sense. And I'll just go to the today tab and any given one of these may or may not have been active still at the end of the day, but just to show you the green version, if this one happens not to be active, okay, this one is active, so that's what it'll look like whether or not the back test actually shows a trade on the day. This little flag will tell you if it's active and then for platinum members they get to click that little button and it'll kind of do the work and tell them what the legs are in the strategy and you can see that this is a diagonal and it's figured out the legs for you.

[\(30:35\)](#):

So that kind of saves a little bit of work. Okay, great. So that's the main stuff I wanted to get through today and now I'm happy to take any questions. So I've noticed some tickers which appear multiple times in the pro scan have different next earnings dates now, so that can happen in the pro scanner sometimes when the scan, we run the scans about every maybe two weeks, we try to get all of the ones fresh. So if that scan happened to run before an earnings date and then we run it again at the next earnings date, it will save what it thinks is the next earnings date as of that time. So occasionally you will see that we're actually doing a little bit of refreshing of some servers to keep those ones that were running before the last earnings date to get those earnings date refreshed.

[\(31:22\)](#):

But yes, that is a little quirk in the scanner right now. Chad says, what's the best way to tell if the conditions for the alerts are still in play at the end of the day before placing a trade? Yeah, awesome question. And it's really this, and this is a relatively new feature, but it really saves a lot of headache. If this says triggered, then it's active as of that moment. How do you delete a set of alerts? Great, so a couple ways. One, you could just delete this way, so I'm just going to delete ones that I know are sort of examples, not my actual real alerts. So you can just click like this, but if you want to delete more, and that will go pretty quick if you want to filter by ticker or if you put a basket of alert conditions in for some bullish burst or something, then when you sort by condition, you'll see them all get grouped together.

[\(32:11\)](#):

Or if you put notes, you can filter down on the notes and say, let's see if I have dia in my notes here. Okay, these are the custom diagonals, so I filtered on notes. If I wanted to delete these, then I can just quickly delete these in just a minute or two. If you really want to go and just start fresh and let's say you set 500 alerts, there's this bulk update alerts and there is this, I want to permanently delete everything, so that's also an option. This bulk update alerts also gives you the ability to change your email address or phone number if you decided, Hey, I'm getting a ton of alerts to my work email and I really want it to be in a different email, you can update the alert email there. Ernest says, when you change the deltas as in your example and save the back test, is that change then reflected for that strategy in the future if you change the delta?

[\(33:04\)](#):

So let's just do a real simple example. So if I say a MD and or you said if you're doing a particular strategy, I'll go back to the bullish first. Let's say this is going at the 40 delta. If you in these settings

change this to a 30 delta right now, it's only changed it for this. Now if you go to a different tab and come back and you don't click a share link, it's still going to say 30 delta, but as soon as you click any link in the product, it's going to update all of the settings, it's going to update the number of contracts, the fees, all that kind of stuff. Every time you load a share link, it updates these settings. We're probably going to put a little reset button to reset to people's preferences. If you want to do your own, call it bullish burst, what we can do is click the save button and say, my bullish burst 30 delta.

[\(33:53\)](#):

Now that strategy from that point on is going to load with the 30 delta, but it will not change any of these CML strategies that are built in here and it won't even change the existing ones. If you want to change it, then you would just delete the old strategy and then add the new one. So this says bullish technicals, I could delete it, change the settings and then save it again. So that would be the way that you'd update it. When you click the share link, anytime you click this little share button or you add an alert, it does it automatically. This link carries forward all of those settings. So anything that you changed gets carried forward in that share link. So you can see the 30 delta here, but also if you change it to two contracts, if you said, every time I trade a share it's going to cost me \$10, the fees are seven of my brokerage.

[\(34:43\)](#):

When you click this share link and you can either click a copy here or just copy it off the top, the next time that you open that up, all of those settings are saved. So this is, if we didn't do it this way, it'd be confusing because every single time you opened a strategy, it'd be changing. You're like, Hey, I thought this made 150%, but this time it only made 110%. What happened? So we kind of had to make a choice. Are we going to overwrite all of your settings every single time with every share link, or are we going to let the strategy sort of change once you've tried to save them? And so we've made the decision to always update all the settings so you get exactly the same result also, so that when you click the link from the today tab when it loads, you see that back test with that exact result, we didn't update these settings, then the results would be different.

[\(35:27\)](#):

And that also, so it is kind of a balancing act, and that's the way that we've implemented it. So if you do have a setup that you like, I just recommend that you save a backtest that way and then you can load with all those settings. Same with a custom strategy, you can create your own custom strategies. Okay. PJ says, in a strategy that is supposed to exit at 40%, why do some past trades show much higher returns? Yeah, excellent question. So Backtester, the way that we've implemented it places all of the trades at the last section of the market, and so it's a little bit like sometimes if you put a limit order in, let's say you were trading an earnings event on Microsoft today, or Google had a really great earnings day. Let's say that you bought a 30 delta option and then you said, I want to have a limit of 50% it gapped today, so it's going to open, that stock's going to open up 15% or something like that.

[\(36:25\)](#):

It's a huge gap up. So even though you set a limit saying, I want to exit as soon as it gets 50% tomorrow, the market price of that option is going to be up like 500%. And so even though you set that limit, the first chance it has to sell it, it's going to sell it at market price with your limit set, but you're going to get a much bigger return than that. That's essentially what's happening with the Backtester. We're always

looking at the data at the end of the day, and so even if the stock moved up or down through those ranges, it's only going to hit the limit. If that limit is true at the end of the day, sometimes it can be higher or sometimes an option might've intraday at that 50% limit, for example, but at the end of the day ended with only up 30%.

[\(37:09\):](#)

The back tester won't exit that position. We've tried it both ways and we've decided that it's more consistent for the product to do it this way, but it's a great question and that's why that's happening. Darren asks, is trade machine linked to your broker for you to place a trade when an indicator signals, or do you just get a signal then go to your broker and place a trade? Yep. We have not connected it to brokerages so far. We get the request a lot. It's a possibility that we'll do it in the future. Generally speaking, once people start sending order flow through brokerages, then they end up being financially incentivized to do it. They end up getting kickbacks and percentages based off of trades placed. So far we haven't gone down that route because we kind of like having this be a tool that is giving you the best possible information where it has no effect on us, whether you wait three weeks to place a trade or whether you place three in a day.

[\(38:05\):](#)

So yeah, we've tried to make it really easy with the show options to quickly look it up in a brokerage. But yeah, we have not yet started sending order flow through into brokerages. We get asked a lot. It's possible we'll go in that direction, but so far we've kind of tried to keep arms length on that one, but it's a great question. Okay. Why do symbols in the date page that our active triggers show as not active when you click assemble? Yeah, so today tab is checking things constantly intraday. So let's say that stock crosses up above a 200 day moving average. It's going to send that alert immediately, and you can actually set alerts in the today tab. You can pick an email at the top and say, for the largest 500 symbols, I want to get all of the today tab alerts, and for the NASDAQ 100, I want to get these today tab alerts for these strategies.

[\(38:50\):](#)

You'll get an email in the middle of the day when that comes true, and it's a matter of personal preference if you're going to place the trade in the middle of the day, if that works for your schedule or if you're going to wait till the end of the day. We didn't want to only send the alert in the last 15 minutes because some people are commuting or on a lunch break or with their kids or a million other things. So we send the alert as soon as it happens to give you a heads up. But if you want to stick as true to the trade machine as possible, then you'd probably check later in the day and see if it's still active before placing it. Oftentimes, both PHE and I frequently place trades as long as it's active. When I'm actually looking at the strategy, I frequently place trades in the middle of the day. No, we don't have any information one way or another. If that gives you better or worse results, it's just we find it more practical. But for that reason, if stock bounces up above a certain moving average and then comes back down, it might trigger in the middle of the day. You get an alert in your email, and we wanted to show it here when it's true, but when you click on it, then it may no longer reactive. So that's the reason essentially, once it hits this today tab, it stays on the today tab.

[\(39:56\):](#)

Ultimately, we may have a little green here that shows that it's still active or something like that. But yeah, it's a great question. Yeah, so Costco is an example. Yeah, I could click, where do we get Costco? That was two days ago. So yeah, one thing is if it triggered two days ago, this is kind of to show you a history of things that triggered, so this one actually didn't trigger today, so it's only the ones that are blue that triggered today. People had sort of asked to see some history for what things have triggered recently, so that's why it's showing a little bit of history. That's another filter that we may add at some point, is just to filter it down to things that traded today. So yeah, if it doesn't say today next to it, then it means it triggered a day or two ago.

[\(40:33\)](#):

Cool. Well, we're right around that 45 minute mark, which is kind of the timeframe we like to stick in. I'm happy to take one last question if anyone has any more, but if not, I really appreciate all of you being here. We do these at least once a week. If you go to the learn tab, you can find all of the previous help sessions. So down here, there's these live help session archive. So you can see the last couple sessions we did some on risk and a bunch of other things. There's also a lot of options, education about all kinds of different spreads and that kind of thing. And if you're looking to look more research on a particular strategy, a bullish burst or macd or though one by three by two, Brooklyn Wing Butterfly, lots of great stuff there. So yeah, definitely check out the learn tab and come talk to us in community. Great place to get questions answered. We have Max, who's a former options market maker with 30 years trading experience to answer questions. So he's a really awesome resource and just in general, it's a really friendly place. So just go and share your trade ideas and ask some questions, and I think you'll find everyone really welcoming. Okay, everybody, thanks so much for being here and we'll look forward to seeing you the next time. Have a great evening.

TradeMachine® Live Help 4/16/2024: Short Amount Risked



Jason Hitchings ([00:03](#)):

Thank you everyone for being here today. We're going to take the other half of the previous discussion, which was about how trade machine calculates the amount risked last time we focused on risk for long positions and today we're going to focus on the short positions. So I'm going to start with the disclaimers. As always, I am recording. This is not a solicitation to buy or sell any security ever. This is not advice. You should read the characteristics and risks of standardized options. 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. Trading futures and options involves the risk of loss. Please consider carefully whether futures or options are appropriate to your financial situation. Only risk capital should be used when trading futures or options.

([01:04](#)):

Investors could lose more than their initial investment. Past results are not necessarily indicative of future results. The risk of loss and trading can be substantial, carefully considered the inherent risks of such investment in light of your financial condition. I'm Jason Hitchings. I'm the CTO at Capital Market lapse. Been working with PHE for a long time. Okay, so for anyone who missed the last session, which was Thursday evening, late afternoon, evening, I'm going to do a very, very quick recap for about two or three minutes of the long risk that I'm going to jump into some short strategy risk. We'll do a short put, a short call, short strangle and a short put spread. And then as some of you may have noticed, the liquidity filter went live late yesterday for platinum users. And so we'll do a quick, quick look at that and I'll talk about how we calculate the liquidity metrics and then we will take q and a and we'll try to wrap up in about 45 minutes. Thanks again for joining us.

([02:15](#)):

Okay, so we talked about this last time. So if you were here last time or watched the video, this will be quick review. So just as a thought experiment on the long risk. If you were bringing a hundred dollars cash to a game of poker and then you got up to having 800 and chips and then you ended the evening with 200, it's kind of a matter of perspective. If you risked a hundred or 800, we view the night as essentially your strategy, your back test would be for the entire evening. So we view it as you came with a hundred dollars, you're risking a hundred dollars and if you left with 200, then that would be a hundred percent return. That's how trade machine views it.

[\(03:06\)](#):

If the same situation happened but you had a buyback and you ended up kind of bringing a total of \$200, if you ended up leaving with \$200, then we'd consider that to be breakeven for the night. So in short, the risk in trade machine is the cost of the trade plus any commissions minus the cash from previous positions, whether positive or negative. I actually had, oh, it's asking me to sign in again. That's odd. Okay, let's be fast. I actually had a typo last time, so just jump past it here. So this should say 0% return.

[\(04:06\)](#):

Okay, so if you bought a long call, your risk would just be what the call this is, sorry if you bought along, put your risk would just be the cost of the initial position. Same with the call if you bought a long call, it's just the price of that call and that changes once we move over to short the way that we look at the risk of a short, you could say if you sell a put, then you're risking the chance of it going to zero. That would be a perfectly reasonable way to look at risk is that the risk is worst case scenario, we view risk for short positions using basically something very similar to the margin requirement. If you look at Reg T margin, there's two different ways to calculate margin. There's quote unquote portfolio risk or there's sort of position risk and Reg T is the normal way that brokerages do it. So we're basically using a Reg T calculation and there's a couple areas where we're a little bit more conservative, so if there's different ways of doing it, then we might choose the more conservative one.

[\(05:20\)](#):

But we'll just start in the previous live help session, we looked at this same example of Nvidia. We were looking at long calls and short calls, so we're going to look at the same for we looked at long puts and long calls last time. Now we're going to do the same thing but looking at short puts and short calls. And so in this trade the user starts off short that same option that we looked at previously and it was you took a credit of \$21 and 38 cents times a hundred and then it was profitable. And so the way that we calculate that is using this Reg T and I chose some examples from Tasty Trade, some examples from interactive brokers just for how they spec out the margin requirements. It's actually defined in a SIBO margin requirements document is the definitive version for Reg T. There's actually regulatory stuff if you want to get SEC has their own versions of it.

[\(06:28\)](#):

But basically what this says, it's the price of the option that you have to keep in your account plus the maximum, the greater of either 20% of the stock price minus any amount that it's out of the money or 10% of the underlying price. And I'll break that down into details. It sounds a little complicated. Okay, so let's look at this example. We have this short put for 2138. Somehow we came up with this 82 36 calculation and this is how it got broken down and there's a little extra piece of subtlety here. So the

position was 2138 and then you take the max of 20% times the stock price minus the out of the money amount. And that means basically the reason they do that is the more out of the money, the option is the less at risk you are. If you're selling a put and the stock's trading at 200 and you're selling a 50 strike put, it's very, very far out of the money and so they don't consider that you're risking very much, but if it's so far out of the money that it's actually more than 20% out of the money, then they basically say, well you need to hold at least 10% of the value of the stock as part of the margin.

[\(07:56\):](#)

So in this scenario it's a 40 delta put, so it's a little bit out of the money. We have a 450 strike and the stock is about four 60. And so when you look at this, you subtract the out of money amount, you end up with 91.91 minus 9 2 5 times a hundred. So you end up with 82, 36 as one of the two calculations. The other calculation ends up at 45 95 and so you take the greater of the two. Now the question is what happens to this 2138?

[\(08:32\):](#)

If you're supposed to have the price of the option plus this then isn't the risk actually 10,000 3 74, this is what the maintenance margin is. So you would have to keep this amount in your account in order to not have a margin call on this trade. As soon as you place this trade, you immediately take a credit of 2138 into your account. The amount of additional capital that you would need to have and hold in order to have this position on is this 82, 36. That's the additional money that we see you as needing to have tied up into this position. And so when we do our risk based off of a Reg T, we say, okay, what's the additional amount of capital that you need to have beyond just the credit that you receive initially? So that's how we come up with that 82, 36. Okay, now we're going to look at another example.

[\(09:40\):](#)

So that's just what I said there. Okay, so now we're going to look at the short call, but I'm just going to look on day one. You might remember that that short put traded at a profit. So right now I'm just going to look at the initial risk for the short call. So I'm doing a 40 delta short call on this Nvidia as well traded at a price of 1727. So you took that as a credit initially and we're going to look at the same calculation here. Now the strike that got traded was this 45 stock price is around four 60 and it's going to be the greater of these two. The first calculation you end up with this 66 46 and the second one you end up with 45 96. And so you can see that the amount risked here is the 66 46, but that's just for day one because as this position changes over time in this scenario, Nvidia went up and so that option was less and less out of the money maybe started even becoming in the money up here and the amount of risk increased over time.

[\(10:59\):](#)

So we ended up, if you held this position for roughly 10 days, that the amount risk on that trade ended up being 99, 31. So with short positions we're kind of constantly reassessing the risk and we're saying what's the max risk over the entire lifetime of the trade because your brokerage account, if you didn't have enough money in it, they'd ask you to deposit more or potentially they'd liquidate the position. So we're assuming people are staying ahead of that In this theoretical scenario we're saying the amount of capital that you had tied up in here, reg T is basically based off of what's a reasonable scenario for, it's not really worst case, but it's a reasonable case for a really bad outcome and that's what this margin is

based off of. So with these short strategies, the risk is continually reassessed as time moves on and so the risk will change from the initial time you put it on.

[\(11:54\)](#):

Generally with a long strategy, if you buy a call, the amount that you're risking is just the initial premium of the call and the risk won't get reassessed until you close the position and then now you have a net cash change. So you lock in that profit or loss and then you take the next trade. If you lock in a loss, then we're saying, okay, this entire strategy has that loss. It's kind of like when you had to go buy back at your friend's poker game, so now you have that say minus 100 in your account and so then that would get added to the total strategy risk. But while the strategy is in place, generally with the long strategy, it just stays fixed over the course of the strategy. I'm going to look at a short strangle straddle in a second here, but I just wanted to for completeness show the long version of this.

[\(12:43\)](#):

So if you did the call and the put, you can see the risk here in trade machine is 38 65 for this trade and that's just real simple. It's just you're putting out risk that both premiums, if stock landed anywhere between four 50 and 4 85, both these things would be worthless and so you'd be at risk for the full amount of premium or full amount of really the option price for both options. So now we're going to look at short strangle straddles. I know there was a question last time in terms of how those are computed and someone looked at it if a question got forwarded to support, I didn't see it but I know there's a question about it, so I wanted to look at those as well. And so again, we're looking at this risk from the perspective of margin and when you're looking at it in margin, we don't just add up the risk of the call and the risk of the put because when you're short strangler straddle, unless they're in the guts, unless you're selling two in the money options, only one of the other is going to end up losing.

[\(14:02\)](#):

If you're lucky, neither one, if you happen to get land in between the two strikes or at that strike, then they can both win. Or if you're within the range of credit that you receive, if you receive \$5 a credit and you're selling the same strike and making a straddle, then if you're within \$5 of that strike then you should end up in the money. But you're, it's not the same as selling a short put at one point in time and then at another point in time selling a short call, those could both move against you. They could both end up in the money by a hundred dollars if they're happening independently. If they're happening on the same expiration, then it's really only the greater of the two that is at risk.

[\(14:49\)](#):

So pretty. So for simplicity sake, I'm just looking at one day and it's just the greater of the two. So right now we see that the put has a risk of eighty two thirty six and the call has a risk of sixty six forty six. And so the strangle here just has the greater of those two as the risk. Alright, so now we're going to look at a short vertical spread and this was taken from tasty trade. It says the margin requirement for short vertical spread is equal to the difference between the strikes multiplied by the number of spreads the credit received from the spread may apply to the margin requirement. So you have to hold that as well. So let's just look at a quick example. So here I kept the deltas close, I kept the strikes close on purpose and shorted the 40 delta and were long, the 35 delta. And so those strikes worked out to be short, the four 50 put and long, the four 40 put, so this is pretty logical. What's the amount of credit that you receive? And the credit is four 11.

[\(16:17\):](#)

And then what's the worst case scenario? The worst case scenario is that it goes all the way through, it goes down below the four 50 and then it goes all the way through the four 40 and then all the way down to zero you're covered equally the same. So this spread ends up being \$10 in the money in the wrong direction for you. So the worst case scenario for you is that the spread becomes more valuable short and the most it can become worth is \$10 per share. But you collected four 11 at the beginning and so you ended up being a net loss for roughly 5 89 decimal decimal. Decimal gets rounded to five 90. So that one I think is pretty intuitive for people that have some experience with level two and three options.

[\(17:12\):](#)

The one caveat that's not included in this small writeup is the fact that it will never be worse to have that protective put than it would to be short and naked put if you sold, if the stock's trading at whatever 120 and you sold the a hundred level put and then for catastrophic protection you bought back the 50 level put that they're not going to have you put at risk \$50 because it won't be more than 20% of the value of the stock. So that was kind of one small piece of information was slightly incomplete in this is that it won't be worse than just having the two positions independently. The protected put will never hurt you. I mean each brokerage has their own way of calculating it, but Reg T doesn't require that and we don't ever have the risk worse than just having the two positions independently.

[\(18:09\):](#)

So that was kind of a quick summary of the main strategies within trade machine like logically you can kind of extrapolate from that with iron condors and things like that, how those would trade. I'm not going to do a deep dive into custom strategy risk today, but I'll just kind of say briefly that basically we're trying to pair off all of the legs in order to make the lowest risk position possible. So kind of trying to find the riskiest short legs and pairing them up with long legs and we're kind of doing that piece by piece of the strategy and then if we're left with naked options, then we just treat those as naked option risks, so we kind of break the strategy up into this individual components. Great. Okay, so we mentioned liquidity filter, and so we're going to take a quick look at that. That's currently available for platinum members. And so right up here we see this liquidity filter. It functions much the same way that the symbol filter does here. This is filtering on what group it belongs to either the Dow 30, the NASDAQ 100 or the largest 500 by market cap.

[\(19:25\):](#)

So this will filter every time you move up on the scale. It will show fewer results, either the same or fewer results. And this is based off of the spread in the options market and we look at options that are as close as we can to 30 days in the future. And then we look for options both the call and the put that are as close as we can to a 25 delta option. So somewhat out of the money and then we look at the width of that market at the end of the day and we look at it the width on an absolute terms like is that width 5 cents or less? We have a rule that says if it's only a nickel wide, we consider that to be a five out of five regardless of what the stock price is.

[\(20:17\):](#)

Also we have an additional filter says how big is that width as a percent of the stock as a whole? So if a stock is trading at \$10 and the width is 50 cents, we view that as the same amount of liquidity as if a

stock is trading at a hundred dollars with the width of \$5. And I'll pull open the learn tab and look at that in detail, but each time you click on one of these it will reduce, either none will be eliminated or it'll slightly reduce. And by the time you get up to four plus and five, you should be seeing things that are highly liquid.

[\(20:58\)](#):

We kept this relatively simple and got it out and we very much are welcoming feedback, so please let us know. If you click four plus you click one of these, you look at it and you open it up in your brokerage and you're like, Hey, these look really wide, let us know. Send us a screenshot and tell us what you're seeing and then we can always adapt. But from the testing that we've done, it does a pretty darn good job. And I'm going to take a quick look at the learn tab here and if you type in liquidity, there's this nice write up here and these are the rules. So if the spread is less than or equal to a nickel, we consider that a five out of five or if it's 0.25% of the stock price, so a very small percent of the stock price and we consider that to be highly liquid. We adjusted these some initially we had these a little bit too permissive and some things weren't as liquid as we wanted, so we kind of tightened these up and reran everything. And from the analysis that we've done, these have worked out pretty well. So down here by the time you get to a liquidity score out of three, it means that the width is 1% of the stock price. So on a hundred dollars stock dollar wide would give you a score of three.

[\(22:23\)](#):

The score would get better if it's these rules also pile. If it's a nickel wide or 10 cents wide or 20 cents wide or 50 cents wide, then it will always be at least that good of a score of 5, 4, 3, 2. So it's either one of these things and the better one, you'll get the better score. The one little caveat is we said if a stock is trading at \$4 and 25 cents, we just kind of made a cutoff at \$5 and said we're going to give it a max liquidity of three because now you're just talking about stocks that are a little bit more on the fringes and just are a little bit less predictable in terms of what their market's going to be doing. And so we said if it's under \$5 then we give it a max score of three even if it looks relatively tight.

[\(23:11\)](#):

And I think an area in the future where we might between say five and 10 or maybe certain stocks are trading at three 50 but the markets are penny wide, we are very open to feedback if you guys start looking at these and you have feedback on it. But yeah, that's version one of the liquidity filter and we're pretty happy with what we're seeing so far and we're excited for the platinum members to start having us some feedback and this is a feature that we might very well roll out to everyone once we get some initial feedback on it. Great. With that I'm happy to take any questions.

Amanda Kelley [\(23:53\)](#):

All right, we don't have any questions in chat right now, but if you have some go ahead and drop them in chat while we're waiting on those to come in. I would say if you have interest in upgrading to platinum liquidity filter is one thing that you're going to be able to test now, but you also get expanded range of back tests, you can back test up to 200 tickers at a time faster back testing speeds and you get the options on the trigger now feature.

Jason Hitchings [\(24:28\)](#):

Yeah, and I might just do a quick for anyone who's brand new here, a deep dive on short risk might've been a little more than your bargaining for and so I think I'll just take one minute here to go over just a real quick introduction for new users and then people can think of if they have any questions. Otherwise we're happy to wrap up. We try to keep it between 30 and 45 minutes and we're about 25 minutes. I will just respond. Carl said, Hey, my audio is cutting out periodically for a second or two. Sorry if anyone else is experiencing that. Hopefully it didn't mess things up too much. Dave asks how much the update is for platinum, it's actually less expensive, we just ask for a yearly commitment so you just email support and we'll get you turned over on that. That just helps us normalize a lot of things with our servers and data feeds and all that kind of thing.

[\(25:21\)](#):

So it just helps us if people can do it at a year at a time, generally get if you're standard user paying standard current prices, then you get about a 15% discount on the year. So it's a win-win. Okay, so for anyone that's brand new and I see a few questions coming in, but I'll just give a real quick two minute introduction. So when you first land on trade machine, you're going to see all these different strategies some haven't triggered, but anything that appears on this tab, we call it to today's tab. If it says today here, it means it's a strategy that was active today. At some point all the technical and earnings conditions were true. Any one of these strategies you can dive into and take a deep look at by quick clicking the question mark. Some have videos right inside of them and then if you click the ticker, it's going to open up that back test and you can take a look at how that has performed historically.

[\(26:24\)](#):

And if this little green flag is here and it says triggered and it's green, that means it's still active. So in this case, the technical condition is that the stock has to be greater than the 50 day moving average. And then there's some earnings rules and it says that it's going to open 14 days before earnings. So you can see that the next earnings here is April 30th. And as a quick reminder, if that's all it says, then you can feel confident that's when the earnings date's going to be. If it says not verified, then you might want to think twice or do your own research about the earnings date. But generally if they're appearing in the today tab, you'll see there'll be for verified earnings only and this means that it's active trade machine places its trades at the end of the day. So if you want to follow trade machine as closely as possible, you can wait until the end of the day to place the trade. I think that's a matter of taste, whether you are willing to make that kind of time commitment in order to only trade in the last 15 minutes of the day, I tend to, unless I have warning flags going off in my head about something else, I tend to just personally just take the trade when I see it active.

[\(27:33\)](#):

This is a little additional feature that yearly platinum members get. If you click show options, then it'll tell you the exact strike and expiration for the strategy, which is a little bit of a time saver. Otherwise you can just look at the deltas. So this was a custom strategy, so it's a little bit more complicated for new users. All of these strategies here, they say either advanced or intermediate or beginner. The beginner tend to just be one simple leg like this bearish bursts or bullish bursts will just be buying a call or buying a put. But yeah, that's a great place to get started. And then there's obviously you can do your own back test and portfolio back tests and all that good stuff. There's a lot here, the learn tab is full of great resources. There's also options education if some of this stuff is a little bit new and then there's a community, you just quickly read and say, yes, I'm going to have just not talk politics and not be negative

towards people. And you can dive into community and ask all the questions you want the trade machine, if you have both products you'll see both. But for trade machine users, yeah, ask questions, get trade ideas, lots of great stuff happening here. Okay, we have a couple things coming in here.

[\(28:58\)](#):

Okay, so Tracy says I'm a new user and I had a question on alerts. I currently have 250 set up, so setting them up is not an issue, but I'm still struggling on the execution of these alerts. Great. So when you see an alert come in, I cleared mine out recently, but when you see an alert come in, it's basically going to give you a share link. So if I create an alert here, I can give you a good example. Basically when an alert comes in, they're going to behave pretty much exactly like this. You can actually set alerts on these so you can say which of these you want to get alerts on. So this is for which tickers. So if you only want alerts on say stocks in the S and P or in the largest market cap, you can choose the strategies you want to get alerted on.

[\(29:48\)](#):

You'll get an email with that alert. When you get the email, it's going to say what the strategy was that triggered and it's going to give you a link. And so if I had subscribed to these 14 day pre earnings calls, I would get a link like this that would say RSG triggered today and then it would tell me what the technical conditions were. I'd say the stock is above the 50 day moving average. It would say the stock is currently at 187, whereas the 50 day moving average is at 180.4 or something. When you click that link, it's going to pull up a page like this and this little green banner here indicates that this is still active, the conditions are still true, the earnings conditions are still true, all of that kind of stuff.

[\(30:44\)](#):

It is not saying that the strategy that the back test is ready to open up trade, this is assuming that you want to put on a new position. So it'd be kind of like you're starting the back test on 4/16, 20/24. So it's starting a brand new position. So if you ever get a little bit confused because you're like, well, it didn't seem to open a trade today, the alerts are based off of the assumption that you don't have a current position and yet you're waiting for the right time to open it. If this is green, it means it's ready to open the position. Now let's say you're not a platinum member, so you don't have this little handy show options thing.

[\(31:24\)](#):

What this is saying is that this strategy is 30 days to expiration and it's a 40 delta call. 40 delta means it's a little bit out of the money and you're looking for something as close to 30 days in the future as possible and you want to buy a long call. So we'll see if this one has helpful options chains, we get these from the CBOE. So I'm going to look at here, I'm going to say, okay, what's the closest to 30 days in the future? We happen to have one that's 31 days, so that's a nice and clean one. I'm looking for a call. So these are the calls and I'm looking for a 40 delta. So which one of these is closest to 40 delta? And I would say this May 17, 190 call. So this would be the option I would buy. Now the midpoint is 345, but obviously when you go into your brokerage then you'll see how wide the markets are and that kind of thing. And these are slightly delayed. So the actual option prices, the stock is current, but have a look at the option prices and make sure the markets make sense for you. But yeah, that's the trade you would place if you wanted to enter this strategy for annual subscribers. You can click the show options and it just shows the exact same thing.

[\(32:48\)](#):

Now it could have more than one leg. So if this was a but spread, let's see if I, so little nuance here. This says long, the 40 delta short, the 40 delta puts. So that's not a strategy you can actually do get long and short the same thing. And so I click this little settings gear and I say I'm using my own deltas. And so I say right now this is a long put spread, so I'd be long the 40 delta short. Now I'm going to say 30 delta. So a little bit more out of the money. Delta just tells you more or less how far out of the money something is 50 delta is out of the money we use Delta. It's a little bit more precise than saying \$5 out of the money if stock goes from \$20 to \$500, being \$5 out of the money is very different. But Delta captures all of that.

[\(33:50\)](#):

But now when you click it, it shows both. It says, okay, well you want to be long, the 185 puts and short the 180 puts, but it's the same. The logic, you just look at the already delta and the 30 delta. You can do it here or your brokerage ought have it as well. So you could filter by 30 days and say, okay, now we're doing the put spread and we're looking at the closest we can to those two deltas. So I hope that was helpful. We know Delta feels a little tricky for some people initially. We have some good learning resources on what delta is on the learn tab, it ends up being more precise and giving you better results. We do it because it's going to give you a better simulation, better back test of what's happening in the market.

[\(34:37\)](#):

Our leap options not part of the TM strategies. We don't have a lot of leaps like prebuilt in to the strategies. For instance, if you're going to do an earnings trade, buying options two years out with earnings, you're typically going to do an earnings trade within whatever few weeks or a few months. If you're capturing multiple earnings events in one leap, then it's kind of a different sort of strategy. We don't have that many built in ahead of time or really nothing that's really far out, but you can do any kind of backtesting you want. So if you're saying for instance, so we have all these save strategies here. So if you click save strategies, so you can say I like the fade, the dip AI strategy, I click save strategy, I click load.

[\(35:33\)](#):

Okay, but this is 30 days out. You're like, okay, that's done fine. The two times that it's triggered has done fine. What would happen if I was using options a year out? So by just changing the days to expiration, you can turn any one of these strategies into a leap strategy. Now I'm going to draw your attention to the fact that now we only have one trade. The reason for that is because you were still holding the position the next time it triggered and trade machine won't reopen the trade if it's already open. So you could do portfolio back testing, you can do anything you want. You can create custom strategies where you could add different legs of different durations, et cetera. So there's anything that you can do for shorter term options. You can certainly do for longer term options as well. But ours typically tend to be operating in the sort of seven day to 60 day timeframe.

[\(36:32\)](#):

Some strategies include buying options like 40 delta calls. What are your thoughts of reducing the price of the option by selling full put spread against it as a combo? Yeah, I think it's great. I think I would just backtest it. I backtest it both. So you could see something gets triggered for a 40 delta call and then you

could say, okay, what happens if I sell a put spread instead? That's essentially what the fade, the dip is conceptually similar to that when it's low, we're selling sometimes because of the way that volatility works sometimes there's certain kind of market conditions where you might want to own options versus being short options. So I think it can be great. I would just backtest it and I would backtest it not only against one. So let's take an example.

[\(37:30\)](#):

So this is these pre earning 70 day calls. So I'm going to click one. So this has won six times, lost two times it's currently active. But you're saying, okay, how would this have done if I was short a put spread? I'll make sure the deltas are good. Let's see here. Yeah, see we ended up with the same 40 delta, 40 delta. So I'm clicking here. I can also just get rid of my own deltas and it'll kind of set some That makes sense. Okay, so then being short to put spread, this is how that particular strategy has done for this stock, not quite as well. So at that point I'd probably say, yeah, I'm just going to stick with the long call. But if it did do relatively well, I might also test it against a larger batch of stocks and see how that performed as a whole. I will say that when we develop the technical conditions and some other things, we are taking into account a lot of market conditions when we create those. And so for instance, being long a call going into earnings isn't a coincidence because as you go into earnings, there tends to be more anticipation of the movement and more volatility. And if volatility is increasing, then owning options tends to be better for you.

[\(39:03\)](#):

I'd say we are intentional about if we're long calls, we're short puts or short put spreads, but sometimes you might be better off owning a call spread instead of just a naked call for instance. And so I definitely recommend that you play around. That's the power of trade machine is that you can adjust to your own trading styles. And I have seen even with Buy the Dip, I have found that recently call spreads tend to work a little bit better. We intentionally wanted to have some strategies and I think Max came to the same conclusion. I think he actually posted on community about it, but we wanted to have a couple in here that were single legs. Not everyone has level two options. Not everyone can spread et cetera.

[\(39:50\)](#):

And for some people it's a lot of complexity to start with. So we wanted to have a couple in here that were just like individual options, but a lot of these can do very well as being turned into spreads. Okay, we got about five more minutes. I'll try to get through a couple more of these. How many portfolios can a premium member create? There's not a limit on the number of portfolios for premium platinum members. You can have 200 stocks in an individual portfolio for normal members, it's a hundred. Jake says, thank you for the early explanations. Great, glad that helped Paul. A long 50 strikes short 60 strike call debit spread is synthetically identical to a short 60 strike long 50 strike put credit spread, they'll achieve the same profit loss outcomes. Regardless of what the market does, you calculate the different risk amounts for each, that will also make the average return percent different for each spread.

[\(40:51\)](#):

Despite them performing identically. It makes it hard to rely on the average return percent. Yeah. When it comes to agreed, everything you said is correct when it comes to short positions, we just use Reg T. It's just a different methodology. But I take your point, Robert says, are you still adhering to the trigger being green 15 minutes before the close? For example, Amazon went in and out of the trigger. Yeah, so

that happens things, that's why we have that feature is people had to check the technicals themselves previously, but sometimes you'll click on something that was active an hour after the market opened, but it stopped being active. The market can move one direction and then come back down. So this will show that it's not active anymore if it's on the today tab, it just means that it was active at some point during the day. My personal approach is if it is active in the moment I'm looking at it, then I, I'll proceed with the trade. But if you want to really stick as close as possible to the back test, then you could wait until the end of the day and make sure it's still active.

[\(42:02\):](#)

Thomas says, I meant buy 40 delta call and sell the 40 delta, buy 30 delta, but three leg combo as in reduce the price of the call by selling a spread against it. Okay, got you, Thomas. Yeah, and for that you could just test a custom strategy, but my general response would be the same. If you have an idea of a different way to construct the strategy, I think that's awesome. If you find one that you think is performing well, please post it on community. We'd all love to see it. And I would say just backtest it on the individual symbol and then backtest against a basket, at least the Dow 30 or the s and p or the NASDAQ 100. If you're seeing that it's doing well, especially if you're seeing that for the last two years, this is outperforming the default strategy.

[\(42:47\):](#)

I tested fade the dip against the nanotech 100 for the last six months and the last two years and I tested this other strategy and it performs better across the board. That's gold. And I mean, we spent a lot of time coming up with the strategies that have had good trends like that. So yeah, I think that's awesome. Please test it and please share your results if you find something cool. Awesome. Great. Well thank you everyone for being here. Appreciate it. And I think we're going to do a special session next Monday for just for brand new users. So if this felt like a lot and you're a new user, don't worry. We're going to take it real slow and go through step by step. The risk discussions was kind of a more nuanced, slightly more complex topic, but it's something that people have had a lot of questions about and so we wanted to do a deep dive there.

[\(43:40\):](#)

But please join us next Monday. I think it's going to be one that's later on in the day, kind of more towards a little after the close. And we'll take a nice slow walk through trade machine and answer questions for a lot of new users. And yeah, glad to hear that you're excited about the liquidity, Curt. But yeah, thank you everyone for being here. We're going to do these once a week and we're happy to answer your questions. Please check us out in community email support and ask questions there. And the learn tab has a lot of resources, so thanks for being a member and I look forward to seeing you all the next time. You got it, Carl. Thanks, Jim. All right, bye everybody.

TradeMachine® Live Help 4/11/2024: Amount Risked



Jason Hitchings ([00:04](#)):

Great. Okay. Thanks for being here today. We're going to cover some risk topics. I decided to break the risk discussion into two parts just to keep these nice and short, and the first part's going to be on long risk and we'll walk through a bunch of examples and then probably next Tuesday, maybe the following week, I'll dive into the short risk, which is a little more complicated, but we'll have good context from this session. So with that, I'm just going to go into some of the disclaimers. Amanda, our head of support is on vacation, so it's just me today. It's a well earned vacation on her part, so I hope she's having a great time. Okay, first, the disclaimers. This is not a solicitation to buy or sell any security ever. This is not advice. You should read the characteristics and risks of standardized options.

([01:04](#)):

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. Trading futures and options involves the risk of loss. Please consider carefully whether futures or options are appropriate to your financial situation. Only risk capital should be used when trading futures or options investors could lose more than their initial investment. Past results are not necessarily indicative of future results. The risk of loss in trading can be substantial. Carefully consider the inherent risks of such investment in light of your financial condition.

([01:40](#)):

Great. I am Jason Hitchings. I'm the CTO at Capital Market Labs and I've been doing FinTech option stuff for a long time. Okay, so we're going to cover long strategy risks today. We're going to look at an example of puts and then calls. We're actually going to dive into a support question that we got that was a very good example to draw from. Kind of gives a good way to look at it through the perspective of

someone using the tool, trying to make sense of the amount risk that they're seeing. And then I'll show a little sneak peek of something that's going to be coming out in the next week or two, the liquidity filter on the today's app. Okay, so let's dive in. I am going to start with a little thought experiment, which I like to do and this is kind of a matter of perspective. I don't think either one is right or wrong, but it'll give you a grasp of how a trade machine handles risk and thinks about risk. So the scenario is if you are playing a game of poker at a friend's house and everyone buys in for a hundred bucks and throughout the course of the night you're doing well and you get up to the place where you have 800 bucks, you have most of what was there on the table, someone comes back strong and you end up leaving the night with \$200.

[\(03:09\):](#)

Question is did you risk the initial a hundred you came with or did you risk the full 800 that you had at the peak? From one perspective, you doubled your money, you started with a hundred and you ended up with 200. The other perspective is that you had at 1.8 hundred and so you risked a total of 800 bucks and you probably still viewed it as a profit because you left with more than you came from, but you could view your risk as 800, the sort of max that you had at any point during the night. So just you can answer in your heads.

[\(03:52\):](#)

Sorry, I'm just reading a little comment here. How you think trade machine handles this? Do you think that trade machine considers that you risked a hundred bucks or that you risked \$800? So trade machine's perspective, it says that you're executing a strategy. The strategy is going to last the length of your back test and that the a hundred dollars you brought was the amount you risked and that you're kind of playing with house chips so to speak, or you're reinvesting your proceeds. It doesn't consider reinvesting your winnings as a risk within the context of a single backtest. If you backtest a portfolio, it'll add each ticker up to the total amount risk, but each individual backtest with one ticker, it's going to look at that initial investment as the amount risked.

[\(04:47\):](#)

So next version of this same scenario, you bring a hundred bucks this slide. So you bring a hundred dollars and then you at one point have to buy back and so now you've played with a hundred bucks, you made some, you lost some and then you ended up blowing out. But these rules let you buy back in. So you buy back in for another a hundred bucks and then the same thing happens. You go up to 800, but you end up leaving the night with 200 bucks. This would actually be flat. In this case it actually says 50% return. So that should be updated in that scenario because you invest at 200 and you end up leaving at 200, then your returns would be flat according to how trade machine views the kind of risk. Okay, so within trade machine, the basic way that risk is calculated for a long position is that you have a cost of a trade plus the commissions of the trade and then you subtract from that risk any previous cash that you have. This would include if you had negative cash or positive cash.

[\(06:11\):](#)

So in the very first scenario, if you start making new trades but none of the trades are larger than the amount of winnings that you have, it's not going to consider that as new risk. On the other hand, if you keep losing and losing and reinvesting, then it'll look at that. So let's dive into an actual concrete example. I'm going to start with some puts here and I want to start by looking at a trade with a single

back test here. Sorry, I decided to move these slides around a little bit. So when looking at these two trades, the first trade here in terms of the amount risk, I'm just going to pull this up real quick. So this is two different trades in Nvidia, but I'm going to zoom in here and just look at a single trade. So this started 1st of November, 2023 and it ended by the end of November. So I'm going to put in, so that's okay, there's no trades here, but I'm going to end it here in December, 2023. And so now we just have this one trade. And so if we pull up this trade and you see that the amount risk here is 21 point 38, and

[\(08:16\)](#):

Then you look at these trades here, well, the price of that contract was \$21 and 38 cents and you did it a hundred times, and so your cash outlay here was \$2,138. I set the commissions. The commissions you can put in this little settings box. I set the commissions to zero here. If we made it a dollar contract, you'd see it go up slightly. You go from 2 38 to 21, 38 to 2139. But that's the simple scenario is just, okay, I invested it is a \$21 38 cents contract. I just bought one and that's my amount risk. So that's the real simple scenario, but let's look at what happens now when you go from two trades. So now we're kind of zooming out a little bit and we have two trades. It's the same strategy.

[\(09:18\)](#):

That's the initial trade and now you have this other trade up here, and so how do we think that trade machine is going to calculate this risk? So those are the two entry prices. One way to look at this is to say, well, let's just add the two trades up together. And when you add those two trades, the number comes out to something like 5,500 bucks. Seems like a perfectly valid way to look at the amount risk, but because we kind of maintain this concept of a constant cash balance trade machine does it a little bit differently than that, we can see that the risk is 49 75.

[\(10:10\)](#):

So how are we arriving at that number? So basically the first trade lost \$1,600. The next trade cost, it was 33 35 per contract. We did one contract, so it was a \$3,375 outlay, but we are already in the hole 1600 for our strategy. So essentially we had to re-up 1600 or we had to draw in that much more cash to keep this strategy going. So this is looking at the sort of running cash position with the new amount risked for each trade and it's looking at that as the max risk. If your strategy just goes straight up and never comes back down, then the max risk is just going to be that initial trade. But if you have some losses along the way and you end up with a net cash balance that is negative, that's going to be added to your risk having to draw in that much cash in order to replace a trade.

[\(11:19\)](#):

Now if it goes straight up from here, then that will be the amount risked, but anytime it kind of dips down, then you're going to see that amount risk increase, but it's not going to be simply the sum of all of the trades that you did. It's kind of looking like you start off with an initial amount of cash, you're reinvesting that and if it goes well, then it just looks at that initial investment. If it goes poorly and you have to pull more cash in, then it does count that towards the risk and it'll look at the whatever the biggest trade was that took the most amount of cash total is how trade machine will look at risk for a long position.

[\(11:58\)](#):

So it's not looking at those individually. Okay, we're going to return to some examples like that later. Okay, so this was the support example that came in recently. So if we happen to have the gentleman who sent this ticket in, thank you for sending it in and it provided good example. What he was seeing is that he did a back test with no limit and he showed the max risk as 478 bucks, but then he put, and he thought that looked good, made sense to him, but he put a 40% limit in the strategy and now all of a sudden the risk was \$668 and he was looking at these trades. If you add up the trades, it's \$570 total. The third trade had a loss and he just didn't know where did he come up with this 668 number. There's no way to add these things up to get that. So I'm going to walk through it in real detail, which will hopefully be helpful. So this was the strategy.

[\(13:10\)](#):

You can see the 68 amount risked, so I'm going to keep that at the top here. And so now we're looking at the individual trades and now instead of times one contract, it's times five contracts, and so you can see here we're risking a little bit more than, I mean a little bit less than 500, like 475, et cetera, et cetera. Then this one closes, it had a positive p and I, so we're up 260 bucks. Then we open another trade. This contract's at bucko six times five, so that'd be like 530, et cetera. This goes through several trades and he couldn't see how we came up with this number. So I clicked on this download. So when you click the details, one of these strategies, when you click download here, you can pull up a spreadsheet and get a printout of all the trades.

[\(14:10\)](#):

And I have one here where I actually kind of did the math that we're going to be talking about today. I'm going to walk through it here for a second. Okay, so I clicked download and then I get this. This is the kind of starting place that you get in this Excel spreadsheet. You see the p and I, it doesn't show a p and I at first until you close the trade. So it opened this trade 95 cents per contract times five, et cetera. And you can see the ones that here that are negative going down through this list. At some point our profits end up kind of outweighing everything, but I'm going to add column by column to kind of walk through what's happening here. So if you're not familiar with Excel, don't worry about it, but on the right hand side, I'm adding up the cash that we have at this point in time. So each time in this row I'm saying as of this closing trade, our cash position from closed positions is we're up 260 bucks, then we're up 570 after this next trade. Then we lose \$465, but we're still up net 105, et cetera. And then by the end, the strategy ends up being very positive at 1775.

[\(15:32\)](#):

Okay, so this gives you your current cash position as you're going through time in terms of the amount that you have not invested in a strategy per se, but the amount that you have from proceeds.

[\(15:46\)](#):

Okay, so he had 50 cents per contract fee, and so this \$2 and 50 cents does get added to your risk when you're creating a new position. So if this thing was four \$75, now all of a sudden it's 470, 750 in terms of what that position costs to put on once you actually close the position, that's already baked into the p and I. So the p and I does reflect both the opening and the closing commissions and if it expires out of the money, it does not charge you a closing commission. So it's kind of tracking that in a pretty reasonable way. So now we added the column for commissions, and so this new column is kind of the amount that the new trade is costing you to put on. So it's just five times the trade price plus

commissions and you can see the little very simple Excel formula, but you can kind of think about this is what the new position is costing you. So this is kind of the new amount of risk that you're taking on if you didn't have a cash position, total risk takes the new trade risk and it subtracts out the amount of cash that you had previously.

[\(17:16\)](#):

So the new risk here is 475, the new risk is 532, but then it's subtracting out the cash balance. And so if you're starting from scratch, if you started this trading on the 8th of April, your amount risk would be 772, but this strategy is already made 570 bucks. So it's saying that this risk here is actually you're only risking \$202 because the rest is coming out of the proceeds. You're playing with the house money. When we look at the amount risked, we look at the kind of max risk that you took at any given point during the strategy. And so you had \$105 of proceeds this trade cost 772, it just happened to be the same amount. These are different points in time, but they happen to be for a dollar 54. And so this trade is 660, 750 and that's ties out and then just gets rounded to the nearest dollar and we saw a \$668 as the amount risked initially. So it's kind of doing some cash accounting about if you had created the strategy and you're tracking all the proceeds separately, how did that strategy do on its own where you're reinvesting the proceeds? If you draw down a lot from that in of course of making that if you have some losses, then your amount risk will go up quite a bit even if you end up in the same place from a profit perspective.

[\(19:01\)](#):

So hopefully that all makes sense. And there was an example at the beginning about thinking about how a trade machine does it from kind of a real world perspective. So one more little thought experiment here. Those were slides from earlier. So in terms of why we do it this way, this is kind of the second and last kind of thought experimental do on this. If you placed a trade for a thousand dollars and the trade doubled and you ended up with \$2,000 and then you just kept doing trades, but they all netted out zero, so you put another a thousand dollars trade, it just balanced out exactly even after commissions, you placed another a thousand trade and you just kept doing that trade however many times you did it, we'll just say a hundred times here, one perspective is that you put at risk or you did a total of a hundred thousand dollars of investment, sort of some of all the positions. And the other is that you just invested a thousand dollars, you made a thousand bucks, and then you kept reinvested the money, but nothing ever happened as a result of it. So in one scenario you could view it as being up a hundred percent or in the other scenario you could say that you are only up 1% and the way trade machine looks at this is that the strategy overall performed as a hundred percent winner, you double your money in it.

[\(20:38\)](#):

Great. So that's going to pretty much be the starting place for our risk discussion. I just want to make a quick note here. That is that for stock, if you look at the margin regulations called Reg T that govern a lot of investing, most places say that stock, the maintenance margin on stock is 50%. I mean that's pretty typical and we used to use this for stock, but it confused people because they might see that a stock went up 25%, but their strategy showed a 50% return and it gets even more complicated when there're splits and that kind of stuff. And so it was causing quite a bit of confusion. And so for the purposes of stock, we just say that we basically use the same rule with stock. We just look at the assuming that you're buying the entire thing with cash, we're not looking at that from a margin perspective, even

though with short options, we are looking at it from a, if you sell a put, we are looking at it from a margin perspective.

[\(21:40\)](#):

We're not saying that you have to cover the entire amount from zero up to whatever the strike price is, but when it comes to stock, we just say that okay, you're paying for stock out of pocket, there's no kind of margin concept with stock, and we do that for both covered calls and for just standard long stock to keep that nice and consistent. Okay, so that'll be the kind of starting place for this risk discussion in the next session or maybe the one following it. I'll do a deep dive on the short version of this, which gets a little bit more involved. If you have a short put or even if you have a put spread, how far apart those strikes are determines if it treats it as a naked short put or not. So that one will have a few more steps in it, but I think from a conceptual framework, I think we made, it was a good start today in sort of understanding how that all works.

[\(22:40\)](#):

We do have a new feature coming up which I wanted to give a sneak peek of, and that is this liquidity feature. So we're going to have liquidity filters by popular request, popular demands on the today tab, and then those will make it into the rest of the product. And I'll just show a version of that real quick. So yeah, in addition to, and some of you may have seen a sneak peek of this already, but for anyone very, very new who's coming here for the first time, welcome, and when you log into trade machine, this is the today tab and it's what you see. Each of these represents a different strategy. You can click a little question mark button and learn all about it. Anything that shows today is a trigger that executed today that's sort of active and ready to enter. When the strategy started, if you click on the ticker, it pulls up the back test result and it shows that this one is actually, even though it triggered at one point in the day, this one's no longer active. And so you can do that any given symbol to see if all of the technical conditions are still being met. And what we've had some people say is like, okay, well they try to put on a strategy and then when they actually look at the opposite of markets, things have moved a lot and they're no longer active. And

[\(24:10\)](#):

So that's what that live feature has. I'm just clicking through here to find one that stayed active throughout the course of the day. So this one still says it's triggered, and so this one is still active. And then for annual users you have this kind of cool little extra feature, which is where you can click and actually see the options to put on the trade. This one's relatively simple, just says you buy that April, 1924 or the 1 29 calls for April 19th, 2024. But sometimes when people try to put on the trade, they say it's like, okay, well the thing is so wide I can't really trade it. And so one way around that would say, only look at the largest companies with the most market cap. That was a pretty good solution, but sometimes they're smaller companies that actually are very actively traded and have tight markets, and so this liquidity filter going from one to five, we'll say that the markets are tighter and tighter and tighter.

[\(25:03\)](#):

So as you filter these down, you're going to see fuel results, but then you can be pretty confident that when you look at these that they're going to be nice and tradable and if you want things that are ultra tight, I don't even know if there's any fives that triggered today. Okay, yeah, there are, which makes sense for some of these names. Now you can be sure that these are highly liquid and they're going to be

very tight. You're not going to spend a long time putting on the trade probably in a very close range. The way we look at it is the width of the option. We look at a 25 delta option 30 days out, so things somewhat out of the money about 30 days out, and then how tight that is. Those prices are the bid ask spread relative to the price of the stock. So for a \$50 stock, they have to be tighter than for a \$500 stock, but that's how we sort of gauge the liquidity. And so yeah, that should be out within the next week or two, and so I hope everyone finds that really helpful. Great. With that, happy to take any questions. If we have any questions, you can just put 'em in a chat if there's anything you want to ask.

[\(26:14\)](#):

Okay.

[\(26:22\)](#):

There's something saying he is an AI assistant helping Gary. Okay, yes, Jim, there will be qa. Have at it. Joseph, what's the difference between an alert with and without ai? Good question. So let's look at the today tab. So basically what this AI signal indicates is that this trade is using something that we developed with AI called it's skew and kurtosis. And what those two words mean is the skew is if the stock tends to jump up or jump down and it's movement and the kurtosis is how big the jumps are essentially. But we did some AI, machine learning and large language models in order to develop something that's pretty sophisticated and we have found that to be through our own testing to be very, very effective. It's done very, very well outperforming the market and finding edge. So edge is you can always flip a coin and maybe you make money, maybe you don't.

[\(27:30\)](#):

Essentially the markets are trying to price things correctly whenever possible. We're trying to find patterns that the market hasn't found yet, trends that through technicals and other things that basically when things are a little bit mispriced, if you can buy an option, it's more likely to give a positive return and not simply just to break even or lose a little bit on the bid ask spread. So the AI signals are a special indicator that we've developed using AI using skew and kurtosis in a very specific way, and those have done very well in terms of their performances both historically and since we've started tracking them. And so those just put a little extra emphasis on that type of alert.

[\(28:19\)](#):

Jan or Jen asks, with the recent volatility in the markets inflation reports, I got really scared with my existing trades, put broken wing butterflies, spread the sell off and the put one by one ratio have been gotten hurt big time to the downside, is there a general guidance when to dump these trades with a sensible loss or how to defend them? So in general, things that work well over the long term in terms of the putting limits or stops and limits or when to exit a trade, what we've done is we've taken the trades and we've backtested them through a variety of market conditions including very bad market conditions and we've said historically, does this perform better if you exit it early or if you take your profits early through a whole variety of scenarios when you're in the middle of a trade, it's easy to feel like you are in a new, you bring your own kind of thoughts and concerns and feelings and biases to trading. We're fans of talking about a plan and executing on the plan. The market is going to try to kind of prey upon not exactly intentionally, it's just very easy to get forced out of trades or get greedy with trades. It's very hard to make good clean rational decisions when you're in the middle of a trade, especially if it's a trade that's larger and you're feeling the impact on your overall trading position.

[\(30:08\)](#):

In general, the time to exit or time to take profits are built into the actual strategies themselves. So there will be a stop-loss or a limit gain built into the actual strategy itself right down here. So on this particular strategy it says take the gains if they're above 40%, it does not say to exit when you start taking a loss and another possibility is that you would exit after a certain number of days or if it's a free Ning strategy, you might exit right before earnings or if it's a post earning strategy, you might exit seven or eight days or 10 days after earnings. But if you want to stick as true as possible to what trade machine says, then those would be the only times you exit. And I know if you came in fresh and you placed a couple trades and just got market did some things and you hit some bad times in the market and first trade or two is hurting you, yeah, it's really easy to try to just change the plan or do something different and it's ultimately people are going to make their own decisions about it.

[\(31:22\)](#):

If your interpretation of the market is that things are bad, your instincts are your own and you'll have to make your own decisions. We're pretty big believers in having a plan and trying to stick to it. And I also, I took some of these spread the sell selloffs trades and I also did not do well on them. I did snow and Nike got hurt on those. So far I have not sold out the positions personally. That's just my own approach. I've done very well for the year and I think that's one thing too is just a size trades appropriately so that even if the trade goes poorly, you can kind of absorb it.

[\(32:05\)](#):

You don't want one or two bad trades to, you don't want to have a bunch of wins, a bunch of wins, a bunch of wins, and then put on a huge trade and then have it move against you and wipe out all your good trades. So you can, one way to kind of manage risk is just to size trades appropriately, and of course you should make whatever your best decision is about if you want to exit it or not. In terms of how a trade machine works, we've tried to test scenarios as much as possible to say on average it works best to exit early or not the straddle, you just exit anytime you get a 20% gain. So that's built into the strategy a little bit, but beyond that, just got to use your own judgment.

[\(32:44\)](#):

The default number five is five contracts. Yes, we can change it to say one, but the next login, it goes back to five, can we save our preferences in the future so we don't have to change it every login? Yeah, that's, it's a good question. All of these settings, and this is actually a pretty important feature, all of these settings, they actually do get saved. So if you change this to 10 contracts, if I log out and then I log back in, that actually should still show 10. But there's something that's happening which is really important to bring to everyone's attention and we're always looking for ways to make everything feel more sensible. But when you load a strategy, so now we have this share link, it overrides all of the settings because it's trying to replicate that trade. Exactly. So when you see a certain wins and certain losses and a certain percent return and in all of that, so every contract fee, if you're executing mid-market or halfway between market, the size of the contracts, the Deltas being used, the deltas are essentially the strikes in terms of how far out of the money or in the money they are.

[\(34:18\)](#):

All of that information gets overwritten essentially when you click share links. So I do think you make a good point that we do need to temporarily load the settings from the back test, but I agree that that probably shouldn't retain it for the next time that you log in. So I wanted to go in a little detail about that so everyone knows how it works, but you make a good point that yeah, when you log in next time it'd be nice to differentiate between the last time you loaded a back test versus the last time you clicked the save button. In theory, basically, yeah, if we add a cancel button, then that should improve that situation, so that's certainly something that we can get done.

[\(35:05\)](#):

Will the liquidity filter just be on the today tab to start? When will it be available through the rest of trade Machine Pro? It's going to start on the today tab and then we have backfilled it. So then the next step would be to put it on backtest as well or to build able to filter scans by it. Yeah, it's a little interesting to think about back testing where you don't want to put on a trade if the markets are too wide, we have to figure out exactly if that would be part of a back test or if we would just warn you that, hey, for a stretch of time that liquidity is bad. Because for instance, if you hit, let's say the liquidity got bad until 20 23, 1 way we could bring it to your attention is just to say something along those lines that the market was illiquid up until such and such a time.

[\(35:59\)](#):

So we have to decide if that's really something we want to have built into the back tester or if it's more that we kind of put it in the scans and we just notify you within the results. But yes, it will eventually make it through to the rest of the products. Do you recommend any brokerage for more complicated trades? We don't specifically recommend any brokerage. A lot of brokerages have complex order books, so you can add multiple legs at once and execute them all at once. I use Think or Swim, I think probably Think or Swim or Tasty Trade are probably the two most popular, but if you uses Schwab, so there's no particular one we recommend. I think it's just kind of whatever you used to most should have a complex order book. If your brokerage doesn't have a complex order book to enter multi legged trades, then it might be worth looking around a little bit.

[\(36:53\)](#):

Is the AI version more likely to be profitable from our testing? From the historical, what we've seen historically and what we've seen tracking the market so far, the AI trades are some of the trades with the most edge overall. So I think the base answer to that question is from what we've seen, yes so far Paul asks, I've been sending support some examples of an in the money long strangle where the maximum possible risk of the position is only a small fraction of the risk that TM calculates also showed that the difference between the actual position risk in the TM calculated risk given we're talking about long position risk. Have you been able to give my examples any consideration?

[\(37:41\)](#):

Paul, if you will forward that question again and just say, you can say at Jason Hitchings or just say, please bring to Jason Hitchings attention. I'll give that a deep look or someone on my team will and then yeah, we'll either respond to you or maybe we'll even just bring it up in the next support session so that we can get into it in detail. Joseph asks for bullish burst the stock price to cross above the 10 day exponential moving average among other requirements. By that logic for bearish bursts, stock price

should cross below the 10 EMA among other requirements. Wonder why this requirement, the 10 day exponential moving average is not specified in trade machine default set up.

[\(38:30\)](#):

Okay, so I'm going to kind of answer that generally. So within when you click the technical open, you can customize the technical opens, you see these skew and kurtosis. That's some of the signals that we developed with ai. So you can say that the stock has to be above or below or across, up through or across, down through either the simple moving average or the exponential moving average over various timeframes. So you can kind of customize that. In general, when we are looking at a 10 day exponential moving average, like the stock crossing up through it is to say that the stock has some recent momentum, especially if the 10 day EMA is going to cross up through the 50 day EMA. That kind of gives you a sense of what the recent direction is on the stock. The bullish person, the bearish person are not identically opposite. One is representing when the stock through our back testing likely is kind of set up to have a bullish burst and the bearish burst are the opposite, but the technicals are different for each strategy. So even though the names are similar, I mean they are opposite positions looking at sort of opposite times in the market, but they aren't identically opposite strategies in and of themselves.

[\(40:04\)](#):

Are we still planning on pricing graphs? Yeah, we can do that. The calculation, no reason that we can't do that. I know that for most of the technicals they are things that there's a way to view it that way. So yeah, we'll look at getting that into the product at some point. So I think this was the yeah, CNP here, so that was the bearish burst. Yeah, so then this particular technical setup is that the stock right now is less than the 200 day moving average, but yesterday it was above the 200 day moving average and that means it just crossed down below through it that the stock is also less than the 50 day moving average and that the RSI and that it's not oversold that the RSI is greater than 30, so the stock cross down to the 200 day moving average, so the stock is below the average data point in the last 200 days. The stock is also below the average data point. I mean you're catching it right when it crosses down through 200 days. The stock is also down below the last 50 days and using the RSI that it's not super oversold, it's not just straight down all of a sudden where it feels like maybe the downward motions already happened.

[\(41:35\)](#):

You can absolutely test just an inverted version of the bullish burst. You can just go into the technical setup and just instead of greater than you can say crosses down through, you can say crosses up through, you can just reverse every single trigger and see if it has good performance. What I can say is that we test a lot of things before we come up with those strategies and for something with a bearish burst, this is the combination of things that we found to be most effective, but that's looking at when we say most effective, we're looking over a long time range, 10 years, we're looking over bearish markets, bullish markets, that kind of thing. Right now, this is kind of a different signal because if the market's been ripping and you're looking for a short term, it just hit a top and it's going to burn off some of the steam, then yeah, I think this strategy, that's where the stock is below the 200 day moving average or just cross down below it.

[\(42:33\)](#):

For a lot of companies, that's not going to be the exact moment we're in right now. You could consider looking at the vix if you're looking for something in terms of changes in volatility, changes in market

sentiment, the VIX is pretty good at capturing that as the VIX increases. It's kind of the fear level in the market, so that's a way you could try to create a strategy similar to that. Okay, we're coming up in about 45 minutes, but I'll try to take one or two more questions. I'm enjoying TM so far, keeping to beginner trades and trying to learn as I go. Lots of moving parts had some successful trades so far. Thank you. Great, bill. Glad to hear it. Yeah, it's a pretty powerful tool and our experience is that if you place a large number of trades using trade machine spread out over a large period of time, it's going to do pretty well for you.

[\(43:24\)](#):

Some people get bad luck and the first trade or two is bad and they get discouraged. Placing small trades and starting with the ones you understand and building it from there I think is an awesome way to go and I think you're on a path to success. Kurt says, and some of the back test 14 day pre earnings I have seen where the 40 delta may be four oh wins and one loss and the 30 delta may say three wins and two losses, and the 20 delta may say four wins and one loss. How can a 20 delta be anything other than the same as the 30 delta looking at the a DC long call today, 60 20? Yeah, I mean it's a good question, but that realistically, that type of stuff happens in the market depending on what your exit conditions are and that kind of stuff.

[\(44:09\)](#):

I mean, if you are always holding those trades until expiration, it's a lot less likely to happen if you hold the trades for expiration and you are likely to see a more smooth result between the 40, 30, 20 delta as you go further and further out of the money. If however you're exiting when you hit a 40% return, well that 20 delta could hit a 40% return very differently than a deeper in the money option. Take for example, let's say that you buy something like 90 delta, so the stock's at a hundred, you buy a 70 strike call so that thing's deeply in the money, there's \$30 of intrinsic value in it. If the stock goes up \$2, that 90 delta option's going to go up about a dollar 80, so that thing's only going to show 3, 4, 5, 6% return.

[\(45:13\)](#):

The option that's a little bit out of the money, especially let's say you're two days away from expiration, two days away from expiration. If you're buying something that say the stock's at a hundred bucks and you're buying the 1 0 3 strike option for a nickel that is two days from expiration, that thing could be very cheap, but the stock might go up a dollar or two that might go from a nickel to being worth 50 cents so that out of the money option could go 10 x in value because all of a sudden there's a real chance this thing ends up in the money, whereas something that had a lot more either premium or intrinsic value built into it isn't changing as a percentage as much in options. That's called gamma, but yeah, sometimes out of the money options will move as a percentage a lot more than in the money options and even if you hold a expiration, there's still times because if at the money option is very expensive with premium, there are times that an out of the money option will do better than at the money option or even have a positive return at the money option.

[\(46:23\)](#):

So I could go into more detail. It's all a little complicated, but in the real world that does happen and I know it's a little counterintuitive, but that's definitely a possibility.

[\(46:38\)](#):

Okay, love that. We're getting questions. We try to keep these to 45 minutes, but I'm going to try to cut through a question or two more really quickly. I think I left off at Joseph every time we are required to sign in and accept the code and access to the community, this is a bit annoying. Can I get rid of it once I've accepted the code once? Yeah, we do make people accept it every single time. It's kind of a philosophical thing. We just want people to be very mindful of the energy that they're bringing to community. We know it's a little bit annoying, we apologize. I think it's probably going to stay there for a while. So sorry for the annoyance, for the spread, the sell off trade, what is the profit target? Is it 80% of the initial credit received or is it 80% of the amount risked the amount risk for an individual trade? Yeah, for spread the sell off of the initial credit received? Yeah, that's a good question. In terms of how that works, essentially is 80% of the amount risked for that individual trade, not for the overall portfolio, but for that individual trade.

[\(48:04\)](#):

Rama says, I am new, where should I start? So I would go to the today tab, I'd look at some of the strategies that say beginner, I would click and watch a video. Once you feel comfortable, then yeah, I'd watch for one of those strategies hits. You can actually click on today's tab alerts and say, if you know that you're interested to do buy the sell off fade the dip, a couple of these strategies, you can just say, alert me when these things happen. Save the alerts and now you'll get an email when those strategies happen. And then I would say we can't make official recommendations, but I'd say just start small track it. Know when you're going to enter and exit the trade, look at the stops and limits and that kind of stuff in the trade and then place a trader two and watch it and see how it goes or even place a couple paper trades and see how those look in your account. Once you feel comfortable, you understand what's going on, then you can do more of the same or add new strategies. It says, how do I create a back test for short strangle 20 delta with closing at 50% profit? Okay, I want to be mindful of everyone's time here.

[\(49:32\)](#):

So if you want to do a short strangle, go here and say short, if you say 50% profit, then you say gains 50%, and then you could customize your deltas here. So it's going to do various things. So if you want to do a strangle with a 30 delta call, 30 delta put or something like that, then you could put that in there. You can also click portfolios and you could backtest a whole basket of these things, but if there's one stock that you want to trade, then you'd be looking at that at a trade like this and then you could put other technical conditions or other things that you wanted to put in there. Yeah, max answer at the learn tab.

[\(50:21\)](#):

Yeah, actually with respect to the previous, I think I answered a little too obliquely. It's the 80% of the initial credit, I think I said of the amount risk, but yeah, that's not accurate. I had to just give that a little thought. Kurt says, using the standard plus or minus 40% default click on today's a DC trade for an example, is it just the value of the option 15 minutes before the end of the day? Yes, it's the value at the end of the day. Yes. So when it comes to stops and limits, it doesn't factor in intraday movement for stops and limits.

[\(51:06\)](#):

So in theory, if the option goes way up during the day and then comes back down, you could miss it. Or it could be the opposite where you end up saying, Hey, when I hit a limit of 40%, I want to exit. But you

might have a limit of 80% because it's always place a place in the trade at the end of the day. So yeah, that's that's correct. Jim says, so on some trades we are risking over 1000 for 150 credit, so the losses could massively outweigh the winners. Well, if you look, you have to look at individual trades. But yeah, if you're looking at a, because when you look at risk, as for the entire back test, if you start losing on the first few trades, your amount risk is going to be increasing. It then might turn around and have \$150 profit, so your amount risk will look huge and your amount gained will look small, but that could be a sign of a strategy that sort of recovered over time.

[\(52:16\)](#):

Alternatively, if you're selling a short put spread, I mean that initial trade you might not want to put on as if 51, but if you sell a naked short put, then your theoretical risk is large, probably shouldn't be. I guess that's about an eight to one or seven to one risk. But depending on the put spread, depending on the delta, it probably won't be quite that bad. But if you're looking at a strategy as a whole, it's probably because you had some losses along the way. It's not exactly your max drawdown, but essentially the individual trade you placed combined with your net cash position was pretty, you got pretty in the red at one point in the strategy and then it finally pulled its way out. So that's probably why the amount wrist looks pretty intense. Okay, great. We're just coming up on an hour, Paul, I think you had a question about wrist on a strangle, so go ahead and please send that in to support and flag me and I'll make sure to have a look at that and then I'll either get that answered or I'll bring it up in the next help session to kind of do a deep dive on it.

[\(53:28\)](#):

Thanks everyone very much for being here. Thanks for being part of the community, and please log onto the community and say hello. Yes, we apologize. You will have to click this thing saying that you're going to be nice and come ask questions. Max is there. He is awesome. And the learn tab has a lot of great resources and we'll look forward to seeing you at the next one of these and at the next webinar in the future. All right, thank you very much everyone. Have a great evening.

TradeMachine® Live Help 4/2/2024: ProScan Tab



Jason Hitchings ([00:03](#)):

Great. Okay, so I'll just get started with the disclaimers and as mentioned, we're going to talk about the PRO scan today. This is not a solicitation to buy or sell any security ever. This is not advice. You should read the characteristics and risks of standardized options. 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. Trading futures and options involves the risk of loss. Please consider carefully whether futures or options are appropriate to your financial situation. Only risk capital should be used when trading futures or options. Investors could lose more than their initial investment. Past results are not necessarily indicative of future results. The risk of loss in trading can be substantial. Carefully consider the inherent risks of such investment in light of your financial condition. I'm Jason Hitchings. I'm the CTO at Capital Market Labs.

([01:03](#)):

Yeah, so we're just going to focus on the pro scanner today. It's called Pro Scanner for, we used to have a very simple version of trade machine back in the day, so it's been called the Pro scanner ever since. So we'll do some filtering by strategies. We'll sort we'll filter and we'll look at setting alerts and we'll do some kind of portfolio scans if you will in the scanner today too. And then we'll just jump into questions. We're aiming for 30 to 45 minutes to kind of make conscious of your time commitment today as well.

([01:43](#)):

Okay, so I'm just going to mostly just pull, open the back tester and go to the scanner. When you see this tab, so you kind of start here, if it's the first time you've clicked on it, it will be blank, but then it kind of starts to remember your settings. Up in the top left, you click which ticker group you're interested in. By default, it scans by strategy, and so it'll always be working off of one of these strategies here. When the

strategy tab is activated, you can also scan by ticker, which we'll do next, but you can pick a group of symbols. All tickers will obviously just give you the whole market, but if you know for liquidity purposes or something else that you want to focus on the s and p 500 or nasdaq, you can select that here. Then on the left hand side, you have a lot of strategies to choose from.

[\(02:48\):](#)

So by default, trade machine generally has a settings of never trade earnings. So our philosophy is that if you're not trying to trade earnings, then you probably don't want to hold through earnings. And if you do want to trade earnings, then you should have a specific strategy for earnings. If you're just testing something like a straddle or strangle or fade the dip or anything else, then we tend to just hold those when earnings is not active. And for us, as most of you know, I'm sure never trade earnings means you would sell the position two days before the earnings event and then you just reopen the position if all of the other technical conditions are true starting two days after the earnings event. So you don't take that earnings gamble without meaning to. So once you have the strategy loaded, so at the top here, it's kind of the general bucket of all kinds of different strategies, including the fade, the dips, and the bollinger's, and all of these strategies, the spread, the sell off.

[\(03:55\):](#)

These are not earning specific strategies. So that's kind of the largest group at the beginning. And if you want to dive deeper into any of these strategies, you can go to the learn tab and there'll be a specific video. And oftentimes our writeup on these specific strategies below those is the only specific only earnings strategy we have is only trade is just long strangles through earnings, but you can obviously create your own. And then we have some after earnings strategies and many times those in addition to being after earnings, they will often look back at what the previous earnings event was in terms of how the stock reacted. So many of those strategies will have something built in such as if the day after the previous earnings move, the stock was up 2% or down 2% or something like that. Not all of them, but many of them use that feature of trade machine built in so that you get a sense of the momentum coming out of earnings, whether you're looking for something bullish or bearish.

[\(05:03\):](#)

We also have a lot of pre ning strategies and a lot of these take advantage of optimism that comes leading into earnings. Oftentimes there is a hope or a thought, especially in a bull market that the stock is going to start doing well. So out a week or so before earnings, the stock sometimes will start trending higher, and even if the stock doesn't trend higher, oftentimes people start loading up on options going into earnings. So oftentimes the options themselves can get more valuable going into earnings and some of the diagonal strategies will kind of take advantage of that buying pattern or that volatility pattern. Many times they will sell an option that's going to expire before earnings. So the volatility, the theta time value, and that option will be dropping off very quickly and the option that you own after earnings will be maintaining its value or sometimes even increasing in value as people start loading up on options, anticipating that earnings event.

[\(06:15\):](#)

And many times that will kind of cause the implied volatility of the option to increase and the value of the option to increase. So many of these strategies take advantage of that phenomenon. Not all but many. So once you've selected any of these various strategies, that's fade, the dip, ai, et cetera, anything

that says AI after it is using this kind of skew and kurtosis the tendency of stocks to make large jumps or to have a jump in one direction or another and there's more to it. And so we give enough information to trade it without trying to go into all the details of that. So once you're at this screen, all of these fields are sortable. So if you wanted to look at the total number of wins, you can do it this way.

[\(07:12\):](#)

You can look at win rates, you can look at average percent returns. So that can be a powerful way to sort these guys. Additionally, you might know that you're looking for things that have done well over a certain timeframe, so you might be focused on just the recent bullish market or you might say, Hey, I want things that have done well even when the market wasn't doing so great, because I'm not sure how long I think this bull rally is going to last. So you can do it by filtering out these years. You can say either one year two or a three plus. Some strategies have five or even 10 years, but almost all have a one, I mean a one, a two, and a three plus. So there's some additional filters you can put there.

[\(08:02\):](#)

Now a couple more things I want to talk about. You can also filter these scans. So if you click the filter, you can say, no matter what I'm looking at, I never want to see a win rate lower than 70%. I want something with a high that this trades tend to win. At a high percentage, you can say I want the average rate return to be 10 or 20% and that I want the total back test return to be. You can pick any number you want. Once you apply that filter, it kind of stores the settings in the background. So if you come back to the page, it's going to still show that you have these three active filters. If you ever want to change them, you can just click here. You can also clear the filters with this button, but one, those are active, then it'll apply that filter to all of these scan results. And so we have minimum total back test return set as 80%, and you can see when we sort this column from minimum to maximum, it starts at 81% as the total back test return. So you can apply these across the board to kind of narrow down the strategies that you are looking at.

[\(09:15\):](#)

You will notice here this kind of alert column what this alert means. So the ProCan tab, just big picture. The way this is working is that we are taking all of these strategies, 30 or more strategies, and we're scanning every single ticker for these strategies on a very frequent basis. And we show the results here for strategies that have done relatively well. So we are not showing things that have lower than a 50% win rate or that have a negative return. So we do apply our own filtering in the background to these strategies just to show you the ones that have had good trends.

[\(10:05\):](#)

Anything here that shows an alert, you could think this is a little bit like running a back test instantly. So if you wanted to look at something basic long strangles, again, all these filters are being applied. I'll just clear the filters. It's kind of like you just backtested the market for this long strangle strategy and right now be looking at the largest 500, but it's showing you all of the results for things with reasonable returns. So these are essentially back tests that have already run. I mean, they actually very much literally are back tests that have already run in the last week or so, and then we've done some filtering on top of it. This long strangle with a never trade earnings, it doesn't have any earnings specific trades, it won't hold it through earnings, but it's not an earnings trade per se, and it doesn't have any technical conditions built into it.

[\(11:09\):](#)

So for that reason, essentially if you like this straddle trade or any of the others that don't have technicals or earnings conditions, they're essentially always ready for entry from the back test's perspective. If you pick one of these strategies and put it into the back tester, it will trade immediately at the start of the back test. So back test, this is the first day of the back test and it trades immediately, then it applies all of the conditions and kind of moves forward in time. So if it says that alerts are not required, what this really means is that these are kind of always active. You also notice that this triggered will always be true as well because there's nothing unless you're within two days of earnings, it's going to show that it's available, that it's triggered immediately. And for platinum users that you get this show options button, which you can actually see the individual options down at the bottom after it loads it.

[\(12:13\):](#)

And this would say this is how you would enter the strategy. So any of these strategies that you have, you just need a reminder. If you don't need a deep dive into something like a mammoth or fade the dip, but you just like, okay, well what deltas are you using or what based expiration? If you just click any one of those, it's going to pull up all of the details. You can say, okay, oh, it's 30 days expiration. Oh, it's a 50 delta straddle not a strangle. So it'll load all of those settings directly. There's no ad alert feature because all the alert would do is say, okay, you can immediately enter. So the alert wouldn't be providing any additional helpful information. However, if you do a strategy that does have technical conditions, this little alert field will pop up, and if you want to look at high average trade returns or whatever else, then you can start clicking some of these. And now when you add these to the thing, then you have the ability to add the alerts that way.

[\(13:33\):](#)

Yes. Okay, so then additionally, you can also look at these strategies on a per ticker basis. So instead of saying, I want to look at a fade the dip strategy or something like that, you can look at individual tickers. So you could say, I want to look at a MD, apple, Nvidia, et cetera, and I just want to look at the best strategies for these particular tickers of interest to me. And you can apply the same kind of filters. You can say, I want a win rate of 80% and filter those out and it'll apply it across all of the tickers that you enter here, and you can build these lists from anything that you want to. So anything that will export a list of tickers in these kind of comma separated or space separated format will allow you to filter those and to look at those tickers specifically. And then you can add the alerts in the same way here. You can put notes, et cetera.

[\(14:39\):](#)

Let's see here. Okay, yeah. One other thing I wanted to show real quick and then we can dive into some questions. If I have pattern finder. So for anyone that has pattern finder, and I just use this as an example of a way to create a portfolio, if you look at the stock screener down at the bottom, there's a very detailed stock screener with hundreds of different fundamentals and relative strength conditions and institutional ownership and all kinds of different parameters built in here that you can use to customize a certain list of tickers. And so once you have a list of tickers created, you can export that list of tickers,

[\(15:34\):](#)

And then when you open it up, we can take these tickers and put it into this scanner and start to filter off of that list of tickers. This is one I just dropped in here, and now all of a sudden you have sort of a portfolio, almost like a portfolio back test, but you can test a lot of different strategies at once. And you can say, I just want to look at the results that have had the best across these list of tickers that I'm interested in. You might screen on something fundamental. You might take a list of CML pro tickers that have done well and look at bullish strategies around CML Pro top picks for instance. And then you can again just go through here and add the alerts for any tickers that you're interested in that way. So this is a large list, but you can, instead of sorting by ticker, you could sort by average return and pick the strategies with the highest average return and add alerts that way. So that's kind of a quick overview of some of the features within the ProScan. And with that, I'm happy to dive into any questions that we have.

Amanda Kelley ([16:55](#)):

All right. Why are there no alert boxes? I think you answered that actually.

Jason Hitchings ([17:00](#)):

Yeah. The alert boxes are when there are technical conditions or if it's an earnings trade more than just never trade earnings.

Amanda Kelley ([17:09](#)):

Is it possible to track IV on these diagonals with the backtester?

Jason Hitchings ([17:20](#)):

It depends what you mean by track v_y , but not directly. Not really. I mean, all of these trades are trading. Anytime you're trading options, you're trading volatility. We had a volatility index in the product and then SIBO kind of made it more or less only for institutional investors. They kind of made the price so it no longer made sense to license it. In a product like ours, we do have access to another IV index that's from the person that we just from a different vendor. So we're kind of assessing that to see if it's going to be a good fit for us. I have also created IV indexes in the past. The product that SIBO is actually selling for a long time is something that I built at my previous company live L and live all got bought by sibo. So we have, that's something that we will eventually build out and put back into the product if we can't find one that is good enough.

([18:15](#)):

So right now there's not a way to trade the implied volatility of an individual stock directly. However, when you're looking at, basically if you're doing something like the earnings vault or something like that, then you're trading the phenomenon of how the earnings implied volatility changes over time. You can trade the market volatility by using a technical open with the vix. So that's going to tell you what the implied volatility on the s and p 500 options are. So that is a technical type, the technical trigger type that you can add. So that'll tell you something about the volatility of the market as a whole when it comes to saying like, Hey, if the implied volatility for the front month options is above 30, then I want to buy or sell or put on a certain position. That specific thing is not in the product per se right now. We'll probably get it back in there I think within the next few months.

[\(19:26\)](#):

Again, when the backtester, essentially, if you're looking at when the stock drops, if you look at when the simple moving average 50 day crosses down under the 200 day moving average, when that stock starts to drop, you're going to be looking at increased volatility oftentimes, and obviously as you're going into earnings events. So it's kind of a ways you can trade it indirectly, but we will get the implied volatility index back in there pretty soon. We actually were finding at the time that people weren't using it that heavily, but now that I feel like more recently people have been asking for it more, so it kind of puts it higher on the priority list for us to get back on the product.

Amanda Kelley [\(20:11\)](#):

Can you scan for seasonal trades?

Jason Hitchings [\(20:15\)](#):

No, we don't really build that in. I mean, you can create it that way. I mean, you can set the back test, you'd have to construct it a little bit. So you could say like, Hey, I want to trade something summer trades, and you could look at the last couple summers and you could export that list into Excel. So if you want to do the legwork, you can construct it with a little bit of extra work. If you want to do a portfolio back test of the DA 30 where you're just looking at some kind of call spread or whatever else, you could then export those trades. Once it completes those, let's see what this technical open thing is, then you can export those into a list and construct it that way. But inherently it doesn't have ability to trade only a certain portion of the year or something like seasonally that way

Amanda Kelley [\(21:32\)](#):

Buy the sell off for Humana doesn't look good. No open interest.

Jason Hitchings [\(21:38\)](#):

Great. Sounds like you know how you feel about it. Yeah,

Amanda Kelley [\(21:43\)](#):

Sorry,

Jason Hitchings [\(21:44\)](#):

Open interest. That's fine. There's literally no open interest that actually does mean something with liquidity. Our general philosophy is that market width tells you a lot more about liquidity than open interest. Basically, if a market is 3 cents wide, you can trade it unless you're trying to do a thousand lot. If you're trading with a 30 million account, then open interest can make an impact. If there's no open interest, the chance of having a tight market is pretty small, but open interest is a pretty indirect measure of liquidity, whereas market width is a very direct measure of liquidity. So we are actually building a liquidity feature into the product. So this is a development environment, but pretty soon you'll be able to filter on liquidity rating things on a scale of one to five, where five is the most liquid, and we're looking at the width of the market relative to the stock price as the number one indicator of liquidity. So that will be in the product pretty soon. I think you guys can all expect it in April. So that will

be both in the today tab. Today's tab is first place it'll appear, but we'll start to populate that information in the backtest as well.

Amanda Kelley ([23:06](#)):

Sorry, I missed how you get to the scanner. Can you please show again?

Jason Hitchings ([23:10](#)):

Yep. You just click this ProScan tab. So these tabs at the very top for brand new users. And welcome. Thank you so much for joining our community. These are the main ways to navigate within the product that today tab starts with these kind of things that are, anything that says today means it's active and ready to enter when the strategy occurred, backtest allows you to really look at how that's performed over time and tweak it. And then this pro scan tab is how you get to all these results. And so again, you can pick a group of tickers and then you can pick a strategy and it's going to show you we've kind of pre backtested all of these results. So you can kind of quickly look at what's done the best over time.

Amanda Kelley ([23:57](#)):

Earnings season starts in two weeks. What's the best strategy to scan for consistent earnings place?

Jason Hitchings ([24:07](#)):

It's an interesting question. It depends. It depends what you mean by best. I think there's a strong argument that what has worked in a particular ticker. If you know the tickers are going to trade, then I would trade that. Things that have performed well in those tickers, I mean they need to perform relatively well as a whole. The things that we would guide you to, it takes a little bit more effort. But these diagonals, like this pre earnings, 14 day diagonal, the diagonals are really powerful with earnings because they're allowing you to both take advantage of the positive momentum in earnings as well as offset some of the expense of owning the position for a stretch of time. So as you can see here, bank of America has earnings April 16th. There's nothing here that says not verified. So that means that you could count on the date, otherwise it would show in red, not verified.

([25:28](#)):

And this is owning a long thirty seven fifty call after the earnings event on the 19th, and it's selling a slightly more out of the money call before earnings. And so what that means is that as the stock goes up, you're still going to benefit for a long time. This thirty seven fifty call will always be more valuable than the 38 call. And basically outside of some very strange scenarios, if the stock goes up, you're going to be making money, but it can go up quite a ways. And when this front month option expires, you're going to still have all of that implied volatility built into the option. This option is not going to carry the earnings event. So it's a two legged strategy, so you have to have an options account that allows for that. But these are powerful strategies because the market can move against you quite a bit. If the market goes down quite a bit, this short thing that's expiring sooner is going to lose a lot more as well. So you're both kind of hedging against direction and hedging against the options decay. So I would strongly consider those.

Amanda Kelley ([26:55](#)):

I run a back test that has over 175 viable alerts, and I use the select all option. Will it select all 175 alerts?

Jason Hitchings ([27:10](#)):

You can set a lot of us. We have a couple of users with over 6,000 alerts set.

Amanda Kelley ([27:15](#)):

Yes, yes, they use 'em. I sell credit spreads to collect premium. What's the best strategy to scan for High IV and liquid stocks to sell credit spreads,

Jason Hitchings ([27:31](#)):

High IV and liquid stocks to sell credit spreads? All right, I mean, so first of all, you can always create your own. So these are the pro scans are a good starting place. So if you look at, there's a short put spread here. Let's see

Amanda Kelley ([27:47](#)):

Here.

Jason Hitchings ([27:50](#)):

Yeah, and then for liquid, the fastest way to narrow down is to just look at the largest 500. So you could look at a short put spread like that. You could also create your own and do a portfolio back test. But if we wanted to do, that's an example of credit spread. And then you could set filters on things of the average return over 20. And that's one example. I guess 20% for these short put spreads is actually equate an aggressive amount just because the strikes are relatively tight together, but there's that 10% average return, and so that gives you a lot of put spreads to choose from. Additionally, you can go into the backtester and look at a portfolio that the QQ is the NASDAQ one hundred's already built in there, and you could do a call spread and you could do a short call spread and kind of see how those have done over time.

([28:50](#)):

And you might say, okay, well let's look at trading these when the 50 day moving average crosses down through the 200 day moving average. So it kind of shows that it's peaked, or you might check the reverse. Additionally, you could say, I only want to trade it if the vix, I don't want to trade it when there's a lot of scaring in the market, so I only want to trade it when the VIX is below 14 or something like that. And you can start to create your own strategies that way. And if you can actually get in and start to tweak the specific strikes that you're using. So this is saying you're shorting the 50 and you're long, the 20 delta, and so meaning you're short and at the money and you're long, something quite out of the money, but you can get in here and tweak those deltas as well. So you can certainly kind of create your own backtest that way.

Amanda Kelley ([29:53](#)):

I only know of one bear strategy. Is there more?

Jason Hitchings ([30:00](#)):

Yeah, the sort of pretty strong desire from most users was to take on BOLL strategies. There's not a ton right now of bare strategies that are prebuilt, but again, those are strategies that you can definitely backtest and create to your heart's content. I mean, anything that you can do long, you can do short and you can take the reverse of any position. So we may start adding some more of those in the not too distant future. Right now there's only a couple built in there.

Amanda Kelley ([30:41](#)):

Just to add in, your last example was really nice. How did you open the banner in the Bank of America to show the legs?

Jason Hitchings ([30:52](#)):

Let's have a look. Okay, so here's just a random Bank of America trade here. Oh yeah. So yes, this is a new feature for annual users. We have a subscription to a live options feed that we have to license per user. So for people that make a year long commitment, it allows us to afford that. So everyone can see this. Everyone has access to this saying whether it was triggered now, and you can find the actual details. So here, this is this diagonal spread. If I click edit, you can see you're long. The 50 delta call 14 days out, you're short, 30 delta call seven days out. And within your brokerage you can look at those or in when you show the options chain here, this is just populating from the SIBO live options feed that'll come up in just a second. But you can look up the Deltas and expirations that way.

([32:03](#)):

And so that's the classic way to do it. It takes a little bit more work. This is a very, very new feature just in the last month or two is this show options feature. And when you click the show options, then it just dives in and shows you those details directly. So this is kind of a time saver leveraging that live options feed directly for platinum users. So we'll look at the economics of it in the long run, but anything that we're not sure how we'll be able to scale out to the entire community, we start with the people with the annual commitment. So this feature is available for the platinum users right now, and if you're interested in going annual, you actually save a little bit of money over the monthly subscription and you just email support and we'll get you all set up if you're interested in that.

Amanda Kelley ([33:01](#)):

And just to add, I believe it was the very last session that we did, you went ahead and dove into finding those options as if you weren't a platinum member. So I know you walked through how to identify what options. So if you're looking at a more detailed explanation, definitely check out that last live help session.

Jason Hitchings ([33:23](#)):

And so if you click on the learn tab here, you see this little square at the bottom that says live help session for the most recent ones here, I think it was just this active now show options, et cetera. There's a whole video here, you can watch that whole video. So yeah, the help, I mean the learn is something that Mandy Amanda's built out as kind of an effort she's taken on, and it's a really great resource to definitely encourage you to hop on there.

Amanda Kelley ([33:58](#)):

Alright, are there any hedging strategies built in?

Jason Hitchings ([34:06](#)):

The philosophy that we have around hedging is it's your portfolio as a whole is kind of your hedge. So having positions that are long volatility and short volatility and long bullish and bearish is the best hedge against things moving one direction largely against you. You could look at something like the one by three by two strategy. I mean that in a sense is hedged. This guy up here just from the nature of it, it's a broken wing butterfly, but it's buying back and out of the money put that's quite a bit out of the money, but it's hedging you against a really nasty downward movement in the market. It also is better from just how much capital is going to get tied up from a buying power perspective. So as it's flattens out the position quite a ways down. So that's hedging against in a sense, against a deep move.

([35:24](#)):

You get neutral below the 1 35 level. So lots of strategies have that sort of hedge built in or even the diagonals in a sense, it's a hedged version of just taking, because you could do with the diagonals, you could do a direct long call for earnings that happens after earnings, sorry, the today tab has to constantly rebuild the cash and then it runs faster. Yeah, so there's two versions of this. You can actually see that both strategies are here today. So this is the pre earnings 14 day call, and what it's doing is buying the call that expires about 14 days out, but also after the next earnings event, and it happens 14 days before earnings. So this is the straight call version of it. You can actually see because this one, it is a hedge. In this case it doesn't always work this way, but in this case, the unhedged version is returning 300, I mean 236%. This version is essentially a hedge. It's starting with this strategy, the long 14 day call, but then you're hedging it with another option. So let's look at it one more time.

([36:40](#)):

As a fear likes to say the only way to truly hedge an option is with another option because if you're owning stock, then you're not hedging against implied volatility, for instance, and options decay and stock doesn't, et cetera. Yes. So this long 37 50 call, this would be the entire strategy if you weren't hedging with this front month option. But by selling this short, slightly more out of the money call, it reduces the cost of the position substantially. It hedges against the decay of the option and it hedges to a certain extent, it's against directional risk because if the stock goes down this slightly more out of the money option is going to depreciate and value much faster than this option that's expiring. That's a little closer to at the money and that's also expiring after earnings. So in that sense, yeah, pretty much all of the multi-leg strategies are building in. You're hedging your long option with the short option.

Amanda Kelley ([37:50](#)):

Please show an example of how to use ASK GPT.

Jason Hitchings ([37:54](#)):

All right, let's have a look. Oh, sorry, that's my development server. Okay. So this is in a sense looking at something similar to the pro scanner, but doing it in a format which is in a sort of text-based way. You can also say what is the sentiment for Nvidia?

[\(38:46\)](#):

So this is actually going to look at the news and look at the current headlines. And this will kind of go into a pretty deep level. And so this actually will go pretty deep on everything going out. It says that the relative strength is 97 out of a hundred, so that's strongly bullish. The volume on updates was 1.4 x higher than on the down days, and it breaks it all down. And the final sign of score I computer does 100 with a nine point adjustment beyond news. And that makes sense because Nvidia is about as bullish as you could think of. But all of these things have kind of some prebuilt in questions that you can kind of use as a starting place for interacting with chat GPT. This one is kind of doing a breakdown of stock versus the market. It's a pretty in-depth piece of research there that's just generated through these prompts. So yeah, definitely play around and there's a lot of great value there.

Amanda Kelley [\(39:58\)](#):

I would highly recommend if you're just getting started with it, use the pre-populated prompts and then update with the tickers that you want to see. It helps you get a really good feel for how it operates and exactly that way you make sure that you're getting what you want out of it and getting the correct data. It takes a little time to learn how to properly engineer the prompts if you're new to it,

Jason Hitchings [\(40:26\)](#):

And it can answer a lot of questions. We are feeding our own. If you just go to chat GPT and try to ask these questions, it will not have an answer for you. What we've done is take our own proprietary data, our own backtesting, our own relative strength, lots of different data and kind of given real-time data to the large language model so that you can combine analysis of real data with the power of these large language models to both interpret data and also summarize and present it in a human readable format. So there are things that are beyond that. We haven't given it the data to work with, but there's a lot of areas that it does have pretty powerful data to work with. So it can't do everything, but it can do a lot. And like Amanda said, starting with those prompts at the top is a great way to go.

Amanda Kelley [\(41:26\)](#):

Looks like we just have a couple more. Today's screen, you have already had lots of choices. Which one should we pick? So I think they're referring to the strategies.

Jason Hitchings [\(41:38\)](#):

Yeah, totally. So there's quite a few things here. I mean there's a little piece of text here that says beginner, intermediate, advanced, et cetera. So part of this depends on your options trading account and can you do spreads and that kind of thing. Pretty much all of the beginning strategies are just one leg, generally just a long call. So if you're relatively new to options, those are a great place to start because the complexity is lower in terms of some of the most powerful and the highest returns have this are what we call skew and kurtosis, like our sort of stock movement model that we developed with AI built into them. And those have shown really, really, really, really strong returns. So if you're just like, Hey, I want to put on one trade today about any of them looking for things that have this little AI flag are going to be some of the best performing trades. Typically the two that happen to be showing right now are both three-legged strategies. So this is just a more complex strategy. They tend to have pretty high win rates and good returns. So they're great strategies, they're just a little bit more complicated. And they also involve, you have to have an options count that'll let you be net short. These are short spreads.

[\(43:14\)](#):

Yeah, so that's the only caveat with these. But the beginning, intermediate, advanced is also gives you some pretty good clues. This earnings strategy is a pretty cool one. It's only two legs. They're different expirations, but those are pretty powerful as well. But personally, I look at things that have a really high return. If it's eight and eight and one, but it's only returned 27%, I don't feel super motivated to jump into it. But when I see things that have seven in one or six in one and high percent returns, et cetera, then those are pretty compelling to look into. So this bearish burst is an example of a bearish strategy. I think it's the only one that's specifically bearish on the today's tab, but you can create bear strategies within the tool. Another thing that's great to do soon, we're going to have a liquidity filter at the top, but I'd say if you're looking for one trade to put on for the day, filtering by the largest 500 is a great thing to do just to save you the headache of logging into your brokerage.

[\(44:39\)](#):

And then looking at the options montage and finding that things are super wide. Things that are in the top 500 of market capitalization tend to have pretty tight spreads as well. And so just based off of this, if I was a new trader, especially if I wanted to do a one-legged strategy, then it narrows it down pretty easy. This strategy is just buying a call going into earnings. We're not making any specific advice. We're definitely in the teach a man to fish versus trying to tell you what we think is the best thing to do on any given day.

[\(45:16\)](#):

But yeah, so hopefully that was helpful. Also, if you're just trying to figure out what is the strategy, why do I care, why does it make sense? Each one of these has a question mark. They generally have a video link to it. This is a eight minute video that we'll go into depth about what this strategy is and how it was developed and why it's worked well in the past. We're coming up on the 45 minute mark, so I want to be a little conscious of everyone's time, but if there's one more question, happy to take one more.

Amanda Kelley [\(45:44\)](#):

Yep. It looks like we've got one more. Can we save a portfolio of my all time high stocks? So can you show how to create a portfolio?

Jason Hitchings [\(45:55\)](#):

Absolutely. So on the back test here, under portfolios, there's a bunch of pre-built in. There's on different industries and NASDAQ 100, et cetera. But if you click new, you can say My best performing stocks, and then you can just enter with spaces or commas your particular stocks of interest. You just click add and that's it. And then you'll have portfolio and you can back backtest against that portfolio directly. Then the next step is to say if you develop a strategy such as whether you start with one of ours or build your own from scratch, because here lemme show you another thing you can do on this saved back tests. We have a bunch of prebuilt strategies here, which are pretty powerful. So let's say you wanted to do the pre earnings diagonal and you only wanted it to do it. If the stock kind of movement, the stock skew and kurtosis stuff is advantageous, you could load that strategy in.

[\(47:03\)](#):

When you do that, it's going to load just one backtest, the one that saved backtest. But the nice thing is now you have all of the earnings rules, all of the technicals, everything is going to be built in here the way that we've backtested this strategy. But now you can click on your portfolio, go down to my best performing stocks, and this can be for annual users, it can be up to 200 stocks long. So you can see one how they've done, and you might say, okay, and this is a very basic example, but now you could click just the tickers that have done well in the past that you're interested in under this add alert column. When you click add alert, you add that back test into your list of alerts and it will now text you or email you when that happens. So now you're saying, okay, this is actually live now for me to trade.

[\(47:57\)](#):

Great. I think we're about 50 minutes. Very much appreciate everyone being here. See there's maybe one or two more comments or questions that have come in, but we do want to keep it to 45 minutes just so that people feel like they can join in the future. Some people are like, Hey, if it's two hours long, I'm not going to join it because I don't want to leave in the middle and I can't take two hours out of my day. So I appreciate very much you all being here. We'll look forward to seeing you next time. I think that will be the Thursday after next. We're doing these once a week now. We alternate between Tuesday during market hours and then Thursdays after market hours. So we kind of alternate weeks that way. But very much appreciate you all being here. Please log onto the community and come talk to us and ask questions and share back tests and experiences and your trading experience. I would love to see you there. And yeah, thank you all for being here and we'll see you next time.