January 2024 Live Help Sessions

TradeMachine® Live Help 1-30-2024: Follow-up on trades from previous Live Help

Jason Hitchings (00:00):

Feel free to start asking questions anytime we'll be. I think in general we'll look to do these for about 30 to 45 minutes each time, and if there's a flood of questions, we can try to stretch it out a little bit longer, but we'll try to keep 'em kind of short so that everyone can also, when they think about joining these, they know it's like a half an hour commitment, not like an hour and a half commitment. Great. So quick disclaimers. This is not 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 considered the inherent risks of such investment in light of your financial condition.

(01:12):

I'm Jason Hitchings. I'm the CTO of Capital Market Labs apps. The agenda today is pretty simple. We placed two trades in the last few weeks, A CMG trade and A BBW trade. I'm just going to kind of do a quick update on those. I'm actually going to close the CMG trade. I just finished closing it about 15, 20 minutes ago. Kind of go back and forth between trying to use the complex order book to get a really great fill versus trying to do it via individual legs. And then we do a quick check-in on the BBW. We had a few questions about when does it make sense to sell a higher strike. We did a trade in BBW last week where at the money ish strike was trading for one 40 and the add of the money strike was trading for only the midpoint was like 10 cents. We did it for 10 cents. We had a few questions about, Hey, does that make sense? When does it make sense to trade to kind of give away some of the upside, et cetera. So I kind of did a deep dive into that, just looking at a few scenarios about when that hurts us, when it helps us. Whether one does that or not is totally a matter of taste and opinion, but I just thought I'd look at that a little more since we had a few questions.

(02:36):

Okay. So I think, yeah, maybe it was, I could look at my trade log, but we started with this Chipotle long call. The stock went up. There was also a trigger on the same day for a Chipotle diagonal. So when Chipotle started going up, I kind of hedged and I turned the long call into a diagonal. Since they were both triggers, it's kind of got a better fill on my diagonal than I would've been able to. I was able to sell the short leg at a higher price than I would've a couple of days before, so I didn't mind doing that. So as of last Thursday, this was our position.

(03:15):

I mean the position that I'm trading in order to show some capabilities of trade machine and also to show how to enter tickets into think or swim Again, I'm never suggesting or recommending to do any of these trades. These are just trades that I'm choosing to do for demonstration purposes. So we have this 2380 call expiring February 23, and then I after two days shorted this February two call at the three 90 strike. This was where we were last Thursday. The market has rallied, everything is rallying, and so both the short and the long strike have gone up substantially. It's showing a net profit of like 3000. The long call strategy for the pre earnings long call would have a stop and limit at 40%. So this would've hit that stop and limit that diagonal strategy. Doesn't diagonal strategy just runs until the front month expires, and so I could let this go a few more days until the front month expires.

(04:26):

It's kind of a matter of taste. I got some big things going on in my life, so I'm not going to let the position, I don't want to have to think about open positions, but just thinking it through. So how much, I mean these are both quite deep in the money now Chipotle's up at 2,400, so even the short strike is in $10, $16 in the money money. So the deltas we're actually almost delta neutral on this position, surprisingly because both so in the money that the deltas are very high for both of them. So the stock moving up and down a little bit right now doesn't hurt me too much, but obviously if it moves substantially down, that picture will change.

(05:11):

So yeah, if we just let this thing, if we play the diagonal out, we would normally expect and let it run until February 2nd, how much more value could we potentially capture? So these markets aren't wide, but they're wide enough. It's not immediately obvious without doing a little mental arithmetic in terms what the midpoint is. So 29 point 35 is where the midpoint is at this point in time. That leaves an intrinsic value in the option of about 16 bucks because stocks at 24 0 6, it very conveniently had no pennies in it, so makes that a nice round number.

(05:48):

So $16 of intrinsic value, the midpoints at 29 point 35. So that means the extrinsic value is point 35. So the time value in this option is 13 point 35. So if nothing were to change for the next three days or so, this time value will go to zero and what you'll be left with is the intrinsic value and the optional will be worth the $16 if stock stayed exactly where it is, which of course it won't. So looking at the theta, the theta is saying, okay, the overall position is decreasing in value by $359 a day, and since we're short, our value is increasing by that much per day. So if you multiply that out by three days, it would predict that it's going to lose 1,077 over the course of the next three days. But we can see mathematically it would lose 1,335.

(06:45):

And the reason there's a difference is because there is time decay accelerates going into expiration. So as options get very close to expiration, the time value kind of goes up in a puff of smoke and things that are further out don't decay as quickly. So it's not that we would gain $1,335 by waiting if stock didn't move because both options are changing. This option that's expiring sooner is going to be decaying faster, but both options are going to be losing value. And so the option that we're long that's losing value is going to lose about 200 a day right now. So approximating, we know that this number is actually a little, you can't use this number for three days in a row. This number actually goes up over time because we don't lose a thousand. That option doesn't lose 1,077, it loses 1335, but this is kind of approximate.

(07:40):

This is guesstimating like four 50 would be if we stayed in for a few days, it's probably more like five 50 or something like that at to stay in until February 2nd if the stock doesn't move around too much. So that was just kind of like a little scenario analysis. If life were a little more normal to consider where I could think the stock might go up or down, but yeah, we're having a baby soon and so I'm just going to exit this position. And so I start by going to my positions and I click both and then I click close selected. That brings up this kind of, technically it's called the complex order book, but you can just trade the spread directly. It shows the bid and the ask for the entire position, and it's always hard to know in the kind of dark pools and people sitting out there waiting for a trade to come through that kind of stuff like what the real fill price might be. So I tend to be kind of aggressive. They can start to ding you if you cancel a ton of trades, you can start get little charges, but they made those rules a lot more flexible. It used to cost you a lot to cancel a lot of trades, but they made that stuff a lot more flexible than it used to be.

(08:59):

So yeah, it was saying that I would close this position. My position is net long and so a higher price means I'm cashing out of my position so a higher price is better. So I pushed this up to 80, not expecting I would get it. I review the trade, I let it sit there at 80. It shows that it's trying to exit these positions. I click on the little working thing. This is what's happening. It's trying to get out of here for 80 well above midpoint. I let it sit for a while, nothing's happening. I just edit it. I kind of bump it back down to 79 and play with it again. I still don't get filled at 79. So at this point I'm like, okay, well why don't I try to just exit out one leg at a time? So I cancel the whole complex order and I try to just sell one leg. So always, if I have a spread, I always close the short position first. It doesn't blow up your buying power and all that kind of stuff.

(10:00):

Just a note, when I click this, I'm clicking to buy this to close it, but when I click it, it enters 10 contracts so it doesn't enter, unlike some other brokerage platforms, it doesn't enter the number of contracts you have. It enters the default amount. So the safer way to do it is to go to your positions and just check the position that you have open and click close selected. Then it'll choose the right number. So I play around with this a little bit. I also try to get a great fill. I try to close it for less than the midpoint price. Once I put that bid in, once I'm saying I want to buy it, then it changes the market and I see the midpoint jumps up from 29 15 to 30 75, that's expected. It sits there. I don't get filled. I kind of tick it up, get to 29 50. I get a little bit above midpoint and I still don't get filled. So I just go back to the complex order book and I put this thing in at 77 and I'm saying, okay, I'm willing to close it for a little bit less than the midpoint value. That's usually relatively safe on things that are fairly liquid.

(11:10):

So I just go in here and say, okay, I'm losing 80 cents. It's nothing relative to how the trade is done, and I just put in the complex order book, it fills and I just log my trade. I just took a second to show my spreadsheet. Big believers in having a plan and logging your trades and seeing how things do over time, even for newer traders to go through this process, even if you're doing a paper trading account and just figure out, hey, what strategies are really working for me? I did five faded dips. How have they done overall? When did I exit? Did I exit at the right time? Did I hit my limits? All that kind of stuff. So we're big believers in keeping good track of your trades and then you can review and adjust as you need it. And also when you have a plan to exit, it just kind of takes a lot of the emotion out of it. So that kind of wraps up that Chipotle trade. It did great. I mean it's great being long options when the market is rallying as strongly as it is. Jason, I thought, yep.

Max Katz (12:14):

I'm sorry. Before you go on to the BBW trade in community, we talk about diagonals a lot and especially for the pre earnings ones. My personal strategy is as the short call gets approached and passed, I perceive the risk that the stock is going to keep going in that direction, and the delta of my short option is going to overtake and surpass the delta of my long option as it keeps going up because of the difference in gamma, and I will do one of two. So I make the fundamental decision. Do I want to just take my profit as the short option has become in the money, just take the trade off, or do I want to roll that short call in the shorter expiration to the long calls expiration and make a long call spread out of it, right? Yeah. And then I'm protected as far as

Jason Hitchings (13:26):

The delta running away from you. Yeah,

Max Katz (13:28):

Exactly. And I still leave the potential open for more profits if it keeps going up, and data can only help me and I'll always close before the earnings event.

Jason Hitchings (13:42):

Yeah, yeah, I mean the interesting thing about when you roll to the back month, it can constrain you oftentimes. I mean, so my personal experience just with trading spreads, when you have the same expiration that is oftentimes you have what feels like a big theoretical gain because you have see $10 of intrinsic, but now the out of the money option is closer. I mean, the higher strike is now closer to being at the money, and so it has a little more time value wrapped in it. And so that takes some patience at times because you might see your profit, maybe it's a $10 spread and you see a profit of $7 and you feel like had that front month option expired, you would've realized the profit early, been able to exit the position or take the profit. But, and then certainly these are good scenarios to have because now you're talking about, yeah, you have a nice profit in your position, it hasn't quite reached the theoretical and when are you going to exit out of it? But yeah, that sounds like a solid way to manage your delta risk on this position. Yeah, it took me just a quick second to catch up to where you were mentally with that front month option, but yeah, that's a sound approach sound looking at this BBW trade.

(15:15):

Yeah, this just, we kind of did 10 of these long calls when it came time for the short option. Basically, I was just following the strategy as it was laid out. You're not collecting a lot. I think the lower strike was a dollar 37 or something like that. I think we got filled slightly better. So yeah, it was only collecting about 8%, 10% of the value of that long position. And so then the question became is that a worthwhile trade to do? So I was just more or less following just the strategy the way it was laid out, but just wanted to look at the kind of different scenarios in that a little bit more.

(16:10):

So yeah, we ended up with this, this is the position as it happened now. Oh, this is where it was originally. We've got filled at 10 cents a few days later. This thing is, I think the mark is at 15, so it's short legs down, 50 bucks and the long leg is up. It's doing nicely. So just looking at that real quick, obviously stock at the time was trading a little bit below, I think it was around 22 or a little bit below, and maybe on the previous slide we can actually see now I don't have it there.

(16:50):

So the stock would've to be moving from 22 ish up through 25 and a little bit past it before we start getting hurt by that short leg in terms of if we wait for the front month to expire and when we exit. And so it's a relatively large move. So you're talking about a $2 50 cent move and a stock that's at 22 or something like that. So it might be a 12% move or something like that upwards in about a two week timeframe. So this is the three month chart. And so we were sitting around here around 22, and so the question is what are the chances that the stock's going to go above 25 or 25 11 in the next, between now and February 16th? So in about two weeks it'd be a substantial move, but it's certainly a possible move. And if the stock pops to 27 or $28, you're going to wish you weren't short, didn't try to pick up that extra a hundred bucks.

(18:01):

So looking at the kind of little p and l charts that they give you inside, you can look at the individual options and I'm just clicking the long and saying, okay, yeah, so this is your theoretical p and l and I boxed out in the blue area up above the 25 11, 25 13 price. This is the theoretical value wouldn't capture, and this is the line on this chart. It's kind of nice as you move one line, the other one adjusts on the chart within thinkorswim. So the question is just how likely are we to pop up above that level? If we do, then there's a huge amount of upside. This is more like I think 12 or 13%.

(18:48):

Another question is, if you started getting up here, would you actually, if you're just long the call and stock got up into this 26, 27 level, are you actually going to try to hold it into these until the stock goes to 30? It's been a long time since the stock's been at 30. So when would you realistically be exiting this position if you'd be exiting this position when the stock goes up to 2324, then all this theoretical upside up here is not really part of your trading plan unless it just gapped up overnight from a buyout offer or something like that. And those things happen.

(19:30):

So now when we look at the position with both positions checks, so looking at the long and the short call, and I think this is actually what Max is talking about here, because this front month option, when it expires sooner, your position actually can start to go down a little bit in value over time because the delta of that higher strike option, which is closer to expiration, the delta can actually reach 100 faster in the sense that if you think about Delta as a chance of it finishing in the money, well, if a stock is only 5 cents or 10 cents in the money, even an hour away from expiration, that's going to probably look pretty close to a hundred delta. And so even if you have a strike that's much lower and much further out, the delta's not going to be a hundred on it because there's still chance for stock to get down to that level. So as the stock starts, you can see the p and l. Once the stock starts moving up here, then that higher strike option is actually as the stock goes up, it's actually hurting you a little bit, not massively, but it does hurt you a little bit. So it's a good reference point. It was a good point that Max brought up.

(20:48):

Yeah, so then the question is, so once stock starts to get up into this 25 plus zone, at that point, the lower strike option is going to have two 50 of intrinsic, about a third of the time would've passed. I'm just approximating saying that there's about a dollar of premium left in this thing, and the overall position is worth $3 and 50 cents. And so that's a substantial gain from your original call being worth one forty three. So to me, if the stocks ends up rising substantially and it's a few days before expiration, I don't mind that out of the money option will have hurt my p and LA little bit, but not a lot, and I'm unlikely to hold this thing much above 25. Now, the scenario where it moves very quickly is where it frustrates you more. So I put the scenario in this p and l thing out to the 5th of February, this thing expires on the 16th.

(21:57):

And so if you look at this dotted line here, this is what the position would be worth on that day versus the kind of theoretical value of the position. And you see a difference here because right at 25 eventually that out of the money option is going to expire and become worthless and you're going to reach your max profit. But if it happens sooner, then there's a not insignificant difference here in your p and l. So this might be around 1300, this might be around 1550 or 1600 or something like that. Yeah. So you'd still have a nice profit, but not the same profit that you would've had had you either waited until expiration or had you not ever sold that short call to start with.

(22:45):

So for me, I don't have any hard and fast rules about I don't sell options for a nickel or something like that or a dime, because to me it's about the scenario. So I'm happy to sell something for a dime if it's way out of the money. You obviously don't want to crush the potential upside of your position by selling an option for very little that's very tight to your strike. So we dropped the cost of our position by a hundred dollars by selling that thing. The other little benefit is that instead of the position costing us $20 a day to own, it costs us more like five or $6 a day to own as we're offsetting some of that decay. So even that little Tencent option does have enough decay built into it that it does offset the more valuable option some. But in short, I think it's definitely just a complete matter of taste. People had asked, well, when would you sell something out of the money? I think just kind of playing through the scenario of how far it would go up or down where it hurts you or it helps. You can kind of walk through it, figure out your own taste and style. But yeah, I just wanted to look at a few of those scenarios since we had a few questions about it and then we can dive into the q and a

Max Katz (24:03):

While people are entering their questions. I have one while you are controlling the video, would you look at the today tab for a second? Thank you. We want to look at the easiest one to look at for this potential issue is MGM, which is a 14 day pre earning long call diagonal.

Jason Hitchings (24:39):

One second here.

Max Katz (24:42):

Okay, we're seeing your q and a screen.

Jason Hitchings (24:46):

Yeah, understood. Okay. Yeah, I think this thing is just the cash is a little old or something, so I'll pull that thing up in just a second, but so what's the issue of seeing

Max Katz (25:02):

The MGM trade alert hit today

Jason Hitchings (25:11):

And this pre earnings 14 day?

Max Katz (25:13):

Right, so you see it says five and one,

Jason Hitchings (25:16):

Right?

Max Katz (25:17):

Five wins one loss. Now click on it and go to the back test, make sure your end date is correct for today. Yeah,

Jason Hitchings (25:28):

And you're talking about the five and two?

Max Katz (25:30):

Yes.

Jason Hitchings (25:31):

Yeah. So the difference is that this trade is now showing the current day as well,

(25:46):

Which on that back test was not. So I mean the p and l is basically flat on the day when it tries to score it as a win or a loss, it can look at the commission or whatever. And if the commission is 25 cents, it'll show it as a mild loss, right? Yeah. So basically this for platinum users right now, so non platinum users aren't seeing this yet. We're going to roll out this triggered thing, but the show options to pull in those live options is new. So let's, out of curiosity, well that'll kind of change the effect a little bit, but the today tab is running the back test as of the last time that back test was completed and this back test completed today. So the end date is today, but currently today, tab version, oftentimes these scans will run in the morning even before the market is open. And so it's not pulling in the live option data intraday when it's factoring in this wins and losses on the today tab. Whereas for platinum users, these back tests now are, so before last week you would never have seen the 30 January, you would never see today's options. You could see it in stock. We had live stock data, but only now do we start having live option data. And so you're going to see a winner, a loss kind of come in on that last day of trading that was never there before.

Max Katz (27:32):

So in the old days, we wouldn't see this trade until January until the following day

Jason Hitchings (27:39):

First. Exactly.

Max Katz (27:40):

And only if at the end of the day, 3 45 New York time, it still held all its technical open conditions.

Jason Hitchings (27:50):

Exactly.

Max Katz (27:51):

But now we're seeing it the same day.

Jason Hitchings (27:54):

Now it's actually pulling in the trade the same day for the live options data for platinum users. And again, we're going to kind of calibrate and see how much, what it's

(28:13):

Hitting, that live options data is pretty expensive. And so we're trying to calibrate to see if this is get rolled out to everyone or just for platinum users or that kind of thing. So this a very new feature and it's actually pulling in the lab option. So yeah, it's going to show, generally what's actually going to do is show you a loss because it's going to be pulling in a price and it's going to say, Hey, we opened this thing for this price for 1 55 and 48 cents, the price hasn't changed. And so it's still showing the same price. And so the only thing that can do it can either be completely neutral or it can be having paid the commission, and even with the commission more or less turned off, it's still kind of ticking that into the loss category. So this is very new and I get that long-term that's probably going to cause people a little bit of confusion or headache.

(29:02):

And so yeah, we can figure out about how to represent that in a way that it doesn't cause confusion or just to have a special little rule A to say, don't count as a loss if you open and close the same day or you open today with a mark. Yeah, you could have seen that thing the same kind of behavior before with stock. It looks like maybe the stock is, it seems like the options that are breakeven or getting shown as a loss, unlike the stock, basically accounted for that for stock. So if you open and close at the exact same price, it's not showing the loss there. So yeah, it's a little remnant of that new feature for new users, but yeah, that's something we can certainly get taken care of.

Max Katz (29:54):

Yeah, there was another example yesterday, but we don't have to go through that one.

Jason Hitchings (29:58):

Yeah, the live, it will always be the same thing with the live options. I've noticed that myself, the live options just show up in a different way and they're getting tracked that same day as a loss, even though it's not an actual loss.

Max Katz (30:09):

Okay. Alright. Very quickly, we have at least seven minutes and blessings and congratulations to you and your family. Jason.

Jason Hitchings (30:24):

Thank you very much. Yeah, wish us luck. We still got a few more days until we're there, but

Max Katz (30:31):

Yeah. Yeah, these prices seem different than on trade machine. Is it a different trade? I assume you pulled those prices whenever you built those slides or Oh

Jason Hitchings (30:47):

Yeah. I mean that's one this morning, so it was a couple hours ago. The markets just moved. Those weren't live. I just made slides a couple hours ago. If you're talking about the Chipotle trade,

Max Katz (30:57):

Right. Great trade, first time here, welcome. Like this review, it will help to get in a similar situation. Enjoy the time with your new baby. God bless.

Jason Hitchings (31:10):

Thank you very much.

Max Katz (31:12):

Jason. I'm a platinum user. Will the Speecher be available by week weekend? You

Jason Hitchings (31:20):

Should see it now.

Max Katz (31:21):

Yeah. If you're a platinum user, you should see it now.

Jason Hitchings (31:24):

If you don't, please email support@cmobiz.com.

Max Katz (31:27):

Thank you. Alright, now I'm back to the chat. So typically on alerts, do you go a month out? I think that when you look at trades on the today tab, the different strategies may have a different DTE days to expiration. Some will be 30 days, some will be 14 days. There's a whole bunch of custom strategies that it might be a diagonal that's long. The long call is 28 days and the short call is 14 days. So you really have to look at the back test to see what DTE is involved with a specific strategy. They don't necessarily all are 30 days. That's not the case.

Jason Hitchings (32:26):

Yeah. So for instance, I mean just conceptually it sounds like that might be a newer user, so welcome or at least just kind of diving in deeper into trade machine than previously. So on the today tab, these are a bunch of different strategies, 13 or so different strategies that we've created over time, and they each have different scenarios in which they become active. So for instance, this pre earning seven day call, and you can see a whole video about it if you click that little question mark.

Max Katz (33:03):

Okay,

Jason Hitchings (33:05):

I'm just going to finish answering that. So this particular strategy would trigger seven days before the earnings event. So we can see the earnings events on the 6th of February. And then this technical condition would also have to be true. So if you add an alert, it's going to try to mimic those things. So it's going to say seven days before the earnings, if this condition is true, where stock is above the 50 day moving average, then send me an alert. So today tab is essentially the same basic type of alerting mechanism. It's just that we've subscribed to all of the possible trades, all the possible tickers for these different strategies in a sense.

(33:52):

But each one has its own unique set of conditions. It could be a seven day trade or a 14 day trade or a 30 day trade, or I think the macd is, it's a diagonal, but it's a 30 day, 60 day diagonal I believe, if I'm remembering correctly. So yeah, it's all, if you click the strategy and you open one up, then you can really get into the details about exactly what it's doing. If it's a custom strategy, if you click edit, you can dive in here and see the details. So this would be long, a 60 day short to 30 day, and you can look at the conditions for when to trade it if there's earning conditions, et cetera. Okay.

Max Katz (34:31):

Alright. So we got a, okay, thanks a lot, Jason. Yes, I am. A new user started last week.

Jason Hitchings (34:39):

Great, welcome.

Max Katz (34:41):

Alright, so I have a smaller account. I try to find trades that have lower risk and option prices, maybe a bad decision on my part. Is there an easy way to find trades with smaller risk amounts? So I would suggest number one, the underlying stock price. You probably want something that's anywhere from $20 to 60, $75 rather than a 250 or $500 stock. That'll limit your risk just because of the underlying price. Secondly, if you do things as a spread rather than just an outright long or short call or put, that'll also reduce your risk and your buying power requirement that your trading platform is going to require for you putting on a trade.

Jason Hitchings (35:43):

Yeah, absolutely.

Max Katz (35:44):

Okay.

Jason Hitchings (35:45):

And if you're trading a spread, then yeah, the distance between the spread, if you do a single contract, and the difference between the strikes times a hundred is, for instance, if you trade a short put spread and no matter what the stock price is, but if they're $5 wide and you trade a single contract, then at the end of the day your max loss is going to be $500 minus the cost to put it on. That's not nothing, but if you can, you do a dollar widespread and a lot of stocks and that kind of stuff. So

Max Katz (36:17):

Yeah, I was just thinking more along the lines of a short to 40 delta long to 30 delta. If it's a $500 stock, it's going to be quite expensive.

Jason Hitchings (36:31):

Yep, for sure.

Max Katz (36:33):

All right. Confused trade signals. Use the 200 day SMA and a 10 day SMA and the chart shows 200 EMA and 10 in EMA. They are different HES trade example.

Jason Hitchings (36:52):

So I see HS in this by the dip. Yeah, there's a couple HTS stuff. So each one of these, okay, so I think these are the two on this page right now. So there's a buy the dip and a fade, the dip. Do you have a guess about which one he might be talking about?

Max Katz (37:07):

He doesn't say they both use the same technical open conditions, right? It's just a question of one buys a call and the other sells a put,

Jason Hitchings (37:16):

Right? Yeah. So let's click the fade, the dip here, it's got a nice eight and the O that's probably was looking pretty interesting. So each of these strategies has different technical and earnings conditions that cause them to trigger. So each one of these is different. When you click one, it will open it up. The trade as is today, it's saying that the technical conditions that cause this to trigger earlier are no longer active. So this is something that platinum members see and soon everyone will see this piece. So it's saying the technical conditions are that the stock has to be above the 200 day moving average right now,

Max Katz (37:56):

Right? SMA,

Jason Hitchings (37:58):

Yeah. The simple moving average and that yesterday it had to be below the simple moving average also that the stock needs to be above the 10 day exponential moving average. And also the RSI 20 days needs to be below 70.

(38:18):

So we're definitely below 70 on the RSI. So what I'm going to do is I scroll down to the very bottom, I'm sliding over, and then I'm looking at these technicals. Oh, this one is, I'm going to update the end date to make sure that we're getting the most recent data. That's a little trick of being a new user is when you click on some of these strategies, it is showing you the result as it was last run, but you want to update it to see things. As of today, the trigger happened today, but the saved back test happened as of the last time we ran the save back. So now looking, I'm hovering over here and looking at the RSI, it's still below 70, I think I can actually move this line. Yeah, I can actually move this line. I dunno if anyone knows that. And then it's saying that we needed to be under

Max Katz (39:18):

The, I think the question is the graph is using the 200 EMA and the back test is looking for the 200 SMA.

Jason Hitchings (39:32):

This chart should be for the 200 a moving average, this should be the simple moving average,

Max Katz (39:36):

Right? So when you highlight the last day or any day, I can't read your legend. Okay. Is it saying smma 200,

Jason Hitchings (39:47):

It says this, the specific one says MA 200, but by the default moving average, if it's 50 or above, it's a simple moving average.

Max Katz (39:55):

Okay.

Jason Hitchings (39:56):

Alright. And if it's 49 or below is the EMA? So yeah, it just says moving average 200 day, but that is the simple moving average.

Max Katz (40:01):

Okay, so there is no conflict there?

Jason Hitchings (40:04):

No, it's just a matter of trying to explain the details. Yeah. So these are simple moving averages. It's a combination of simple and exponential. If you see a little difference, if you look at a different trading platform and you say, Hey, your simple moving average doesn't look exactly the same as thicker swim. A lot of those places for whatever reason, don't take out the dividends from their stock prices when they calculate moving averages. And I've demonstrated time and time again and it's pretty baffling to me. You basically want to back adjust the stock prices because you don't want a dividend to look like a technical failure or something if they pay a big dividend and the stock drops. That doesn't mean it's oversold in our view. But a lot of platforms, I don't know if a lot of people expect to see it that way, but a lot of platforms leave the dividends in when they calculate their technicals. We think it's a big mistake. So if you see any differences between our moving averages and other platforms, that's likely the cause.

Max Katz (41:03):

Okay. Very quickly, are there plans for trade machine to have the crypto ETFs available for back testing?

Jason Hitchings (41:17):

Well, the US listed new crypto ETFs, yes, absolutely.

Max Katz (41:24):

Okay.

Jason Hitchings (41:25):

I mean, those should just be included. And every ETF and all the main indices, that kind of stuff that are traded on major US exchanges should automatically be included. We did have some tests to actually trade to actually be able to test trading the stock like Bitcoin as a stock back test directly. We had some kind of tests and experiments in there for that. So at some point we may include the actual historical prices of crypto just as to trade the stock on. But yes, all the major US listed ETFs, that kind of stuff should be in there. And it might take a few days or something like that before the data flows through, but it should be there.

Max Katz (42:08):

Okay. Last two quick questions. Does the one by three by two long, one short, three long two, that'll be on the

Jason Hitchings (42:19):

Yeah, if you do a safe back test, yeah.

Max Katz (42:21):

Yeah. Spread the sell off. You got it. But it's a simple question. Will the margin requirement, how does it compare to just being short of put spread or a straight put? And it's really going to depend on the specifics of the trade and the options that you end up using. The risk in the one by three by two comes from the two foot spreads that are short 25 delta long to 10 delta. And it gets minimized slightly by the fact that you're long 1 37, 25 delta foot spread. But in general, it's a bigger risk trade as far as buying power goes than just being sure to put spread one, put spread.

(43:20):

Alright. And the other question is, is it always best to execute on recommendations from the today tab in the last 15 minutes of the day? I usually execute within the last half hour just to give myself enough time if I'm working on more than one trade. But this is a trade machine uses daily data. The data is gathered for the back test at about 3 45 in the afternoon New York time. So yeah, you want to make sure that all the conditions are holding near the end of the day, but you want to leave yourself enough time to execute a good trade. Yep, exactly. Anything you'd like to add, Jason? Nope. Alright. So everybody's wishing you well.

Jason Hitchings (44:10):

Thank you everybody.

Max Katz (44:11):

And enjoy Is the paternity leave at CML like six months? Well, are we not going to see you for six

Jason Hitchings (44:19):

Months? No, no. We don't have official paternity leave. I'm just taking a few weeks off. All right. Yeah, I might hop on one. We'll see. We'll see. Alright. Every baby's a little different so it could get crazy or it could be smooth. So we'll see how it goes.

Max Katz (44:35):

You enjoy yourself.

Jason Hitchings (44:36):

All right, sounds good. Alright

Max Katz (44:37):

Everybody. Thank you everybody.

Jason Hitchings (44:40):

Likewise. Thanks everyone for being here,

Max Katz (44:41):

Seeing community. See you Jason.

Jason Hitchings (44:50):

All. See you Max. All.

TradeMachine® Live Help 1-25-2024: Wide markets and the MACD strategy

Jason Hitchings (00:03):

Okay, today's going to be mostly focused on answering everyone's questions for as many questions as we have, and I will go through quickly. A trade today that was slightly interesting just in terms of dealing with a stock that was pretty illiquid. The trade did not end up being active at the end of the day, so it's not a great example as a trade machine trade, but just from seeing something and dealing with low liquidity. So we'll kind of fly through that. Glad it warmed up in New York, Russell. Okay, boring part legal 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.

(00:59):

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 investments in light of your financial condition. I don't know if there's a certain amount of time you're supposed to, if you have to read that slow or if you can do the old micro machines thing and just say it super fast, but we put it up there. So I'm Jason Hitchings. I'm the CTO of Capital Market Labs. Thanks for being here today.

(01:40):

So I'll just quick follow up on the C mg trade actually turned it into a diagonal because the market felt a little talkish yesterday. It did a trade with MACD and BBW. That was pretty illiquid. And then we'll just jump into q and a. So I'll keep it pretty fast. So yeah, this is just the way I was looking at the market. This was yesterday. We were hitting all time highs. I was feeling I was kind of too long. My C mg trade is doing pretty well. I ended up just getting a little shorter. I just sold some positions that I had done pretty well. Just people were asking various ways to hedge and manage your risk. So I would just start selling a little bit of long stuff.

(02:21):

And yeah, I decided to turn this CMG trade into a diagonal on the back test tab. It also qualified in the diagonal trade. I previously, I liked the return characteristics on the CMG naked option better, but it went up respectably. I think it was up 25% or something, and I wanted to honor the back test, but I just kind of felt like it had a decent chance of losing some value so I could have just sold it and taken 25% gain. I decided to sell a near term further out of the money call on it. So I ended up selling this Feb second 2390. So I essentially moved from one trade in the today tab into another one that triggered on the same day. So yeah, I just sold this 2390 out of the money call. This market did come down today. It could be up tomorrow.

(03:22):

This might have ended up being the wrong decision in terms of my overall p and l, just from how I was feeling about the market yesterday, I decided to just kind of manage my risk a little bit, kind of do some the, get some of the beta working on my side a little bit more the way that we talked about previously things did come down, so I would've given back 600 bucks, but I collected some of that in this out of the money call that I sold. So lots of different ways to skin the cat, but that was just how I played it. If I might carry this through all the way until this thing expires or I might just convert back into the other trade if it loses most of its value. So we'll just see how that plays out. I saw this BBY trade today, sorry, BBW not Best Buy. It was relatively illiquid. I like this number. 800 sounds impressive, but I started playing around with it a little bit and what I did is to see how the liquidity was to see if the width of the market was making huge difference as I switched from the mid-market price, that is the default, and I switched it to a market price to see how that would do. That slide's coming up and it did terribly at the market price.

(04:53):

So I'll show that in just a second here. Yeah, so this, I'll go back to that slide that slide's out of order. Sorry about that. So the market price here, when I switched to market price, it was down 2% as a whole if I just placed the trade on the bid and the ask. So getting into this, I knew going in that if I can't get a good fill on my first leg, which I start with my long legs when I do these kind of trades, it's better for your risk and buying power and all that kind of stuff. So I was going to buy the back month 60, day 50 delta call first. But if I couldn't get a good fill on that, then I would just walk away from the trade altogether.

(05:37):

So then after that I said, okay, well how has macd done? How has this strategy done over the last three years in s and p 500? So I just was curious. So I ran that portfolio back test against the s and p 500 and I was happy with what I saw. So just on that backtest tab, I just did the SP 500 with that exact same share link and just let the whole thing run, and I had a 23% average return. So I was happy with that. So I figured I would just try to run this trade. So I was looking at the options montage here. This is for the front month. This is just the call side. So yeah, things are pretty wide, but oftentimes you can get better fills than things look like initially. So this strategy is the MACD strategy is long, the 50 delta at the money 60 day call and short a 20 delta 30 day.

([06:39](#)):

So one question I had is with the markets being illiquid the way they are, this is the front month. If this is the closest to the 20 delta, I don't know what my fill is going to be on this thing. So what happens if I lay in and I never get a good fill on the 20 delta? So what if I start with this at the money? So my question to the backtester was, Hey, if I end up with just this 50 delta call, is that going to hurt me or not? And so I decided to just run that backtest and even at market price, even though those things are wide, the at the moneys are generally the tightest. So it hurts you the least to be buying on the bid and the ask, buying and selling on the bid and ask.

([07:22](#)):

But I was surprised, it did surprisingly weld just buying a naked call. And so I felt okay to leg into it. So I started by buying the, I actually looked at halfway between and that return goes up to 650 on these four trades. So then I clicked show options. It showed me the two options. So I'd get long the March 15 and short this and the 25 calls on the Feb. So this was the March X expire. Typically, many times when I'm trying to buy something, I'll just go one step above the bid in terms of what I'm trying to buy at. So I'll try to be the best bid. I'm not trying to get filled instantly. I'm just trying to see if I can get, there's someone waiting to trade or an algorithm waiting to trade. So I put this order in, I actually had it at 1 33, but these are nickel wide.

([08:16](#)):

These aren't traded in pennies, so there could be hidden liquidity. I put it in there for a second, but it just sat there and it didn't even change the markets because it's, they're nickel wide. So I went up to 1 35, which is be the next increment where it would actually print in the montage. So I replaced that, waited a little bit, still didn't get filled. It did show the bid as 1 35, so I could see that my trade was in there when I went up to one 40 and actually got filled at 1 36. So kind of that hidden liquidity in the market because brokerages, they will send order flow, they'll give people a first look at the orders along the way, and as long as they can improve upon your price, they'll happily give it to any of those people. And sometimes people talk about this being a dark and nefarious thing, but it's not so bad.

([09:10](#)):

It's kind of like hidden liquidity, secret order flow stuff happens. But it's like if there's some hedge fund or prop shop out there that is willing to give you a better price and they don't want to post, they're not just going to wait out in the market and show what their price is because that's communicating what their volatility assumptions are and other things. They'd rather wait in the sidelines and try to fill things that way. So I got filled nicely on this one, and so it actually showed an immediate profit because it actually got filled better than the midpoint.

([09:43](#)):

I was the best bid for a while to buy a 10 lot getting into this. Once my bid went away, it jumped back down and that 1 36 was below the mid point. So it's not a real profit until I could sell it, but it showed a slight profit. So then I said, okay, well let's see if I can get into this trade. It's zero at 20 cents for this is the short leg for the Februarys. So I tried mentally, I said, I'm not going to do it for a nickel, so if I can't get a hundred dollars on this for the credit, then I'm not going to bother. But I started trying to place it at 15 cents and nothing happened. So then I just bumped down to 10 cents and I got filled at 10 cents and then I think, I don't know, it went nickel bid or something.

(10:32):

But anyway, it showed, or maybe then I think the offer went down to 10 cents or something, but I was slightly above the new point. So basically I ended up getting filled just by being a little bit patient got filled at least at mid-market, maybe a little bit better. And so even just when I placed the trade initially, it was kind of like showing I had a little more or less non-existent profit, but I know it didn't hurt me putting on this trade. So this is a trade that did over the course of the day become inactive. So this is, I'm fine to be in this trade, I don't care. I might get out of it sooner because it didn't stay active. So if I have a slight profit tomorrow, I'll probably just exit it. The main reason I've got into this was just to kind of show 'em at DTR and show some different ways to kind of slowly leg into this thing. And as I typically do, I did add a calendar alert for the front month just to tell myself to get out of this thing on this date. That's the way I set the reminder for myself to close that trade. So yeah, that was just kind of a quick example for some people that are a little bit newer. I know a lot of you guys are super experienced and this is all old hat, but just wanted to show a few examples along the way. Now we're happy to take any questions.

Max Katz (11:44):

Can I ask two quick questions about that trade? Yeah, the short option is only bringing in at best it only going to bring in 20 ticks or 20 cents when I see that in a spread order. That's not enough for me to have as the short leg. But do you think that it's enough?

Jason Hitchings (12:09):

Well, for this particular trade I do because I mean for me personally, just my own personal trade desires, because I was only because the long LA was relatively, it was a large enough percentage of my long trade When I'm at trading at 1 35, if I get in 15 cents to hold the thing for whatever the expiration is on that for half the timeframe just to let it expire out of the money for me, I thought it was worth doing.

Max Katz (12:39):

Okay. And the other question is, do you ever try and work instead of working the individual components of the trade, do you ever try just going in at the midpoint of the spread and put it in as a spread?

Jason Hitchings (12:52):

Yeah, I've used the complex order book a fair amount and I've found it to work fine. Sometimes things sit for a longer period of time. Sometimes I feel like I can get filled on individual legs, it's faster and better, but that's just my own bias. That's just my own. It's just like people that play poker, there'd be certain combinations of cars that they like. I've just had better experience. Oftentimes legging in, and especially in this one, I was okay to just be long the calls. I was fine to do it that way, but if I don't get filled, I might put it in. If I'm trying and I am forced to get it put in a price that I'm not satisfied with, then I will cancel it and I'll go to the complex order book and try there. It's also a two-legged spread. I mean, if I was going to do something more complicated, then I think the complex order book is the way to go.

Max Katz (13:44):

Okay. In chat, when you place the orders, is it usually one to two contracts or more? I thought you were doing 10 contracts. That

Jason Hitchings (13:53):

Was a 10 lot in that particular one. In the Chipotle trade, it was a one lot because yeah, they were 50 50 at the monies. But I mean that's very personal about your risk trading account and all that kind of stuff.

Max Katz (14:07):

Depends how large a position you want to end up having. If you have a two 50 spread, is there a minimum you want for the short position? So in other words, the width of the spread I think is what the person is saying.

Jason Hitchings (14:28):

Like the bask spread?

Max Katz (14:29):

Yeah, no, no, no. Or the

Jason Hitchings (14:30):

Strike spread,

Max Katz (14:31):

The strikes, the width of the strikes. My apologies.

Jason Hitchings (14:34):

No, no, I was just clarifying.

Max Katz (14:38):

Is there a minimum you want for the short position? I think, yeah,

Jason Hitchings (14:43):

Width the strikes, to me it's much more about, I mean the strikes are a big part of it in terms of where your loss is and all that kind of stuff. And in this case where your max return would be capped. But a big part of it is how much credit am I getting original relative to my first leg as well? So if I'm getting in for $2, am I first leg? Am I getting 20 cents out of that or am I getting a penny or am I getting a dollar? So I mean obviously if you could do it for $2 and 50 cents, then you're doing good.

Max Katz (15:21):

Yeah, that would be great. The other thing that I do is I look at the net debit that I'm paying for the spread trade, and as PHE likes to do, I try and keep that debit that I'm paying to be less than the width of the strikes. In this case, the two calls. So if it's a two 50 width, I want to pay less than two 50 for the trade.

Jason Hitchings (15:56):

Great.

Max Katz (15:57):

Okay. Alright. I'm looking at the, we have some people in the q and a, how do I get the back test option strikes to stay consistent?

Jason Hitchings (16:12):

The back test option strikes? Yes. So this is a pretty fundamental part of trade machine and we know it's a little bit of a learning curve and so let me just share my screen for a second. So if you take,

Max Katz (16:37):

There's a second part. Did you see the second part? No, I haven't. Okay. It says I changed the values to the ones I want click on save, do a back test. However, if I close that back test and come back to do another back test expecting the strikes that I set to be there, they're back to whatever the default was when I came in.

Jason Hitchings (17:02):

Oh, maybe. Oh, you mean the deltas? So you're setting the deltas, which determines the strike. Okay, gotcha.

Max Katz (17:11):

I think if you save the back test as an alert and then go click on that alert, it will save the leg one and potentially leg two deltas that you customize.

Jason Hitchings (17:29):

Yeah. When you set your own deltas and click save, those will be persistent. However, once you click any share link, then in order for it to give you the exact same result that you saw on this page, the deltas will get changed. It'll customize the Deltas anew for use. So it'll make this 50 20 match. This strategy's 50 20 and so they get overwritten by when you put a new share link in, not permanently the next time you log in, if I change this and click save, then my new default deltas for that midpoint strike will be this 50 25.

(18:19):

If I load a different strategy, it will load those in again. But just for that strategy, we've thought about putting, so this for this strategy, the strangle, it's a 40 delta strangle. So this strategy shows the 40 delta.

So because we load that share link and we need to give you the exact same results, it updates your deltas. We know that causes some confusion, but the back test has to match these results. Or also it'll be even worse if you click the share link, you need these results to populate. So yeah, we will probably put something up on this top level that's a quick reference to the fact that the deltas were changed or it's using custom deltas or try to show you the deltas. We don't want to completely overwhelm users by putting 10 different delta options here. I mean delta settings, but that is what's going on. When you load a share link, it will overwrite these. So that has to happen for the share link, but we know that then people start testing something else and they don't realize that these deltas are still in there. So we will work to make that feel a little smoother, but that's how it's working right now and that's why it's doing it that way. But it's a good question.

Max Katz (19:35):

Yep. Another person would like to know why not just do a calendar spread instead of the diagonal.

Jason Hitchings (19:46):

Yeah, completely legitimate. I could definitely test any variation of it. Do you mean for the BBW or

Max Katz (19:57):

I'm assuming that that's what he's referring to. Yeah,

Jason Hitchings (20:01):

I mean that particular trade, I was just following the today tab alert. I thought it was most illustrative for users to see taking something from the today tab and actually translating that into a trade. If I was going to approach that position fresh, what would be the position I would decide to do? I'm not sure, but in general these have been pretty well tested and so if I have a strong intuition, I'll vary from it. But if I just see a result that I like, I'll kind of stick with the backtest settings because we've tried it against thousands of different positions, but completely valid and you should absolutely vary it yourself. And if you want to backtest it, you should backtest it.

Max Katz (20:43):

You can easily backtest it and compare it to the diagonal. I like the diagonals in general. It gives you a little more room as the underlying stock rallies.

Jason Hitchings (20:56):

Yeah, that's how I feel too. And it's also once you're, well, you compare it to a pure call spread or a pure calendar.

Max Katz (21:04):

I think he's talking about 50 50 calend.

Jason Hitchings (21:06):

Yeah, I mean it's nice because of those gamma and the theta stuff, it's like that thing's expiring very rapidly and like Max said, as it starts to rally, I feel like there's very little cost to your longer term at the money call. The chance of it rallying so strongly that that's going to hurt your overall returns in the end are pretty small. And I also am conscious of how long I feel like I want to add a little bit of extra hedge or protection to my position. When do I think that things could come down and when do I think that they could return? And if you have a pure calendar spread and then it rallies to exactly at the strike, that front month option is going to appreciate more than the back one. So yeah, I just like time being on my side and I like how that position decays. So just a matter of personal preference,

Max Katz ([22:09]):

We got some thank yous. An interesting question is the ability to roll at eg, a losing short put out in time with or without strike adjustment for a net credit under consideration for future back tests. So they have an initial position and the short has been violated, you're going to try and manage that. They want to know if it's back testable and if that's going to be a back testable capability and in the future.

Jason Hitchings ([22:47]):

Yeah, I'm just entering some kind of random things in here, but yeah, so you have some position and if you're talking about based on the kind of p and L of oh 30 con, it's an interesting one. Based on the p and l of that position, you might want to roll a piece of it or not based on how it's performing. Yeah, I think that's definitely of interest. I think that's the way a lot of people trade in the real world is that they are trying to manipulate the position over time to get it to be a winner. The only thing that we have that's at all in that direction is the kind of dollar cost averaging, but we could definitely start looking at p and l and have positions trigger or parts of positions trigger based on that. I mean obviously we have stops and limits on the position size overall.

([23:47]):

So yeah, I don't think it's a huge stretch to say that in the not too distant future we might have the ability to say, Hey, if I'm down X percent roll close all legs at the front month or have a couple of different options here to say roll if up x percent, roll if down X percent. I think it's a good request and I think that it should be doable. Definitely email support and go to community and get people to jump in on community and tell them to email support or just create a conversation in community. And as those things probably get to the top, we build 'em out. Another one that we're pretty interested in is kind of some kind of stock pair trading or being able to look at the SPI performance, whether it's moving averages on the SPI or something else when you're not in the SPY to look at the market performance as a whole, like when the market's at all time highs or if it's rallied when than X percent or if the RSI on the s and p 500 or the SPY is above 70, maybe I want to not enter my long position or I do or whatever.

([24:50]):

So having a little bit of influence across by looking at the market is another thing that we're looking at.

Max Katz ([24:57]):

Cool. All I've been trading strategies like fade to dip, long technical strangle, those are two different strategies. These do not have a percentage loss stock. I've barely been keeping my head above water with the oversized loss to gain ratio. Any tips to improve upon this? My attempts to add a percent stop loss into the back test generally end up worse.

Jason Hitchings (25:32):

Yeah, we

Max Katz (25:34):

Go ahead.

Jason Hitchings (25:35):

Yeah, no, you go ahead Max.

Max Katz (25:37):

Alright. For fade to dip when your short strike is approached or violated and you want to stay in the trade and not take that loss at that time, you have to roll the short spread. Either they're put, so you want to roll 'em down to lower deltas the whole spread. You put this on for a credit, so you want to roll it down and or roll it out to a later expiration. Those are your basic two choices. It's a manual process. You can't really backtest it right now as we were just talking about on a previous question, but that's what I would do on fade to dip. If you believe this is just the stock has come off, then it's just a temporary thing and it's going to reverse and go back up. And you don't want to just take the loss. You roll down if there's a lot of time left in the expiration, the option expiration, use that credit that you took in at the beginning of the trade, hopefully not all of it to move out of harm's way or you rolled a short put spread out.

(26:58):

Now long technical strangle, it's another story. If most of the time and the default is using the 40 delta call and the 40 delta put, you're going to be long nose at the start of the trade. You're not going to have anything against those two long options, one call and one put. So getting into the trade, even though it's not a requirement, what I like to do is look at the implied volatility of these options and see for this option expiration what the IV rank and the IV percentile look like to see if they're less than. In the case of IV rank, I'd like it to be less than 30 when I'm buying options and for IV percentile, I like it to be less than 40.

(27:56):

My trading software has those current statistics. I know others do as well. If those numbers are too high, even though the back test may show a positive result because we can't currently back test with setting an IV ranked level or IV percentile level, I will skip the trade. But once you're in the trade, your long options, if that stock just sits there and doesn't move your option decay is just going to eat away. And you have to decide a reasonable amount that you are going to take as a loss before you close and decide if you still want to be in a long technical strangle and maybe reposition in a later expiration. Jason, you want to add anything?

Jason Hitchings (29:01):

No, I think that's good. Yeah, I think with the technical strangle we found the same thing that stop-losses helping the overall performance of it. I think the limit is set pretty tight at 20%. So I think the goal of that strategy is just to catch some vibration, some movement in that stock going up and down some volatility and then exit and try to have a high percentage of the time that you're able to exit with a 20% gain and just be in and out of it for a relatively short period of time. Yeah,

Max Katz ([29:37]):

Yeah. I think it closes after 10 days as well. 10 trading days if I remember

Jason Hitchings ([29:43]):

Correctly. Yeah, exactly. That's right. Yeah. Good memory. Yeah, it's closed after 10 days. Yeah.

Max Katz ([29:48]):

I have two questions that came up in community, but I see one question that I skipped over by accident in the chat, I didn't see this coming, but when you have a big gap like IBM today, I think IBM gapped up, where should I be looking for a trade after the gap? That's a very subjective question.

Jason Hitchings ([30:14]):

We do have the ability to backtest as a technical trigger stock movement. So stock jumped x percent, stock dropped x percent. So I would personally, we do have a couple strategies that incorporate some amount of movement such as after earnings or something like that. But yeah, I would backtest against the s and p 500 a large move and then see how those have done over time. There's not a pre-built gapped up gap down kind of strategy, but that's absolutely something to back test.

Max Katz ([30:51]):

Yeah. But I think first you have to decide, well that do I think that's bullish or do I think that's an exhaustion gap and I should be looking for a reversal trade? But you can backtest both of them based on a percentage move in this stock. The other thing I've seen some people do is to look at the RSI. So in this case for IBM was a big move up. If the RSI 14 or the RSI 20, whichever one you like better to use went above 70, you can backtest for that a bullish trade and a bearish trade and see what the back test tells you about which one was successful or more successful. Alright, the two questions that came up in community one is about, and we visited this before, there's an alert on the today tab, but by the end of the day it's not holding, so it's not a valid alert, but that alert still stays there for that day yesterday and two days before it still sitting on the today tab. I'm wondering, when we have this next version of trade machine with the information about whether the alert was valid at the end of that day when it was a today, are we still going to leave ones that aren't valid at the end of today on the today tab for the three days or not?

Jason Hitchings ([32:37]):

Yeah, I think it would be an improvement on the software to remove them even intraday. And I think we can do that. We might put a flag if it same day saying inactive or currently inactive. And then if they're, like you said, if they're inactive as of the end of the day, then we don't show them in the history. Yeah, I think that would be a good improvement. We just recently started showing the history, but that would be a definite improvement.

Max Katz (33:05):

And then the last one in ProScan, give me 20 seconds on, the results come up almost instantaneously, but that's because the results in ProScan are not being generated in real time. It's more of a batch operation that you do every X days. I mean, you describe it.

Jason Hitchings (33:33):

Yeah. Yeah. ProScan are the strategies that we've identified and we backtest them with our own settings ahead of time and we just save the results to the database so that we can quickly scan, filter, sort, et cetera. So it's a great starting place if see if you like a strategy and want to see what tickers it's worked best in, or a ticker you want to trade and you want to say, okay, what are the best ways to trade it? You feel good about, you read some news about a certain stock that has good battery technology or something like that, and you know, want to get long. And you can look at what strategies have performed best in it by that ticker. And it's rather than spending 20 minutes playing around at the back tester to develop your own strategy, you can quickly look at 30 different strategies and see which one has worked best and feel free to go from there and then test and play and adjust. But it's a bunch of pre-run back test, which are come up instantaneously.

Max Katz (34:30):

So this specific example, and I'm watching the chat, I don't see any other questions and no questions in q and a was for stock A BT, which had a 14 day pre earnings long call diagonal alert on January 10, and it held the end of the day and it was with AI for completeness, and it was closed on January 19th, and you see all that in the back test, but it didn't hit the PRO scan. When you search for that strategy and a BT, what would you say would be the, what's realistic timeframe for a trade to be in both the ProCan and the backtester?

Jason Hitchings (35:29):

Well, so for things to go on, so we're scanning tons and tons and tons of strategies constantly. The today tab strategies, we're trying to scan every 24 to 48 hours to keep them very current. And then when we test the alert, we also check to make sure they qualify in various respects, but we're trying to get the most current ones possible at that point. Other strategies are more like once a week generally, but there has to be a lot of characteristics that qualify. We don't show all results in ProScan. We show things that qualify various metrics and standards, also various timeframes.

Max Katz (36:05):

Yeah. So that's how from the 19th to today's the 25th, it's possible that something hasn't hit the Pro scanner yet as a result to be displayed for this one specific strategy. But if you bring it to the back tester and you make sure that the end date is the current date, you will see every trade that has hit.

Jason Hitchings (36:28):

Yeah, exactly. So let's just imagine it's fade, the dip or whatever the strategy was. If you click on it from the pro scan and you don't see the most recent trade, then just like Max is saying, just click the three year button, click any of the buttons at the top, and it'll bring the date up to the current date, and then you'll see the performance. That's up to date

Max Katz (36:46):

In back test.

Jason Hitchings (36:47):

Yeah, exactly. In the back tester. But would you click on the link from the pro scan? It'll open a back test with that, and then you just update the end date. But yeah, sometimes there's a certain thing that'll slip through and not get updated for a week or something like that. But yeah, just bring it to the back test and update it.

Max Katz (37:03):

Okay. I do not see any other questions.

Jason Hitchings (37:08):

Great. All right. At 40 minutes, we're just going to around where we're trying to keep these. So

Max Katz (37:13):

Beautiful.

Jason Hitchings (37:14):

Great. Well thanks Max. Thanks everyone for joining today.

Max Katz (37:18):

Thank you, Jason. Beautiful job.

Jason Hitchings (37:20):

Thank you. And hope to see you all in community.

Max Katz (37:24):

Thank you. Yes, have a good night.

Jason Hitchings (37:27):

You too, David. Thanks, Stewart. Thanks Michael. All right. Bye everybody.

TradeMachine® Live Help 1-23-2024: A Trigger from Today Tab

Jason Hitchings (00:03):

Now that we've of covered a lot of topics, some of these sessions will be pure questions and answers, and then if I happen to place a trade that day and if I am able to take the time to document it or if there's anything interesting about it in terms of how to set it up in a brokerage, I might have a little presentation for the first five or 10 minutes, but we can also just jump straight into questions. I did have a little trade today, which was I don't think I've documented a trade where you're putting stops and limits inside of Thinkorswim or a different platform. So I did have a little trade there today. Some days we'll have 'em, some days we won't, but yeah, so I can jump into that. That'll just take probably five, eight minutes and then I have a hard stop today at 1240 my time, so in about 40 minutes I'll need to be off of this, but we can keep 'em kind of nice and short and try to do 'em pretty often.

(01:07):

Okay, let's see. Okay, we have a few questions coming in. That's great. Feel free to flow your questions in. I have a quick slide deck I can go through very fast and then we'll kind of jump into questions. Okay. Jump into the disclaimers. This is not 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 investments in light of your financial condition.

(02:15):

Okay, great. I'm Jason Hitchings. I'm the CTO and I'm just going to do, I did a little CMG trade today in Chipotle, which I'll just kind of run through. There's nothing too special about it. If you click that little button at the top of the today tab for the largest 500, it's going to limit this tickers that are shown to things that are typically pretty liquid in the options market. So I think unless you're really looking for smaller stocks, it's a pretty good starting place. I just looked through a couple of them. I saw this six and oh pre earnings, diagonal thought it looked pretty good.

(02:57):

So the new feature that's coming out really speeds things up and so I just clicked show options and it gives this little warning saying, Hey, this isn't a recommendation. Check with your brokerage to make sure all the data is accurate. I click okay and then it shows me the actual strike that this if I want to trade it, that this position would use. And so it said for the Feb 20 threes, you'd use the 2380 calls for Chipotle. So that speeds things up. You should definitely double check it, but this shows verified earnings, the technical conditions, you can check on the charts just the way we've done the last many times, but this is a new feature that we're testing.

(03:41):

The promise of it is that it will do all of that checking for you at least within the data that we have visibility into in that moment. So I just opened up, I just did the web version of Think or Swim again. I wanted the February 23, which is kind of scrolled out of view here, but I came down and looked for the 40 delta, which is this column and it's this line right here on the calls. It's 2380. We can see the markets are about 51 at 57 ish. That's it. It's $6 wide, so that seems like something, but Chipotle's trading at 2,350 or something. So it's basically trading at like five 10 at five 70, which is pretty tight. I still got greedy. I refuse to pay the offer price on my long call, but I did see that the Delta is 40, so it agreed with what our options chain from the CBOE said. It said the 40 delta was the 2380s and so thicker swim agrees with that, which is nice.

(04:46):

It says our next earnings is two six and it said trade. If you're looking for a 30 day call, then you'd want to trade something around Feb 23, which makes sense. January 23 right now it's all pretty logical, so I just clicked the offer here and it populated this. It showed the bit and ask spread. It's interesting with this bid ask on the one hand from a percentage perspective, it's relatively tight, maybe 7% separates these two or something like that. On the other hand, I know there's a lot of algorithmic trading that people are happy to make. They'll try to make a dime, so they're making 10 bucks. They'll try to do that a million times a day, and so I felt that even though these are reasonably tight, that there's probably a lot of algorithms out there that'll happily to make five or $10 off my trade. That's plenty for their micro commissions that they pay. So I started just placing in, putting an off or putting in, trying to buy it at the pretty aggressive price to beyond the bid.

(05:57):

So I started putting in my bid and I was pretty much the best bid, just scooted it up a little bit. I let it sit for a minute. You can see that the markets now reflect my buying price. Then I ticked it up a dollar. I let it sit for a minute or two, ticked it up dollar. I didn't want to wait for the stock to move around so much. I just wanted to see if there's hidden liquidity, which oftentimes there is, but I just kind of inched this my buy price up slightly over time, but you have to remember what your midpoint is because when I put in my bid for 52 80, it shifted the markets. The markets went from. The markets bid price was 51 40. Once I put mine, my buy in at 52 or 4 50, 2 80, then it started ticking up a little bit.

(06:52):

So the midpoint starts to shift and all of a sudden you forget, where was this before I started influencing it. If I'm trying to, people are using volatility to price this thing. They're putting a bid ask spread around it. They have a volatility assumption like 36% or something like that for the volatility and the next month and then they put a spread around it, but oftentimes they're willing to take much less than that spread, and so really I wanted to be around midpoint or just a few, maybe a nickel over it or something like that. So I was just slowly moving through this thing. The market's starting to change now as my bid is in there.

(07:33):

Let's see, and then as I slowly kind of ticked this thing up, I ended up getting filled at 54 point 80. I just got to go up a dollar, up a dollar, up a dollar, but it was pretty good compared to where the market started, which was about 51 at 59, I got filled pretty much at midpoint. So to me it was worth a few couple minutes of just experimenting to see if there's any hidden liquidity there, and you can see that the p and l, it says that I'm down $5 and it's pricing that against the midpoint. So on a $5,000 position, it's saying I lost $5 of edge, so that's great, like whatever 0.1% or something. So basically I get midpoint bill. So that was nice to see. And then someone asked last week about, Hey, is there a chart of what your p and l looks like at various price points? I kind of did it manually with the Delta how much my position would move. So I just wanted to highlight this real quick. So they have this little chart that shows your profit and loss over time at various price points. So this is the 2380 call and it's basically saying you make money as it goes up, you lose money as it goes down, but these green and red areas are basically at expiration and this blue dotted line is on any given day.

(08:52):

This is basically the difference here. If it jumped up, this is 27 13, they're not showing a lot of price points along this chart, but if it jumped up a hundred dollars, then this difference between the intrinsic, which is the green line and the blue is kind of the time value that would be left in it, and you can see that this distance is greatest. The difference between the real value on the day of the option and the intrinsic value, which is what's left here on expiration day. On expiration day, all that's left is the intrinsic, but you can see that it's fattest around at the money prices when wherever stock is right now, 2340 or something like that, that's where the distance between today's value of the option and the intrinsic is largest because that's where you have the most potential up and down movement, and that's what makes the option have value above its intrinsic value.

(09:51):

As this thing goes up, you see that these two differences narrow in terms of sort of the time value that's left, the difference between the premium and the option versus the intrinsic value. So I just advanced this calendar forward. This thing would be expiring Feb 23rd, and so this would be about a week out from expiration. You can see that this blue line is hugging the intrinsic a lot more closely. You can see that up here there's basically no time value left because this thing's going to basically move like stock at this point. Every time that this thing goes up, you're going to capture the value. Every time it goes down, you're going to lose the value, the chance of something happening where this thing is not in the money of stock is up here at 50 or 2,600 or something is very small, likewise on the downside, but yeah, is and you can hover over it. I think there's tool tips on this. So yeah, people were asking about what's a way to kind of see how the position changes over time. So I thought I'd just highlight that for a moment.

(10:51):

This particular trade, the way that we've set it up, and you should absolutely experiment with it and figure out what works best for you. And again, I put this trade in today partially for my own trading account, but partially just to create an example that we could talk about. It is not a recommendation. You should only trade it if you want to, please don't just do it just because I did it. But yeah, so the gains and losses, the way that trade machine has it set up are plus or minus 40%, and so that would be about $21. And so up or down $21 would be the stop and the limit that I would place in it. And so I started by putting in a limit order. I said, good till canceled, which is important. Otherwise it's not going to reach very, very, very unlikely that option's going to be worth $72 by the end of the day.

(11:44):

So I put in a good tilt, canceled and put in my limit, and then I just let that thing sit in my working, it says that it'll sell that thing as soon as there was just $70 and 72 cents did the same thing on the stop. Depending on your brokerage, they may or may not let you enter a stop and a limit at the same time because in their mind you might get limited out of the position and then be double short if you also hit the stop because it says good till cancel. There's ways to place contingent orders, but different brokerages are different in terms of how they do that. So it's possible we can't put both of these in at once because this would be a $200,000 stock position if I was ended up naked short. A bunch of stock is how they're viewing it from a risk perspective.

(12:35):

So we put the stops and the limits in and then this earnings trade you'd want to close one day before earnings. Earnings is on the 6th of February, and so I put in my days before earnings, I put a link to this position in there and I say close one day before earnings and I tell it to notify me with email and text when it comes in. And that's about that trade. So far it's done fine. Technically trade machine would, if you're going to really follow the trade machine that you would wait until the end of the day because it uses end of day trades. Practically speaking, if I have a window to trade of 20 minutes in a day, I will just place my orders at that point as long as if the stock has to be over the 50 day moving average or something. If it's just barely over, I might not place the trader. I might wait. But if all the conditions are being met with lots of room despair, I personally oftentimes just purely out of practicality and just so I can organize my day better, I frequently just place the trade in that moment rather than trying to come back in the last 15 minutes of the day or something. So that was just a real quick walkthrough of a simple call with a stop and a limit, and from there we will jump into some q and a.

Max Katz (13:50):

So Jason, what would you do if at the end of the day, 3 45 you had another five minutes to look at the market and CMG had dropped below the 50 SMA? Would you leave the trade on or would you close it?

Jason Hitchings (14:09):

If it was close to it, I wouldn't put it, so I just want to start off with that. If it was only 10 cents above or something like that, I would wait till the end of the day. I wouldn't mess with it. Yeah, I mean in that scenario, because I'm long a call personally, if the stock had come down a bit and now I have a small loss, I have a mentality of always trying to lock in winners, so I probably would just hang onto it and try to make the best of the situation. I might be a little more inclined to exit early. If I woke up the next morning and it was up 5%, I might just be like, okay, good enough. This wasn't exactly the trade I wanted to get into. I probably wouldn't personally lock in a loss of a hundred dollars or $200 based off of that, but that's just completely a matter of one's own taste. But to really stick with the tried and true back testing methods, waiting to the end of the day is best. It's pretty rare. Again, if the technicals are close, I'll wait, but if it's way above the 50 day moving average, sometimes I'll just take the trade.

Max Katz (15:21):

Gotcha. I would just add while we're talking about CMG in community today, we've been talking about the CMG 14 days before earnings and looking at alternatives instead of just doing a long call since it's a $2,300 stock, checking out a long call spread.

Jason Hitchings (15:44):

Yeah, I was going to say, if it was down a little bit in that circumstance, I might be inclined to sell a higher strike call just to kind of give myself a bigger margin of error.

Max Katz (15:54):

And it also appears under the today tab for the long call diagonal. Yeah,

Jason Hitchings (16:00):

I saw that. I think it was a three one, the winning percentage wasn't as good. Yes.

Max Katz (16:03):

Yeah. 3, 1, 3, 1 with ai, four, two, just with using the 50 day above, the 50 day,

Jason Hitchings (16:12):

I think that total return was under, it was, I don't know, in the sixties or seventies or something like that. Yeah, the other one was six and oh, with I think the average trade return was a bit better. It wasn't hugely different, but yeah, I chose to take just the straight up, but

Max Katz (16:27):

If anybody wants a smaller trade, probably I'll be looking at the long call spread has very good results and also six and oh great. And I posted it in community. I posted the back testing community, so you can check it out.

Jason Hitchings (16:45):

Great.

Max Katz (16:47):

Okay.

Jason Hitchings (16:48):

Yeah, because it is a pretty expensive, just to do a single leg is 5,000 bucks, so it's not a cheap one to get into.

Max Katz (16:56):

So you can reduce your risk and you can reduce your buying power by making a long call spread out of it. And there were multiple different possibilities. My back test includes five different possibilities for that spread. So I start by welcoming everybody and I also apologize to any cowboy fans or Philadelphia Eagle fans who might be upset with my New York giant cap, but I got to keep the head warm. Yesterday when I clicked open the trade from the today tab, there was a small banner appearing under the trade box that Jason just showed when he was talking about the CMG trade telling if the trade was valid with a date timestamp today, I had a ton of questions about it, but it's gone now. Will it be back soon?

Jason Hitchings (17:57):

Yeah, it will be there soon. Yeah, we just kind of published out to our production environment and once it's out in the production environment, then we have to add the permissions and so it went to production and it was briefly available to everyone until we permissioned it down. Right now you're not really missing anything. It's only available to admins. We put it in production so that our team can see it and play with it a little bit more. Yeah, it was out there. Normally we can do that pretty fast where we published a production and then permissioned it within 10 minutes or 15 minutes, but it was out there for an hour or two just because of the way the day unfolded. So yeah, it was a little sneak peek. So yeah, we have to figure out, so that data, it will definitely be released. We're going to release to platinum members first.

(18:44):

The reason being that it's a pretty expensive data feed to access the live options data and we want to get a little bit of a sense of how much it's going to cost us. We don't want to take a bath on it and platinum users, as everyone knows because they pay us a year ahead of time, we can just, it just helps us in a lot of ways. So it will be available very soon to platinum users and if price the cost of it's not outrageous, then we'll release it shortly thereafter to standard users. We don't know if all of a sudden people are going to start backtest live things like 20 times as often, and so it's a little hard for us to estimate until we release it to a pool of people and engage the expense of that. But yes, it is coming soon. That was a little sneak peek. Platinum users will have access to it first, but our intention is to release it to everybody as soon as possible. And of course, if you want to join the platinum community or have access to the platinum stuff, then please by all means just email support and we'll get you a set up with that, but we'll try to release it to everyone as soon as possible.

Max Katz (19:41):

Beautiful and mentioned in community this morning, besides the fact that it'll be released shortly that he's planning to do a webinar on it, so that should be good. So there were two components to this edition. One is here's the option expiration you should use, and here's the closest options that meet the back test needs. And then there's the other component which I find more valuable, but that's just me and that's that all the technical open requirements are still active. So my question to you since you're head the CTO, is how often is that component going to be updated where it's going to let us know that the technical open conditions are still active

Jason Hitchings (20:42):

And so that I can pretty much, you're absolutely right. There are two pieces of it. First piece is all technical conditions are met, and the second one is here are the strikes and expirations that would most closely fulfill this order. I can say with 99% certainty at the very minimum to everyone, we will definitely release the active now portion of it because that just uses stock data and we already have access to stock data. Everyone already has access to it and the stock data, we are powering it off bats for the most part, for certain indices and that kind of stuff. We do get a separate data feed from sibo, the vix, that kind of thing, but it's real time, but it's the bats feet. So that data is, bats gets a decent amount of the volume in the market now. So the prices are normally pretty close. There's not normally a big difference in price between in the stocks, how they trade on the bats versus everything else, but every time you send a back test in, you should be getting a fresh price. It gets cash on the backend maybe for five minutes or something like that potentially. But yeah, it should be pretty current.

Max Katz (21:55):

So how late will you be updating at 3 45 in the trading day New York time. In

Jason Hitchings (22:00):

Fact, not only that, but yeah, we're specifically, if we have the data caching is like if it takes, we cache the data just to make the back test faster, so it'll be cached for a few minutes just so if a lot of people send in the same thing, we give the result fast, we don't have to wait for the response, but specifically at 15 minutes before the close, if there's anything cash, we will clear it so that we'll make sure to give you a fresh price. So basically everything from at the end of the market should be uncashed, so you get the most current price. So it'll be live as of the bats, as live as the bats is.

Max Katz (22:36):

So basically what someone has to do is they have to click on a different test length or just click on the test length that they want, even if it's already being displayed in a tab just so it updates,

Jason Hitchings (22:52):

Right, that one. Yeah. In fact, yeah, test length is fine, but this feature will actually, I'll pull one up in our test environment here. Actually I can pull it up in production now because I have it on my own version. So me, I'll share my screen real quick. Yeah, so for the CMG trade today,

(23:19):

So this one shows today as the end date, but it says triggered and it says exactly when it was triggered. But yeah, if you want to see it again, I can actually just click this call button and it'll just go again and that one will get fresh, especially at the end of the day, we will not cache the data at all. So this says as of, yeah, 12:24 PM Yeah, what's interesting, this is a small note, but this shows one loss, but that's, it's actually now placing the options trade live today, and the only loss there is the commission. So let me, there's a little quirk here. This trade date I have an update for, it hasn't been published yet, but it shows a $2 p and l loss because that's just the commission on the trade. So I just bring everyone's attention to that. So if it's like, Hey, this was six and oh, why is it six and one, that little $2 loss is just the commissions if actually get rid of the per contract fee and make that zero, in theory, it should go away if it doesn't cash. Okay, now I'm back to six and oh

Max Katz (24:26):

Yeah, beautiful.

Jason Hitchings (24:26):

But I'll just bring people's attention to that. But this triggered piece will show all the time and if you click any button it would refresh. So yeah, if you wanted to sit there and watch it refreshing, you can absolutely do that. This is the stock above, and I looked at this earlier today too, but the stock was way above the 50 D moving average, so I wasn't worried about it dropping.

Max Katz (24:47):

Yeah, I wasn't questioning your trading skills. I

Jason Hitchings (24:51):

Was just curious.

Max Katz (24:52):

Totally

Jason Hitchings (24:52):

Curious

Max Katz (24:53):

How you would, but

Jason Hitchings (24:54):

If the stock was right here, I probably would not have placed it in the morning. I probably would've waited till later in the day.

Max Katz (25:01):

And I noticed yesterday that if that comma wasn't there after CMG, you'd see the alert, that little extra information under each of the five boxes

Jason Hitchings (25:12):

You would not for a portfolio back test, but everything on this screen. And the reason is so that it doesn't want each individually because one, the options are different because when you click show options, it'll be different. So it says that it's not active for meta, it's not active for Google, but if I just did CMG, then it'll show 60 delta 50, delta 40 delta, and each one of these things has different strikes, 22 80, 23, 35, 23 90, et cetera. So that's why they're kind of run independently.

Max Katz (25:49):

Beautiful. That's a great addition. Can't wait.

Jason Hitchings (25:53):

Yeah, thanks. I think we're pretty excited about it. We think it's going to make the product a lot easier, just faster and just less demand on people's higher brain functions. Let them focus on the trade more than trying to figure out, okay, well what's the expiration that's after earnings and all that kind of stuff.

Max Katz (26:11):

Okay, another question about what we just talked about, so I'm confident we answered that. Can you explain what you consider liquidity bid? Ask open interest? FTNT today looks poor on both open interest and widespread. I can tell you that I don't really look at open interest. I just look at the bid ask spread.

Jason Hitchings (26:44):

Yeah, to that. Is my screen still visible to everybody?

Max Katz (26:48):

Yes, it's showing CNG.

Jason Hitchings (26:50):

So this is the open interest on this trade, and you can see that it's like zero in one contracts of open interest all the way down here and 52 or the 2380 strike, there was two contracts of open interest at the end of the day it'll go up. I just traded one. But yeah, that was not a big factor for me in terms of I still got a mid-market fill. The fact that what the open interest was doesn't tell you that much. You can interpret an open interest sometimes if you think people are super short or if it's hard to borrow stock and there's huge puts and that kind of stuff, you might be able to interpret, hey, there's a bunch of people that have a bunch of in the money puts because there's huge open interest and these deep in the money puts and people might start unloading those close to expiration or things.

(27:45):

There are some conclusions you can try to draw from open interest, but I think most of us would caution you from trying to infer that a sock is liquid or illiquid based off of the open interest. I think that's, if there's huge open interest, it probably says something about the liquidity, but you can have a 5,000 lot trade trade on a floor where someone walks down to the floor and asks the people on the floor like, Hey, who could do a 5,000 lot in this thing? And they all break it up and they all do a thousand contracts a piece, but it didn't even ever go through a normal market and they kind of had a negotiated price, but it still could be very illiquid. So open interest can be a little bit more complicated and a little more deceptive than you might think.

Max Katz (28:30):

Okay, so just the gentleman's referring to a specific stock, FTNT while you were speaking, I looked at it on my trading platform. It's a $64 stock. So what I would consider a liquid bid ask is anything between five ticks y to nine or 10 ticks y, that would be liquid enough for me to consider taking a trade in that underline.

Jason Hitchings (29:02):

Yeah, and I made you co-host too, so at any point if you want to share your screen, you're welcome to Max,

Max Katz (29:07):

Even though I was unable to find a light background, which I do apologize for that works, but I went with a little more subdued instead of just stark black. It's now aquatic, so it might blend in more, but we can test that out at another time.

Jason Hitchings (29:28):

Sounds good.

Max Katz (29:29):

Alright. What does the blue line indicate? I don't know what this is referring

Jason Hitchings (29:35):

To. I think maybe you mean on the p and l chart for sink or the little dotted blue line?

Max Katz (29:43):

Oh, well that

Jason Hitchings (29:44):

I could share my screen

Max Katz (29:45):

Again. Okay. Sorry about that.

Jason Hitchings (29:48):

No problem. Yeah, so this dotted blue line is what the value of the option would be at various prices. So this shows if Chipotle goes down to 1900, this shows if it goes up to 2,700, the blue line is the value of the option as of today. So it's saying this is the current price, and so as it goes up in time, or that's the strike. So as it goes up in time, this is showing what the value would be without hovering over it and seeing the tool tips. It's a little harder to read because they just don't have a ton of information here, but yeah, they're saying if today it jumped up to the actual, this is a 40 delta call, so it's a little bit out of the money, but jumped up so that this strike, if the stock jumped up to 2380 making this an at the money call, then the stock, that'd be a pretty decent up move for the stock and the p and l and the position would be like up 5,000 as of today.

Max Katz (30:51):

The red and the green areas and those lines associated with it, those are the expiration areas? Those are the expiration lines.

Jason Hitchings (31:03):

Yeah, it's the value add expiration essentially, which is also the same as the intrinsic because at expirational all that's left in the option is the intrinsic value. This dotted blue line is the real value as of this date at these various price points. They're assuming the volatility is staying the same. I think it had a 36 fall for this. So it's saying with the volatility where it is, if no time passed but the stock jumped up to 2380, then this would be the, your p and l would shift by $5,000 in the positive direction, but by expiration you'd be at zero because you'd still have no intrinsic value. So this line here, this is your p and l profit and loss going up and down this side. So at expiration, if stock is at 2380, then the ability to buy stock at 2380 has no value.

(31:58):

You can just do that on your own, but if it was there today, then your position would be worth a little bit more than it'd be worth $6,000 more. There'd be $6,000 of time value in that option basically. That makes sense. And then at time passes, if you're only a week left, then that time value stock's at the same price here in this scenario 2380, the time value here would only be a thousand or $2,000 because right now we have a month, but in this scenario, I moved the clock timer forward, the calendar forward, that'd only be a week and that would be the remaining time value. Again, it's the difference between the intrinsic and then the time the premium, the current value with the premium involved in it.

Max Katz (32:45):

So these charts are coming from your trading software?

Jason Hitchings (32:48):

Yeah, just thinker, some's web tool, right?

Max Katz (32:50):

It's not part of the back tester. No. And I would suggest that the faded decay is going to be quite limited until after the earnings are announced on February 6th, so that graph may not be as accurate as they would like you to think it is because of the earnings event coming up on February 6th.

Jason Hitchings ([33:13]()):

What that will look like is you'll see the vol tick up because there's a certain amount of movement. If there's an option that's expiring the next day, one day after earnings, that vol and that option might look like 2000 because they're not trying to price it off the vol, they're pricing it off of how much they think the stock could move. So if they think the stock's going to go up or down potentially $50 on earnings, that option is going to have that, it's going to be worth a $50 or $60. So the volatility calculation will not make sense. The models will be like, oh, okay, in that case it's going to have annualized volatility of 6280%. You can look at it that way. What the traders are saying is they think it could go up or down 50 bucks on earnings.

Max Katz ([34:02]()):

Gotcha. BA stock BA shows up in bearish bursts, 281% return and long strangle 135% return. Would you select a higher return? Well, I would look at each one. I would call up the back test for each one. I would update that last date to make sure we're using today's date as the end date, and I would look, I personally look at three, two, and one year test lengths. I know PHE looks at three year and six month. He mentioned in a recent zoom, so I've added the six. I now look at the six month as well and see how well these returns hold up. I mean maybe the long strangle at three years is only 1 35, but down at one year it's 47, whereas the bearish burst at the one year is 0.5, and then that'll help me determine which one I'm going to take.

Jason Hitchings ([35:14]()):

Yeah, absolutely. Another piece of it is do you have an opinion about the direction of the market right now or is your overall position, are you leaning really long or really short? And do you want to balance that out a little bit more because these bearish bursts will be a put spread or just a put actually, and yeah, so this one you're going to be leaning a little bit shorter, so that might be a better way to manage your risk. If you're on his 140 traits thing, he balanced out his position, so he has some that do well if the market's going down, some that do well in the market's going up some well when the market goes sideways. So the strangle is going to be a little bit more neutral on the market up or down as a whole. It's going to want volatility in ba and this one is going to be hoping for it to move downward. So you can factor that into your overall, you feel like you're leaning too long or too short, so that's another way to factor it in.

Max Katz ([36:14]()):

Yep. When it says close one day before earnings, let's say earnings are Thursday after the close, so must we exit on Thursday or on Wednesday? That's good question. I think one day before means you're exiting by the end of the day on Wednesday, regardless of whether the earnings that are happening the next day are BMO before market opens or a MC after market closes. Yep. Alright. Today suggests pre earnings trade. I'm not sure what that means, but there are several pre Ning trades on the today tab.

Jason Hitchings ([37:05]()):

Yep. So here's pre Ning diagonals pre earnings

Max Katz (37:08):

Calls, right? 14 three day, seven day three day. Alright. Someone just executed the CMG twenty three seventy twenty three eighty, twenty three ninety call fly 10 points wide for a debit of 80 cents. It's an interesting trade, but we're 14 days away from the event and it's a tight fly given that it's a $2,300 stock. So the probability of success is not going to be that high for a $10 wide fly 14 days away in my opinion.

Jason Hitchings (37:59):

Yep. You're kind of trying to pin the tail on the donkey, but hey, that's cheap. So your risk reward might be good. I mean your chance of losing a hundred percent is probably pretty high, but your chance of making a thousand percent is probably

Max Katz (38:13):

Okay. I see you have two minutes to go. So I'm looking for questions where,

Jason Hitchings (38:19):

Yep, sounds good.

Max Katz (38:21):

Do you have any trade machine introduction and initial setup sessions for beginners? Yes. Look in the learn tab on trade machine. So

Jason Hitchings (38:31):

I click learn tab getting started and then yep, here's the video manual, how to use alerts. So these are some really great introductions.

Max Katz (38:45):

Here's an issue I had with the green gray validation banner. Alright, it's not in production yet, so the person clicked on three year time length to make sure that the end date was correct and the additional information went away. Same thing happened with me. It only stayed up for the first iteration of the displaying of the tile when you changed the time period or made sure that the end date was today's date, it went away. I just assumed that that's an inpro thing.

Jason Hitchings (39:26):

Yeah, that shouldn't be the case when it goes to production. We also just removed it in the middle of the day as a feature. Right.

Max Katz (39:31):

But

Jason Hitchings (39:33):

We'll check that just in case. I haven't seen that personally in my own use of it, but I can double check that. Sometimes it takes, it looks like it goes away. It actually runs a separate test after the tile comes in and so it might take 20 seconds if there's not cache data. So you can also give it a second. Sometimes it takes a little little bit of time to process.

Max Katz (39:53):

Did give, I gave it adequate time. I just left it there for five, 10 minutes just

Jason Hitchings (40:00):

To, was that right when we pulled the feature potentially or no? Anyway, we'll look at it.

Max Katz (40:05):

Yeah, no, it was there the first time and it was right.

Jason Hitchings (40:09):

I'm just saying we pulled, we permissioned it in the middle of the day so it was no longer accessible to people, but anyway. Gotcha. We'll have a look.

Max Katz (40:18):

Hi, max, where can I locate the CMG spread trade? It's in the community.

Jason Hitchings (40:25):

So here's community. So for people that are new, you click community. Thank

Max Katz (40:29):

You.

Jason Hitchings (40:30):

You can click read the terms, make sure you agree, but basically treat everyone well is our,

Max Katz (40:36):

We're only seeing your face right now.

Jason Hitchings (40:38):

Okay. Yeah. Reshare that. I was going to turn it over to you. So you click community, which is this little tab here, and then when you sign in, it's the code of conduct which just says basically treat everyone well, don't talk about politics, please. Yeah. And then

Max Katz (41:04):

There should be,

Jason Hitchings (41:05):

Oh yeah, sorry, that's pro because I have access to both tools.

Max Katz (41:12):

It should be under Mad Dog. Not that I'm Mad Dog, but he was the one who introduced the subject of CMG. Okay, I can find it.

Jason Hitchings (41:24):

Yeah.

Max Katz (41:27):

Anyway, it's in the community. I'll repost it after this is over I Jason, it's 2 42. You're two minutes late now.

Jason Hitchings (41:38):

Yep. I have to take off here. Last question.

Max Katz (41:43):

Turn it over to me if you like.

Jason Hitchings (41:45):

Good? Yep. I tried to make you a cohost. Are you able grab it?

Max Katz (41:54):

Let's see. Share screen. This will stop the other screen sharing. Yes, I'll stop sharing. Okay, share. Okay,

Jason Hitchings (42:15):

Great. All right, I have to jump off, but thanks for taking over Max and thanks everyone for being here.

Max Katz (42:21):

Alright, and thank you Jason. Okay, so let me see, I guess I have to move this out of the way a little bit. I'm not very proficient with using the Zoom, so you'll have to forgive me. Here's the CM G long call spread. Let's see if I can scroll this down. Okay, so we're looking at three year time length and the 40 20 call spread, the 30 10 call spread and the 2010 call spread are all six and oh and it has a very good percent return as well as if you wanted to do the 50 30. And if you look at the amount risk, you'll see that it's lower than just going with the long call and you're not going to see the 30 10, but if you look at the 2010, you'll see that it's only risking, and this is a very conservative number, which is the way CML calculates the risk.

([43:34](#)):

It's only risking $4,480 over the three year time period. If we click on two year, it holds up very well, still four and oh nice return numbers and one year, same thing down to three and oh, three wins, no losses, but the link to this back test is in community. I'll repost it at three o'clock when we get back there. Alright, next question. I've seen trades trigger in the morning after earnings. Earnings were announced after yesterday's close and because of dramatic movements, the conditions triggered an alert. But if that trade has the condition never trade earnings, doesn't that mean wait two days before getting in the trade? So should I ignore those alerts? If the condition is never trade earnings, I would count the earnings as today is Tuesday afternoon. So if there were earnings tonight, the two days for me would be Wednesday and Thursday. So I would enter a Thursday end of day or Friday morning wherever you are more comfortable.

([45:06](#)):

Alright, where do I see how much Money Trader will be holding for my cash margin account until the option expires? Okay, so Trade Machine uses the most conservative calculation for the amount of money that you will be risking for any individual trade. If we look at the 2010 long call spread for CMG, which once again is a $2,300 stock over the, in this case, the one year period, the trader is risking approximately $4,500. But the real key is how is your trading platform defining your risk? They will tell you the buying power required when you want to put the trade on, they'll either call it buying power required or margin required or something along those lines. So the exact number for you is dependent on what trading platform you're using. Trade Machine uses the most conservative number.

([46:22](#)):

Alright, got to move this up. I do not know where Thinkorswim shows the number. Alright, someone's recommending some software called that's free. So it's not really a promotion options, I haven't heard of it, but I guess it displays those kind of graphs that Jason was showing from Think Orwin. Alright, and I believe if I can find it, there were some Q and A questions, so let me see if we've covered those and let's move them out of the way. Okay, someone would like to know in the pre earnings 14 day diagonal, there are so many trades today, how do you which one to act on? So let's see if I can go to the today tab and move this out of the way. Come on. Did not want to do that, but let me minimize it. That's better.

([47:49](#)):

Alright, so the first thing I do is you can sort a column. So I would go from high to low to see what the percent returns are. That's one way and then I start at the top. As long as the win loss is in my case, better than 67% and all these are, this is the CMG is right at the limit here for the diagonal at 66.7 or 67%. What I have been doing lately is if I see it has an AI component, I immediately go to that one as long as it's got a good win percentage and total return number. The other thing I do is go back up to the top on the today tap and I will minimize the number of alerts that I'm seeing by clicking on the largest 500 stocks. I think it's by capitalization and that will also minimize the number of tickers that are displayed for a category of alert, like the 14 day diagonal.

([49:13](#)):

Okay, Jason, good to hear. When would you get out? I guess that's referring to his CMG long call. I think he's going to get out when he's made a decent percentage of what he paid for that long call. I think he paid a little over $5,000. I'd be surprised if he did not wait until he was at least up 20%. Just me. It's a big ticket. So 20% of 5,000 is a thousand dollars winner, but I can't speak for Jason. Alright, so that's answered. Could you please show a trade with Tesla or Apple? Alright, I'm just skipping to get done with that. I already talked about where the CMG spread trade is. It's in community and I'll repost it. So could you please show a trade with Tesla or Apple? Now let's see if there's anything here. I don't think there's anything on Apple, but I, alright, so let's look at the 14 day diagonal. Let's load up CNG and let's make it Tesla. I know Tesla's reporting the end of the day tomorrow, but this is just to show. All right, so what we have here is 14 days pre earnings, long call diagonal. Tesla is not a good candidate for the long call diagonal. I guess I could even load up Apple as well.

(51:35):

Alright, apple is a good candidate and we see that the date is today's date. That's three years. We'll look at two years, apple is now three and oh, Tesla is still losing and has a negative return. I would not do a pre earnings diagonal 14 days before the Tesla earnings announcement. Tesla still negative Apple holding up on the one year as well, still 2.0 and a nice positive return. And I'm now looking at six month as well. Apple did not have any occurrences where the stock was greater than the SMA 50 days. So I hope I've sort of answered your question with a trade on Tesla or Apple. If you have something more specific or more specific kind of trade, just let me know in community and I'll do my best to show you a sample trade. All right, and that's it. I don't see anything else. Just double check.

(53:01):

Do you know where I think we swim, max? I think Jason was more conservative. Alright, so I guess some people think Jason's going to get out when he makes 500 or so. What does this time period, six month, one year, two year indicate? That is detect the test length. So when you do a back test for two years, it goes two years. Starting the end date being today's date, back in time, two years. If you wanted to do a one year back test, it'd be one year back from today's end date. Alright, max, you covered both Tesla and Apple. Thanks. Okay. Alright, we're all done. Thank you all for coming and we'll see you guys on Thursday. If not, we'll see you on tape. Everyone have a good day. See in community, I'll be there shortly. Now how do I log everybody off? Amanda, you still here?

Amanda Kelley (54:18):

I am. You should have a button that says end meeting.

Max Katz (54:23):

Aha. Well, it says I can leave, but as a co-host, I don't see anything that ends it.

Amanda Kelley (54:40):

Try logging off yourself and if not, I can stop it.

Max Katz (54:45):

Okay, thank you Amanda. It's always a pleasure speaking to you.

Amanda Kelley (54:49):

Of course. I'll talk to you soon.

Max Katz (54:52):

Ciao.

TradeMachine® Live Help 1-18-2024: Final update from last Thursday's Trade

Max Katz (00:03):

I heard that. I have to

Amanda Kelley (00:04):

Remind you, Jason.

Jason Hitchings (00:06):

Yep. Beat you. Beat you to it. Hey Don, welcome. We'll just give it about another minute or so some users start flowing in. Let's see here. Share my screen.

Max Katz (00:51):

See you.

Jason Hitchings (00:53):

Great. Okay. Thank you all for being here. We will jump in today. We'll mostly be q and a. We'll kind of just let it go maybe 30, 45 minutes depending on how many questions there are. But I'm going to start off by just doing a very quick follow up on the trade that we've been kind of tracking this earnings diagonal the time that the strategy would be to close it tomorrow, but I just wanted to show if you didn't want to try to close the front month or you didn't want to take the risk of a weird last minute move in the stock where you'd end up having to exercise your short option or where it would be exercised against you. Just another alternative approach to closing out, especially if you have wide markets, just kind of a nice way to lock in a profit without having to close a position by using stock to hedge and get that delta neutral quick disclaimers.

(02:01):

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 and trading can be substantial. Carefully consider the inherent risks of such investment in light of your financial condition. You know me, Jason Hitchings and the CTO and yeah, been in the options business for about 18 years now and known of your long time. Okay, so just in case anyone missed the last session, just a real quick recap. We went to the today tab. We looked at some trades that we ended up not using and then we ended up doing the Sherwin-Williams diagonal trade.

(03:08):

We moved the end date up to the current date, which was the 11th. We checked the technical conditions to make sure they were true. We checked that the earnings was verified and that we could buy options. We could sell some calls on one side of the earnings event and buy some calls on the other side. We placed a trade inside of Thinkorswim. This is the desktop application. We ended up doing this, buying the 300 or the back month and selling the three 10 out of the money in the front month. That was as close as we could get to what the strategy was asking for.

(03:50):

We got filled, we did a little bit better than on the bid and on the ask we did kind of closer to midpoint. There's a little slider down there that lets you control some of that and once we got filled, yeah, so now we're just kind of tracking it over the last few days and I in the last session walked through how that position changed over the last few days and how much of that is because of the delta, the stock movement and how much was because of the passage of time the theta and I mentioned that the plan is to sell when the front month options expire. We had these expired Jan 19th so that if you wanted to follow the strategy completely, you would wait to close everything out tomorrow evening, which is what I would normally do. But we have this session and I wanted to show another approach. So rather than closing it out, I tried a different approach. So I have this little alert set for me tomorrow, so I will close out my long position tomorrow.

([05:01](#)):

So we had these two strikes. One was nine delta one is a 49 delta, so we had to get this kind of net delta position. The Delta kind of told us as the stock moved how much money we would expect to make or lose as it goes up and down, and the gamma told us how much that would change over time. So today was the 18th and this is how the position looked Today stock is at 3.02, so it moved up a few dollars since that last time. You can see that we've lost a little bit of money on the short leg and we've made some more on the long one. Not a lot though actually that was just in the last day since the open we're pretty much, it's ended up right around the price we got filled at. I got filled out around 35 cents and it's still back at 35 cents, so that's great for that short one.

([05:56](#)):

Since the long one, it has made a little bit of money so we could try to just close out this position. Let's say that this was the situation with the market tomorrow is 20 cents bid, 45 cent ask. So it was a relatively wide, but we could just say, Hey, that's fine, we want to close the position. Maybe it's the data expiration. Maybe it's instead of stock being at 3 0 2, maybe it's at 3 0 8, 3 0 9 and you don't want to take a chance in the last 15 minutes of the market that it's going to end up 10 cents in the money and someone's going to exercise and you're going to have to deal with being stuck with 500 shares of Sherwin Williams or being short that many shares.

([06:42](#)):

So yeah, we could just try to close that out on the ask, which would cost us $225. We could put in our trade price at closer to 35 cents and try to buy to close this position closer to mid-market. I think based off of what we've seen so far, we'd have a decent chance of being able to get that, but it's still going to cost us $175 to close those options and that seems like quite a bit considering that stocks at 3 0 2 as of when I did this earlier today, when it's only two days left for these three 10 calls. So do you want to spend the $175 to exit the position or would you rather wait through expiration?

([07:37](#)):

So we know right now that essentially that when we look at our total position of Deltas in this stock, we can see that we're net long, about 232 deltas. We're short 50 some odd deltas on our short call and we're long about two 90 on the long haul and that ends up being around 2 32. So if stock goes up a dollar, we stand to make about 232 bucks right now and if it goes down a dollar, we stand to lose about $232 and so we could just wait and let that play out and let these options lose value and see what happens. But if you said, Hey, that's a pretty good return. I think I invested 4,000, I'm up about 25%.

([08:31](#)):

I don't really want to spend another $165 to close this thing out right now, but I just want to lock in the profits or some of the profits that I have right now. There is another choice. So now that we know that we're long 2 32 deltas, we can at least hedge the risk. Now we look at it as risk in a sense, if we have profits that we're trying to lock in of the stock moving up or down in a way that we don't like. Obviously up is good for us, down is bad for us, but if we're just like, Hey, we just want the 1200 bucks, we don't want to spend $175 to close this thing out, there is another choice. It's not perfect, but it's a good tool and that would be since stock is moving up a dollar, we lose 2 32 and down a dollar 2 32.

([09:21](#)):

What we can essentially do is short that number of shares of stock. So if for long 232 deltas, if we short 232 shares of stock, then the next dollar of movement as stock moves up, we're going to make $232 in our option positions and we're going to lose $232 in our stock position. But we're going to end up kind of even, and especially with stock commissions generally being close to zero at this point, it's kind of nice you can place that stock trade. It doesn't cost too much to do it. Maybe a teeny bit of margin interest for a day or two or something like that, but it's not a lot. Same if the stock moved down, then you'd make the money in the stock and you'd kind of protect yourself from loss in your option positions. So let's just kind of go ahead and do it and see what it does.

([10:10](#)):

We see our total delta C 2 32, so I click sell, I enter 232 shares to balance out my deltas. I end up moving this thing closer to the midpoint of the bid and ask, this was by stock standards, it's still tight, but it was 20 cents wide, so I just got it a little closer to the bid ask. I clicked review, I clicked send and it actually was working here for maybe 60 seconds or something, but I got filled at that price and then I ended up, when you look at my Delta position, you can see I'm now short 232 deltas in stock and I'm long roughly 232 deltas in my options and my overall Delta position is pretty close to zero. Now that doesn't mean if the stock goes up five, 10, $20 that everything's all balanced out. It's really a hedge against short-term stock movement, but there's a lot of other things that can affect the price of options.

([11:17](#)):

Good or bad volatility can increase. Time is passing. There are definitely other factors, but for right now, I mean I've definitely decreased the volatility in this position. It's going to definitely stay much closer to this amount of profit I have locked in right now. So you'd think if you're a little bit newer to the concepts of Delta and Gamma, you'd think like, okay, great, we are short about one little bit less than one delta. It's like being short one share. So if the stock goes up $5, then we're only going to lose four or $5. It doesn't quite work that way because close to how many deltas are in this position change pretty rapidly. So this thing's at three 10, but a stock goes up. This is going to get closer to 50 delta very quickly. This is going to go a little deeper in the money.

([12:15](#)):

The deltas are going to increase in this, but they're not going to increase in your longer term 300 call as fast as they're going to increase in something that's expiring in two days. And I'm going to kind of walk through that in a little bit more detail. So what the gamma here is telling you is that your short 15, meaning that the next, as the stock goes up a dollar, your deltas in this position are going to get more negative by 15. So this is quickly going to approach 50 deltas. So this is your gamma for the entire position, but your deltas in this position if you divide it by five, this is about 11 delta right now, but this is going to quickly approach 50 delta as you start going up. We know by the time we get to three 10, if stock goes up $8, this will be at 50 delta, which would mean your total short deltas in this position would be 250.

([13:11](#)):

So we'll walk through it a little bit more slowly, but the idea here is that when you own out of the money options that are very close to expiring, even if you're looking at Delta and trying to be neutral with respect to stock movement, things change very quickly when you own these way out of the money options. And that's part of the reason I wanted to do this today is to walk through this example. It's a little bit more of an advanced topic, but we've had some questions on it. So I wanted to dive in a little bit on it. So if stock's at 3 0 2 35 right now, then as stock goes up another dollar, our overall delta position is going to decrease by seven. So right now we're pretty delta neutral, so we're going to be about negative seven eight deltas. If this goes up a dollar, so right now we're right now at this current price, then we've have no more p and l base, no change in our p and l as stock goes up that next dollar, this isn't exact, but the next dollar is basically pretty well hedged.

(14:24):

As the stock keeps going up, then these deltas are going to be moving against us, so it's going to feel like we're getting shorter and shorter and shorter in our positions because the short three 10 call is getting more and more likely to actually end up in the money. So the deltas are increasing in that pretty quick. What you see is that every time the stock goes up by a dollar, the deltas are increasing pretty rapidly. This is, I just assume that the gamma is going to stay more or less the same. Gamma can change over time changes, price changes too, but if it stayed roughly the same and it's going to get you pretty close to 50 delta by the time you're at three 10, so it's not too far off. So your overall deltas in this position are going to be increasing pretty rapidly and you're going to be getting more and more net short in your position so you can actually start to lose a little money if this thing starts to move and that's if it moves a few dollars, but just as a theoretical, we can look at what happens on a bigger move.

(15:38):

And so the opposite is also true and this is approximate for conceptual purposes. It's not exact by any stretch, but as the stock goes down, you're going to end up longer and so that essentially you're already, well, you're net short and you're getting shorter. So your position is getting kind of making money on the downside because as your deltas are getting more negative as you move down as well, if you think about the scenario, I think, sorry about the negatives on that last statement, but conceptually as the stock's moving down, you're making profit and you'll see some acceleration in that direction too.

(16:26):

So if the stock were to move huge against you, if you're kind of net short a little bit, if the stock was to move massively to the upside, then how in the money would the three 10 calls be? If there's a buyout offer something insane, $500 for Sherwin Williams. Conceptually the three 10 calls, if the stock is trading at 500 are essentially 100 delta and the 300 calls would also be 100 delta. They're both basically a hundred percent likely to end up in the money, and so they're going to basically act like stock every time the stock goes up and down. It's going to be like your short a hundred deltas per contract for the three 10 and long a hundred deltas like long stock for that many for a hundred shares per contract in the 300 calls. So those deltas, even though there'll be a little bit of initial profit and loss in your position at that point, those things are going to cancel out every time stock goes up or down a dollar, it's not going to matter because it's going to be short and long, a hundred deltas in those two positions.

(17:32):

So these are going to act completely balance each other out, but you still are short 232 shares in stock and so if the thing were to move huge, some ginormous move, then you could still lose a sizable amount of money just being, because essentially at that point it's like your naked short 232 shares of Sherwin-Williams in the extremely unlikely scenario that happens. So the moral of the story is that when you're hedging your Deltas, you need to update them pretty regularly because the deltas are changing. The gamma is essentially the acceleration on your deltas, and so as your deltas are changing, you just need to go in and if you're only holding the position for a day or two, it doesn't matter that much, but if you're going to hold it over a longer period of time, then you'd want to get in there and hedge them pretty regularly. There are some platforms that can hedge you delta neutral automatically if you have something fancy.

(18:35):

But this used to be really expensive for retail traders because if your position's only a 5,000 position and you're hedging constantly and spending 20, $30 per trade, I mean you can really destroy the value in your position, but with stock trades being now near zero, it's actually something that's a much more viable option on a smaller position than it used to be. So you can see over a short period of time, even just like in an hour or so, the Deltas did change a little bit. It's not a super exact science or put it this way, that stock alone is not a perfect hedge to options as a fear says you can only really hedge options with options for the stock movement itself.

(19:25):

As implied volatility change, as other things change, then the actual prices of the options change, the deltas change, et cetera. So people could decide that they really want to buy this three 10 out of the money call or vice versa or sell it. So the markets on these things can change independently, and so your position's p and l can change a little bit on its own just as essentially how in demand these options are, what the implied volatility of these options are. But hedging with stock to get teltra neutral is a pretty solid step towards taking a position and reducing a lot of the volatility out of it. It lets you have a little bit of confidence as you're going into expiration to say, Hey, I'm not super worried about these things getting assigned my position. I can lock in the profits and then as you get closer to the end of the day, the next day you can make a decision about if you're going to just let these things expire or how you want to handle the position at that point.

(20:26):

Okay, so that got into, I know that Delta and Gamma, this kind of stuff can be a little bit a lot to wrap your head around at first. I moved through it pretty quickly, but hopefully it gives you at least a starting place to look at that if that's not something you've looked at before and maybe a little refresher for those of you that kind of scalping your deltas and all that kind of stuff more often. But I just want to do that quick little update and now we can jump into any questions that anyone has.

Max Katz (20:56):

Okay, Jason, one point I'd make in the old days on the trading floor, you don't necessarily have to do a hundred percent of your current net delta. Some people used to do 25% at a time or 50% at a time, so I just make that point. There were two quick toss related questions for you. Are you using toss desktop or toss web-based? I don't think I've seen toss give combined deltas.

Jason Hitchings (21:31):

The last few screens at the very beginning was I have the installable as well, so the very first screens were the desktop version. These are the desktop version when I just want to do something very quick or if I'm on a different computer, sometimes I'll use the web version and this is the web version, so it's like I go to trade.thinkorswim.com to get, that's where you can find the online version of that. The desktop version's obviously a lot more powerful. This gets the job done, has the basics in there.

Max Katz (22:11):

Okay. Any other, oh

Jason Hitchings (22:12):

Actually sorry, I didn't share there did I stopped sharing. I'll just say real quickly that this version is the desktop. It's more powerful, more full feature. This version is the trade.thinkorswim.com, so I used a little bit of both partially intentionally as well just in case someone is more familiar with one than the other that they'd have something to relate to.

Max Katz (22:40):

Okay. The other thinkorswim question is can thinkorswim create a table like you were referring to here that calculates your total delta and gamma positions?

Jason Hitchings (22:52):

Yes, they can do charts, I dunno about a table. I dunno if they can do it in a table format. I mean with thinks script you can do a lot, so there's very little you can't do if you want to code something up,

(23:05):

But they will have sort of scenario analysis about if stock moves up or stock moves down, what it does to your p and l over time so you can kind of see the curvature and the shape of your stock in different scenarios. If that's something a lot of people are interested in, then we could look at that on a future one. But from that you can kind of see the way that your stock position is going to change over time, basically, you're probably going to see a curve one way or the other. It's going to flatten out. If you have a more complex position, you'll start to see, it's like when you look at a p and l chart, oftentimes they're viewed kind of like ad expiration what the value of this position is going to be, so it'll look a similar shape to that. It'll just be more curved because depending on if it's a ways out, then there's sort of a probabilities surrounding reaching all those different points. So it kind of looked like a curved version of a typical p and l chart that you'd see

Max Katz (24:02):

Someone is suggesting use the analyze tab. That'll make it easy. And last Thinkorswim question, is thinkorswim your option zap of choice?

Jason Hitchings (24:16):

Not particularly, just not for any particular reason. I'm not going to recommend anything particularly to you, but PHE and I just, we created an options trading platform back in the day that was sort of customized to those founders and to our own interests and needs, and so that's what we, I'll speak for myself. That's what I personally really started trading options through. It was a company called Live All and then they got bought by sibo and then the actually trading app got sold off to various brokerages and that kind of stuff. But I'm a little biased, but it's by far my favorite trading platform and I think of fear still feels the same way.

Max Katz (25:01):

Okay. Last question and in the q and a, I think in your SHW example, the original position would have continued to benefit if the stock price moved from 3 0 2 up to three 10, only a price drop would be bad for the position. Could we consider buying a couple of Jan 19 puts instead of shorting this stock?

Jason Hitchings (25:29):

Yeah, you could definitely hedge your Jan 19 puts. Yeah, absolutely, absolutely. And in some ways that might behave more similarly. I guess the question is if the markets are wide, they're going to still have the same issue with wide markets. If you're buying those on the offer, then you still might lose some edge that way, but in terms of a hedge, you can definitely hedge your deltas with and potentially your vol and some other risks as well. Yeah, if you were to buy puts in the Jan 19, then yeah, you're going to also be canceling out now you're going to be long. Some of the Vega, it's definitely in some ways a more complete hedge, but if you're just looking to balance out your position, and the nice thing about Trading SOC is it's basically commission free and you can get in and out very quickly and the markets are pretty tight.

Max Katz (26:30):

Okay. Does trade machine take into account the market stage when it makes recommendations?

Jason Hitchings (26:41):

Do know what he means by stage?

Max Katz (26:43):

I'm guessing he means the overall marketplace. Are we in rally mode, are we in coming off mode or are we just flopping around not really doing anything? I think that's what he means.

Jason Hitchings (26:59):

Gotcha. Yeah, so you can get a little bit of that flavor from the VIX if you want to set as a technical, because the vix, obviously when the market's rounding for a long period of time, then you're going to have a low vix and if the market's choppy or tanking, you're going to have a high vix and so you can get some degree of kind of purchase or leverage with respect to market conditions that way for the individual stock, obviously if you pick the right moving averages, you can kind of cater it to whatever timeframe. If you look at some of the videos around Fade the DIP or that kind of stuff, they're very, you can get pretty crafty with if you're over the 50 delta and under the 21 EMA, that kind of stuff to pick what the recent activity in the individual stock is. If you want to trade market conditions as a whole, then you can certainly trade the indices, SBY, that kind of stuff through the tool.

(27:59):

But with respect to, hey, I'm looking at buying Apple, is Apple looking at if the SBY has gone up for the last six days in a row, not particularly. So you'd have to do something more indirect. The back tests aside from the vix, the back tests are looking at the technicals on that individual stock. I do think that kind of something a little bit more perr trading or allowing people to play off the indices or at relative strengths, that kind of stuff, I would not be at all surprised if that is in our future. It's definitely of interest, so stay tuned.

Max Katz (28:39):

Cool. Back to the top of chat. Yes, I did close my windows tonight. Thank you for asking. And when are the trade triggers, when do they start showing? I assume that the person means on the today tab and if they start showing between 10 30 and 10 45 Eastern time every business morning. Yeah, basically.

Jason Hitchings (29:09):

Go ahead.

Max Katz (29:10):

I was just going to say same thing for any personal alerts that you have, you start receiving them, I start receiving emails just about the same time.

Jason Hitchings (29:20):

Yeah. What we found is if we started sending alerts in the first hour of the market, directionally what's happening with the day, it's pretty, there's just a lot of change of direction and volatility. So there's a lot of, I mean always with trade machine, if we're sending out an alert in the middle of the day, the conditions can change by the end of the day, and so we encourage you to log in and check to see if the conditions are true or to use the pivot points tab if you like, that we found that issue was exacerbated in the first hour of the day. People would be like, Hey, I got this trigger saying that we're that the crossed above the 200 day moving average, but I just logged in and right now it's a dollar and a half below the 200 day moving average where it got there. It's just not there now. And so we give a little cool off period for the first hour before we start sending alerts and we start sending triggers to the today tab just to reduce that noise a little bit.

Max Katz (30:15):

Okay. Do we need collateral if we sell calls against that existing trade, the existing diagonal, we already have 500 buy slash sell calls in this trade. So yes, your collateral, your buying power required will go up if you sell extra calls. If I could interject what I would do if I wanted to stay in that SHW trade, you can always roll the short calls that are about to expire into the same expiration where you have your long calls. So you could do short, you could buy back your short three 10 calls of, I think it was January 19th tomorrow and sell. So you buy those back and you sell the three 10 call in the Jan 26 and then you have a long 300 slash three 10 call spread expiring after earnings, but you could keep that for a few days. If you think SHW is going to rally, just make sure you close it before the earnings event. I have back tested that many times and if the test was positive, I have done that trade.

Jason Hitchings (31:42):

Yeah,

Max Katz (31:44):

Okay. Just make sure earnings, the earnings event is a 50 50 shot. You don't want to take your long call spread or your long diagonal if for some reason you did the diagonal after the event, you don't want to take your existing position through the earnings event. That's a completely different trade and it's no better than 50 50. Okay. Could there be a future feature on trade machine allowing selection of only monthly expiration in today tab back tests?

Jason Hitchings (32:26):

Yes, and oftentimes because the kind of contrapositive of that is that a lot of people, if it's a weekly trade, only want to trade stocks that have weekly options. And so I think those would be a natural synergy together. So yeah, I think that's certainly doable. I couldn't give you a timeline for it, but I think that and perr trading are two things that would have definitely considered,

Max Katz (32:57):

Okay, how do we solve for a problem with trade machine? I want to get long a stock, what's the best strategy for that stock? So I think we're going to go look at ProScan for best

Jason Hitchings (33:17):

Other than the fastest way. If you're looking to trade an individual stock, so if you know the stock you want to trade and are deciding upon a strategy as opposed to having a strategy and try to decide which stocks to trade it in, I'll share my screen real quick. There's a lot of

(33:44):

The back test tab with a portfolio back test. If you click the save back tests and you do something like pick one of the strategies that are built in, these all have explanations. You can essentially do your own portfolio back testing very easily and with the AI triggers, they don't happen nearly as often, but they tend to be strong signals. So on each of these webinars, I want to bring everyone's attention to this. You can load one of our existing strategies or save your own strategies there and back test an entire portfolio of stocks, and when that completes, you can then set alerts and individual stocks. And so if you have a strategy and you want to figure out the best stock to use it with, that's the approach. And then right after this completes, because I do like to show that because it's a relatively new feature, once this back test completes, we can start to set alerts on the individual stocks that we like here, but I can open up a new tab while that finishes. On the other hand, if there's a certain stock you want to trade and you're wondering the best strategy to do it, then if you go to the ProScan tab, if you go buy tickers and you could choose a bunch of different tickers if you want to.

(35:22):

Now you can sort by either the total back test return or average trade return and start to say, okay, so for Amazon, if we're looking at the last year, but you can turn that off, you can say, I want to look only at two or three years. Now we're seeing that the average trade return for a MD, this one has five trades and they're 26% a piece on this fade, the dip, short put spread, and so you can sort by win rate this kind of stuff. We can actually even add some additional filters for a minimum win rate, minimum average return, minimum total back test return and filter. And so you can actually plug in a hundred different stocks in here if you want to. You can have your own custom portfolios. Then from that you can figure out which of these is of most interest to you, and when you click it, it'll pull up the strategy.

([36:28](#)):

This is another 50 20 diagonal call spread, and I'm not going to take the time to go into the specifics of the technicals here, the Bollinger Bands and things, but you can simply add an alert and say Best Amazon tech strap, and if you click add the alert, then you'll get an email and if you add a phone number, then you'll get a text message as well. All right. Hopefully that helped. Oh yeah. I did want to show just the last part here. So this strategy completed, once it completes, you'll see all of these little text boxes next to alert. So what I could do is sort by the average trade percent against this basket, I picked one of the backtest results here. If you go to the learn tab, you can learn all about buy the sell off about the thought process behind it, how well it performs historically, et cetera.

([37:35](#)):

But now that I've sorted by average trade return, I could just pick the top several here or I could say I only want to look at the ones that have had at least two trades or anything else that you want. This is going to be since the end date of November 13th, but you could update it to the last three years. But you can cherry pick the ones that you like. You click add alert, and it'll add all of these into alert and it'll send you a link to your text or to your email With that information, you can add a little customized note there.

([38:10](#)):

Before we get to any more questions, two things that we always try to mention during these are one from your back test, you can set alerts yourself, so it's kind of like your own scanner. And then another is just here's community and we'd love for you to just hop on and ask questions. Max is in there most of the day to answer questions. We just ask you to agree to our code of conduct. And then if you have both CMO Pro and Trade Machine, you click over to Trade Machine and then this is a whole dedicated community to people talking about trade machine, ask any questions you want to or trades you're doing, and you can see this handle chat uncle pops, that's Max right there, and he's a really great resource on community.

Max Katz ([38:55](#)):

Thank you for the kind words. Appreciate it. It's true. Back to just the last part of the gentleman's question, and I think you may want to go on a back test for this. If he's long stock and he wants to hedge it, he wants to see alternatives to hedging long stock. If you could just do a covered call and without the comma you can see five different deltas of your short call and pick the best one

Jason Hitchings ([39:32](#)):

If you want to share. Yeah, I'm happy to do it. Back on the custom strategies. You can either do cover calls or you can, sorry, it's the middle of loading here.

Max Katz (39:43):

He can buy a put, he can buy a put spread

Jason Hitchings (39:47):

Or also on these custom strategies, you can enter the number of shares of stock that you want to be shorter, long, and you can choose whether to roll it or not. When it comes to some hedging strategies, you could set up a different technical conditions. You could look at the overall performance of a call strategy and an overall performance of a stock strategy, and then combine them. So you could just look at the total dollar spent and then combine the two if you really wanted to get into some kind of more nuanced things like that. But yeah, just in general, you can create custom strategies as detailed as you want to with stock using the shares of stock in any kind of positions you want to, so you can make something more elaborate than just a straight cover call if you want to. It can be short 50 shares of stock or something like that and combine that with any kind of option positions you want.

Max Katz (40:44):

Okay. So continuing on along with this question, but what is the strategy that is the best choice at the time of the trade?

Jason Hitchings (40:58):

So in terms of trying to figure out the best strategy for a particular stock, one, you can start experimenting on your own a hundred percent and start working, go down and do technical open and start setting your own technical conditions and see what's worked well in the past. Something I do a lot is I'll start once I'm zeroing in on a position, you can test different timeframes. You can test if I want to do seven days, 14 days, 60 days out in a particular stock, how deeply in the money I want to be. If I don't put a comma, it'll test a range of deltas. The range of deltas is based on this. If it says use custom deltas, then it'll use the deltas here. So this is testing a range of deltas, so that's a little bit of scenario analysis. You can also kind of compare that versus, okay, what if I just buy calls 30 days out?

(41:54):

So I mean if you really want to get into a nuanced thing, you can get as deep into creating your own strategies as you want to in terms of what's the best strategy for a particular stock, then I know we kind of already went into it a bit, but in terms of the third or so strategies that we've built, if you went in here, these are the ones that have performed well enough that we include them in the scanner, meaning they have at least a 50% win rate and they're positive in terms of their total back test return and a few other things. You get set and alert on all of these. If you happen to get two alerts in the same day in terms of what's the best thing to trade right now, then you could look at which one has had a better historical performance over the last two years, three years, five years, et cetera, for that particular stock.

Max Katz (42:45):

Right, right. Okay, we got That's very helpful. Jason, if you want to continue this discussion, I'm in the community most of the day, so come visit me and we can go through some examples. Alright, and then there's one, two questions in q and a, will we be able to graph skew and kurtosis and pattern finder? Do you think that information will be useful?

Jason Hitchings (43:27):

Yeah. So far you cannot visualize skew and kurtosis yet, and skew and kurtosis are not really in pattern finder at all and trade machine, there's a numeric representation at the top. Yeah, we'll try to figure out a nice clean way to represent that data. It's definitely on our to-do list. Yes. Phone number alerts are only currently valid and a more or less USA, I think Canada probably also works. One thing you can do is try to get it like a Google Voice number. If you want the text message, Google Voice. Sometimes you can get, I'm not sure you can get anywhere in the world, but oftentimes Google Voice for very low or no cost, you can get a number and it will relay texts to your phone. That way there's probably other services that would do something similar.

Max Katz (44:14):

Cool.

Jason Hitchings (44:15):

Great.

Max Katz (44:17):

Alright. Alright. Another thank you. I do not see any other questions in chat or q and a. Yep.

Jason Hitchings (44:31):

Great. Yeah, I think we were going to try to do this about 45 minutes. I see. Long selection only monthly. Yeah. Great. I think we, bill, if you have any further questions, if I did not fully answer your question about the best strategy for hedging, please just feel free to email support@cmobizz.com. You could send screenshots, back tests or any other kind of examples and we'll try to have a look at that or go to community and ask us there. But great, we hit our 45 minute mark. Thanks everyone for being here and hope to see you next time around. Thanks everyone. Thank you.

Max Katz (45:06):

Thanks everybody. See you community.

Jason Hitchings (45:09):

Bye.

TradeMachine® Live Help 1-16-2024: Update from Thursday's Trade

Jason Hitchings (00:07):

Great, max.

Max Katz (00:21):

Hello everybody.

Jason Hitchings (00:26):

Hey Cam. All right, I'm going to get started here in just a moment. My plan originally was to have this day because we hadn't gotten to a lot of the questions. Oftentimes we've had to end a little bit before. Questions got fully answered was to focus on q and a today, but I did want to do a quick follow up from the trade we did Thursday just because I think it's a little interesting to watch it over time, see how it's changing in value, try to understand why, looking at Deltas and all that kind of good stuff. I see people are still kind of coming in here. So yeah, thanks everyone for being here. Thanks for being part of Trade Machine. Great. There's some chats and q and ass coming in. Readings. Jake High manual. Yeah, max, you're all bundled up. It says Donald,

Max Katz (01:28):

It's 27 degrees in snow in here man.

Jason Hitchings (01:32):

That's warm. I'm in Colorado. We got our first cold spell. It was like negative one is like the daytime high been. It got a lot

Amanda Kelley (01:40):

Better. It's been like eight to 15 where I'm at.

Jason Hitchings (01:46):

Yeah, nice range.

Max Katz (01:48):

Well, everything's relative, just like trading. Everything's relative. It's cold for me and my window is closed. Yes, thank you.

Amanda Kelley (01:59):

Oh no Max, you're right, it's cold. I would rather be somewhere like 70 and sunny right now.

Jason Hitchings (02:08):

Yeah, for sure. Okay, well lemme dive in. Thanks again everyone for being here. So first thing I'm going to do is kind of quickly for anyone who missed Thursday, just do a two minute recap of the trade that we put on and then I'm going to just look to see how that trade changed in the last four or five days. Then we'll just dive into q and a for as whatever questions we have. I do have a little bit of a cutoff today, so I might let Max keep answering questions, but I'll have to kind of keep it to about 30 or 40 minutes. Okay. The legal 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. 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 investments in light of your financial condition. Great. I'm Jason Hitchings. I think you guys have seen me around by now. I'm CTO here.

(03:38):

Okay, so yeah, we have that Sherwin Williams trade. We're going to just kind of do a quick review and then we're going to do some q and a. So last week we looked at pre earnings diagonals. We looked at a couple different ones including this company care that looked like it had great results, five and oh three 38%. We checked to make sure all of the technical conditions were true. We made sure the end date was up to the current date and then we dove into the actual chart and looked at the technicals and everything was still true. So that looked good. We saw that we had verified earnings, otherwise it would say unverified here and that they were on January 25th. We needed one expiration before and one expiration after. We did a quick lookup of the company on CMO vis.com, we were looking for a seven day short-term option that expired before earnings and a 14 day that expired after this one only had monthly options so we just tried to make it work, but January expired before and February expired after, so we were ready to give this a try, but then we saw that we had basically zero bid all the way down on anything that wasn't in the money and so zero bid at 15 is one thing at the money, but when you start getting zero bid at 75, you get the exact same bid ask for multiple strikes, that's not a good sign.

([04:59]):

0 75, 0 75 0 at 75 in January. It's just no way to know what these deltas are and that's wide enough that we don't want to play with it. So we skipped that one. We looked at Sherwin Williams even though it didn't have quite the same numbers, did all the same analysis. Then we dove into the option montage. We looked at wanting to find something that was close to 50 delta for the back month and close to 30 delta for the front month.

([05:25]):

But the 30 delta was actually the same strike and so we chose one strike higher. That's the way trade machine functions and so we ended up with these two, this 300 for February and the three 10 for January we put on the trade and when we did it, we didn't execute on the bidder on the ask. We did it kind of closer to mid and we got filled five times pretty close to mid-market and then we just let that trade go for a few days. I also put a closing alert at the front month because when this option expires it says close all eggs at the front month. So I set myself a calendar alert saying close this position on January 19th. I was definitely not recommending this trade. I'm not going to recommend any trades but also this trade in particular, I just kind of forced it to happen because I just wanted to do the example. Okay, so when we started trading this thing it was around 2 98. So the stock when I started, it's moved around today up and down throughout the day, but Sherwin Williams was trading at about 3 0 1 at this point in time, 395. So it was about three 20 ish up in that amount of time.

([06:47]):

Okay, so these were the specific options that were being used. So the question is for people here who know something about Delta, what would we guess that the result has been in the last four or five days including a long weekend but that generally, depending on how they do their options modeling the weekends count as well as time being passed and that kind of stuff. So there's some time has passed but also the stock has moved up a chunk and so what would we guess? So let's look into it a little bit. So we were short these nine delta options. If we look back at this montage, this is a nine delta, we were looking for 30. They didn't have one that worked for us, so we have a nine delta and then for the Atta money it was pretty good. It was 49 delta.

([07:45]):

So if you actually just play this out, so we know that with Delta for every dollar of change in the stock, the delta will tell us about how much the value of our position changes for that $1. So when we're short nine delta, the stock moved about three 20 and the stock was moving while I was taking these screenshots. So it was kind of a moving target, but basically it was like losing 28 cents per share times 500 because we had five contracts, each contract holds a hundred so we'd expect to lose about 144 bucks. We sold this out of the money call stock went up so that position gets more valuable. So since we're short, it's going to hurt us, but we are long an option which is further out in time and has a lower strike is more in the money on the call that we're long and so we expect that position to go up more. That has 49 deltas, so that means that every time the stock goes up a we get about 50 cents per share that we control and that contract controls 500 shares and so that position would move up about 784 bucks. So we combine them together and we predict that the position moved about $640 based on the delta if nothing else was happening.

(09:16):

Turns out you can look at your positions Delta as a whole, you can kind of add up all your Deltas and people that have big positions and multiple XPRIZE and strikes, they're really using the option Greeks. They can get a snapshot of, hey, if the stock goes up three bucks, what's that going to do to my position? Even if they have trades on 25 different lines in a montage, they can look as a whole and they say okay, I have 25,000 deltas. So they can say if they have a big position, it helps 'em kind of sum it up all in one piece and so you get the exact same result. If you just look at the net deltas on this, so we predicted based on Delta alone, the position would go up about 640 bucks this time just because some people might use the Thinkorswim web.

(10:07):

I did the web version, so if this looks different than what you're used to, that's why there's an installable version of Thinkorswim. There's also a web version. I'm in the process of creating a tasty trade account so I can show some trades there as well just to show different platforms. So we're kind of long five of these times spread these diagonals and the position has gone up about $746 and stock. Again, as I'm taking these screenshots, things are moving a little bit so it's not completely exact, but the question is, okay, if we predict a six 40 and it's up seven 40, why did it do that? Obviously directionally it's telling you your long delta and it goes up and you made some money, but it's a little different than we expected and so let's look at why and we'll get a little closer even if we don't achieve perfection. So what else is affecting the value of these options? And so as you know, I mean if you own an option that's out of the money, by the time expiration comes around, that position's going to be worthless. So as time is changing, you're losing value in your long option positions.

(11:23):

If you have an option which is $10 in the money on a $20 stock, then every contract is going to be a thousand dollars of value independent of the time value and the option. So the total loss on the absolute value and the complete value of the contract isn't going to go down that much for something deeply in the money, something at the money. If the stock's trading at exactly 300, then even the day or two days out, there's still the chance that thing ends up making you some money. So it's still going to retain some of that time value up until the end for something that's a decent chunk out of the money and for something expiring in three days that's trading at a three 10 when the stock's at around 300 or 3 0 2, that's decently out of the money and so that position is losing value faster.

(12:10):

That out of the money position that's going to be expiring soon is decaying much more quickly. So even though, I don't know if you remember, but I think we put on that position for like 25 cents per contract, which was not much and I was a little hesitant to be long something, I don't know if those were, I forget the exact numbers, but basically the 20 cents or the 25 cents was just a teeny fraction of the value of the back month options and yet because they're out of the money and they're expiring in eight days every day that passed, those options that I was short were going down faster than the options that I was long. And so these as small of position as this was, it was still able to finance these much more expensive options. So as time was passing, these were going down in value so fast that my position was actually going up in value as time was passing.

(13:13):

So that's pretty powerful and that's if fear created this position, that's one of the reasons he did it. He is a firm believer you will never be a very successful option trader just by being long options only. That's not a way, and I don't think he'd advocate being just short options either. But having a more nuanced position where you have some options that are long, some options that are short in a way that's working to your benefit can be very helpful. And so if we're seeing this data is the amount of change in your position for every day that passes. And so we can look at theta as a whole too. And so these positions are losing and these positions are gaining a hundred dollars across all five contracts. And so when you combine those together, you say, okay, it's about 16, the position's basically going up $16 a day, just nothing else happens.

(14:11):

And so approximately five days have passed and so the position has gone up approximately $80 in value over that period of time and now different option models and stuff do it a little differently depending on how they factor in weekends and that kind of stuff. They're different people that handle that differently. But this is just a ballpark and I moved through this pretty quick. I threw this slide deck together very quickly just this morning. And so there could be little things in here which are inconsistent, but just conceptually it's giving you a good sense of what's going on. So we were predicting 7 46. We would see now from Delta and from data we would expect maybe about $720 to our benefit. And so there's a couple other little things that are going on. The Vega tells you how much your position changes if the implied volatility changes and additionally to that, as deltas aren't constant because obviously if the stock goes up $10, you're not going to have the same delta if it goes up $10, those three tens are going to have basically a 50 delta because they're going to be at the money and your 300 is going to be very in the money.

(15:22):

So Delta is a changing target and so Gamma will actually kind of tell you how fast it's changing. So basically it says if our position, if we're net 218 deltas or 219 deltas, then when stock goes up a dollar, we're going to make about 219 bucks. Also, our position is going to have, it's going to be more in the money as a whole. Those at the money options are going to be starting to get in the money faster than out of the money options. And so the amount that our position ends up being in the money is going to be increasing. The total amount of deltas that we control is going to go up about eight

(16:02):

As stock continues to go up. So the next dollar instead of going up. So this I said was two 19, the next $1 of move is worth. Okay, actually that's a typo here. The next dollar is going to be eight more than that, so we're going to be at 2 27 or something. So I'm glad I warned there could be a little, I put it together pretty fast, but our positions, the delta is going to be increasing as stock moves up if nothing else changes, if this happens instantaneously. So I just wanted to take a quick look back at that trade and look how it's changed over time and explain a little bit of why and after that we can dive into any questions that people have.

Max Katz (16:43):

Could I, I just add one quick thing.

Jason Hitchings (16:46):

Definitely.

Max Katz (16:48):

Alright. This is a 14 day approximately pre-running long call diagonal. The longs are just after the earnings date as close as possible, but after must be after the shorts are always before the earnings date. So the short calls will have faded decay in a normal fashion for its number of DTEs that it has left the longs in general a calendar the longs with the longer DTE expiration will always have a faded decay less than a comparable short call that even if it had the same delta shorter the expiration or an option, the quicker it's going to fade a decay. But one of the advantages about this pre-running long call diagonal that PHE developed because the long is after the earnings date that dated decay is going to be limited because until the earnings event happens, it does not decay in a normal fashion. It decays in a very limited fashion.

(18:14):

So that's one of the other reasons why Jason made slightly more money than he had originally estimated. So that's an important point because sometimes in community people put on a diagonal where both sides are before the earnings date or potentially both sides are after the earnings date and that's why you also need a verified earnings date because if it's not verified, it can change and your longs that you think are after the earning state are all of a sudden before the earning state and that stated decay is going to accelerate and kick in and not help you on the trade.

Jason Hitchings (18:58):

Yeah, that's an excellent point. Thanks Max. Yeah, yeah, that potential movement of the stock that's happening around earnings is going to keep the volatility elevated and when you have elevated volatility then your data decay is much less because there's just more optionality, more potential built into those back month options. So that was a great point and it feeds back into exactly what Max was saying is that you want your front month to expire before the earnings event. You want to make sure that your back month expires after in order to get this really nice behavior and please use a verified earnings event to do it.

Max Katz (19:35):

Alright, should we go to questions?

Jason Hitchings (19:39):

Yep, let's do it.

Max Katz (19:40):

Alright. I see one question in the chat so we'll get that. How do we count in spread the sell off last 30 days down 10% just that day? I had Tesla today, but within 30 days it went higher. That does that matter? You you want to answer while you're here or you want me to answer? Yeah,

Jason Hitchings (20:09):

Honestly I didn't completely grasp the question and so if you got it, please dive in.

Max Katz (20:15):

Okay. I think for spread to sell off one of the technical open conditions is a 10% down move within the last 30 days, not just the day that you get the alert because there are a couple of other technical conditions that just being one of them. So anytime within the last 30 days if the Tesla was down 10% or more, that specific technical condition is a go. But I believe for spread to sell off it has to be below the 200 SMA as well. So it may have had a 10% down move but still not be below the 200 SMA and then you would not get an active alert. But when all those conditions for spread to sell off are valid, then you get the alert and if the stock had been down in the last 30 days, at least 10%, then you have a good alert and you continue and you can take that trade. Even if Tesla's up today, if it meant all those conditions, it's still a good active alert.

Jason Hitchings (21:38):

Yeah. Let me pull up the,

Max Katz (21:44):

Why don't I answer another question while you Yeah, go for it. Okay. This is back to the pre earnings long called diagonal trade and you want higher implied volatility on the shortsighted diagonal. You would like that however because it's that pre earnings long call diagonal and you're going to have limited beta decay on the long side. I don't really pay too much attention to the difference in the implied volatility, but if you're putting on a regular diagonal or calendar, you certainly will be in a more favorable position if you are longs or at least as high implied vow as your shorts. Go ahead Jason.

Jason Hitchings (22:34):

Oh no, not at all. Yeah, I was just pulling up that last position. So in terms of the trigger, in terms of the 10% down, it's saying if you look back approximately 30 days are down 10% from there. So right now we're at Jan 16, so it's kind of saying December 16, are we down somewhere right in here? Are we down 10%? So the stock closes at 2 53 and so then right now at two 20 then we're definitely down at least 10% for that technical condition to be met, which is exactly what Max said. I just wanted to pull up the chart.

Max Katz (23:15):

Beautiful. Alright. If a today tab trade indicates a trigger two days ago, should the opening trade be shown in the trade listing which can be downloaded? I guess what he means by that is if you click on the tab for the backtested results, should you see the open two days ago? And my answer is, and Jason's here, he can correct me if I'm wrong, if it was a valid trigger at the end of the day, let's say 3:45 PM eastern time, then when you look at the back test and click on the tab and see all the open and closes or still open parts of the trades, you should see it from two days ago.

Jason Hitchings (24:08):

Yes. If you update the end date to

Max Katz (24:13):

Today, today's date, yeah,

Jason Hitchings (24:15):

So I just switched to the s and p five hundreds that we'd have slightly cleaner. So this went on Friday, so something to show about this, I'm clicking the share link, but notice the end date is on the 12th and we're not seeing anything here. So the first thing to always do, and we're going to do a better job of drawing your eye to this at the very least, is to click, you can either just update to today's date this way or you can click anyone on the buttons at the top. Now when you look, you see the green arrow, but we didn't before, so I'm going to go down here, grab the scroll bar and look over and when I hover over this bar, I'm going to look at the technicals. Now it says, is the stock as of that day greater than the 200 day moving average? So the one this line that's moving slower is going to be the longer term moving average. You can also see that it's blue on the tool tip. So yes, the stock ends the day, the black bars are up bars and it ends above that 200. It started below and ended above. Next was the day before that. Was it below the 200 day and the answer is yes, day before it closed, just below it.

(25:30):

And then is the stock greater than the 10 day? The 10 day is this green line and the stock closes above the 10 day moving average and then is the 20 day RSI below 70 as of that day, and I think that's approximately the right day and the RSI at that time was 47. So all of those conditions are met and the green arrow appears and a trade happens, and if you click it and you go to the end, you're going to see on January 12th that the position opened. It doesn't have new data yet, so it doesn't have an updated price. This is actually going to change in the very near future because we're starting to pull in some intraday options data to give you updated information. But since it's operating off of end of day and since Monday didn't have any trades, it just the last information has is from the 12th. So it opens and it just shows the same price because it doesn't have any updated end of date data yet.

(26:35):

But when you see a trigger on the today tab with options, then historically all of the technical conditions are met. If you click on it, it's going to show you a back test that is showing these results. So this is essentially when you click it, it's showing you the historical performance, but historically it basically hasn't been until a little later, another day or two in the future that you can really click back and say, okay, is that trigger there? Is that trigger in my data as well? Good news is very soon in January we're going to be the way that we have intraday stock data right here. We're showing you the stock price change. We're going to do the exact same thing with options. So we we're going to be able to show you the options prices as of today, so we can give you some kind of updated information on that. So it was kind of a long explanation, but I think is illustrative. So

Max Katz (27:28):

Alright, as well as potentially some indication. Is the trigger still active?

Jason Hitchings (27:35):

Yes, it's going to, it will say, let's see if I can just, we'll test it. We're kind of in the testing phase of this feature, but I'll try to, what do we use the, I think we did the fade, the dip ratio. Fade. The dip.

(28:04):

Oh, that's for today though, because we're looking at the Friday. Yeah, but when you look at a trade for today, you can see if it's active or not, which is actually that was accurate now. It was above yesterday. It closed above the 200 day moving average, so it was sort of accurate, but yeah, now you can kind of quickly see is are those conditions still true as of today, just by simply clicking on the individual trade. I'll click a couple and see if we can get one that's active on the day here. This one says triggered means all these technical conditions are true. If we need to update this triggered is meaning today, January 16th, but the back test isn't necessarily show that. So now when we zoom in on the back test, all the same stuff will be true. We can kind see all these conditions. It's crossed up above the 200 moving average, it's above the 10 day EMA and the RSI is below 70 and after just we want you to check with your brokerage, we're pulling a live options feed. It's a little bit delayed check with your brokerage before you execute the trade, but we're actually going to show you the strike as well. Okay,

Max Katz (29:17):

Next question. Tesla earnings coming up on Jan 24, so spread the sell off, never trade earnings voids. The back test on this trade? Not necessarily, it doesn't. Well I don't think it does. You can put the spread to sell off on if all technical conditions are met, let's say it happens January 16th, the backtester will close the trade on January 22nd because you never want to be in this trade as it's going through earnings. So two days before it'll close, but you can still be in the trade for six days if you want to be. You don't have to be, if you decide personally, Hey, I don't want to just do this trade for six days or I'm going to wait until after earnings and see what happens and reevaluate. Those are all valuable options, but you can't put the trade on just close it before the earnings event. Okay, Jason?

Jason Hitchings (30:28):

Yep, absolutely. I agree a hundred percent. It shouldn't open the trade within two days of earnings or two days after earnings, but it'll happily open it even three days or four days. It's just, it'll be a very short term trade.

Max Katz (30:43):

Some people are still talking about triggering and for the longs being as close to the earnings date as possible, but after, if the closest earning expiration date is a little further away, you can still put the trade on as long as it has a good back test in my opinion.

Jason Hitchings (31:08):

Yeah, that's what I did with that Sherwin Williams, they didn't line up very well. I mean I think the earnings was Jan 25th or something and the next expiration after that, it didn't have weeklys. The next expiration was Feb 16 or something like that. And the front month is I guess relatively close the way that you'd expect it to be. It was eight days away or something, but yeah,

Max Katz (31:29):

Right, right. The only way you wouldn't take it is if the short side, if the front side, which you want to be short is like three or two days until expiration, because then in my opinion, there's not enough time for any significant dated decay. I, alright, this may be your last question, Jason, since it's 2 32 in New York.

Jason Hitchings (31:55):

Yeah, I have a couple more minutes. Yeah.

Max Katz (31:57):

Alright, well I've been given some guidance, so I'm hoping Amanda is still here and it was, I'm here. What you're going to have to tell me what you want me to do, but first this question in the past, you mentioned it, watch how the sector is performing, how do we look for sector performance, if there is a way to compare between sector performance at the same time. Jason, can you go to the back tester and click on portfolio for one sec while your screen is still active?

Jason Hitchings (32:38):

Yeah, I can share again

(32:41):

Host. Oh, I just made you host, which is funny because now, okay, I guess I can reclaim it. I made you host and then I could no longer share. Okay, so here are some various industries. So I went to the back test tab, I moved from ticker to portfolios, and then this gives you a list of some of the kind of big ETFs. You can also create your own, you can create a new portfolio and add a bunch of stuff to it. You can paste a list of a hundred things in here, especially if you're a platinum member, you can have big portfolios that do a lot of back tests. But yeah, there's all of these kind industry specific ETFs that are built in. So yeah, if you want to check financials or I think there's some real rotate big banks, et cetera, then that's kind of a quick list to do it to kind make it a little easier for you. Yeah, this has a technical open condition and so if the technical condition isn't met, then it just won't be there.

Max Katz (33:43):

Alright. So while you can't really look at sector performance between the sectors simultaneously, you can quickly load up each portfolio and then look at the top line, that total line to see how the average trade percentage did, and that would be how you would compare the sectors for each strategy that you want. But you can't do more than one at a time?

Jason Hitchings (34:14):

Well, no, not really. So the RI is not going to be there, but I just wanted to mention you can't put multiple ETFs in there. You could take a portfolio of ETFs and look at how the ETF has done as a whole, but that's different than the individual components. If you're looking at RSI is not going to be above 80 and the vast majority of ETFs, so these technical conditions aren't met. But yeah, you can put a basket of individual sector ETFs if you'd like to. But yeah, to Max's point, if you want to look at all the components, then you would just do multiple back tests and write it down. Or you can just save the trades, you can download the actual trades and then you have a spreadsheet that shows all this information if you don't want to have to write it down somewhere. Right. Moving on

Max Katz ([35:02]()):

Amanda, I need an executive decision.

Jason Hitchings ([35:06]()):

No, no, that's fine. We can continue. I, my wife and I have a doctor's appointment. I'll just,

Max Katz ([35:11]()):

No, no, you can't. No, that's

Jason Hitchings ([35:13]()):

Fine. We have a little bit more time. I still have to watch the clock a little bit.

Max Katz ([35:17]()):

Alright, listen Jason, I'm fine, but I had asked for guidance before we started today and I was given the guidance of we want to test out a 30 minute session.

Jason Hitchings ([35:30]()):

That's fair, that's fair.

Max Katz ([35:31]()):

So that's why I'm asking Amanda to make an executive decision.

Jason Hitchings ([35:36]()):

We'll, five more minutes, I'll help Manny make the executive decision.

Max Katz ([35:40]()):

Alright, there you go. Thanks Jason. Alright. I have noticed some days on the today tab stock may be flagged for a 14 day pre-running call, but not the 14 day pre-running diagonal theoretically at least. Would the diagonal have an expected higher probability of profit as the long is 50 deltas versus the short? They wrote 40, but I'm pretty sure they meant 30 delta for a long. Oh, so the long in the diagonal, 50 deltas, the long in the default, long call only is 40 deltas. So the question is would this have an expected higher probability of profit because of the delta selection?

Jason Hitchings (36:34):

The deltas on the back tests were chosen specifically because on that particular back test with those particular conditions, we found it to have the best result. So we tested a range of deltas for the various strategies. Now the only reason it's a little harder, I mean generally if you are buying a 50 delta, let's just simplify it for a call spread. If you're buying a 50 delta and then you're selling the 30 delta, you are going to have a higher probability of making some amount of money because your position at the whole costs less. And if the stock doesn't do much or just goes up slightly, you're going to have an expanded window. It's going to cost you less to get into the position and they're going to have a slightly expanded window on your p and l chart. Now if you start talking about a diagonal, we found that if those particular strategies that it's a little different because the front month is expiring before earnings and the other one is holding their earnings. So it gets a little bit complicated. I mean you could definitely back test side by side like the QQQ and see which one has done better over time.

Max Katz (37:54):

I think you've hit the key, you have to backtest it, and that's why on the today tab you might see it under call only, but not under diagonal because for whatever reason doing the back test for the same three, two, and one year, the diagonal did not qualify, whereas the long call only did.

Jason Hitchings (38:19):

Yeah, especially if you only have monthlies instead of weeklies. Some of the strategies need weeklies more than the other ones do. And also with, you might have a montage that has very few strikes, and so it's something I will do is if I'm trying to decide if it wants a 40 delta call or something and it doesn't have one, then let's just say that I'm in this expiration, I'm choosing between a 66 and a 24. I'll just test both. That's why here, there's a 16, here's a 25 to give you an impression, this isn't a strategy, this is just a random collection of data, but you can get in here and customize it and say like, okay, I want to look at the 65 delta and I want to look at the 24 delta and you can see which one has done better over time. So you can kind of get in and for a particular stock kind of tweak to back test to be closer to, and maybe it's not 30 days of expiration, maybe it's 20 days or 40 days or whatever it is. And so you can say, okay, well if I enter into it with those conditions, how's it going to do over time?

Max Katz (39:27):

Alright, very good.

Jason Hitchings (39:30):

Alright, last question.

Max Katz (39:31):

Last question. Okay, so I'm going to skip the one I was going to ask. Can you scan for indexes? I thought I saw some ticker ES some letter in the past webinars. So you can do back tests or S-P-X-R-E-U-T and NDX. Those are the major indexes that I know and I've backtest those many times.

Jason Hitchings (40:02):

Q, Q, Q. Yeah,

Max Katz (40:03):

Right. I mean T

Jason Hitchings (40:05):

Yeah, mean depends on what you consider. Yeah. Yeah. ETF was an index,

Max Katz (40:08):

I'm assuming since CS indexes that he really wanted the

Jason Hitchings (40:11):

Oh, just the pure index. Okay.

Max Katz (40:13):

Yeah. Yeah.

Jason Hitchings (40:15):

Obviously DIA will correlate pretty well to a DO 30

Max Katz (40:19):

Spy spy correlates most of the time very well with S-P-X-X-S-P, I've never really traded. I know it's a little, it's pretty popular in the community. That's an ETF, right? Yeah,

Jason Hitchings (40:38):

We have a basket of ETFs that we specifically scan against, and so yeah, that one might not be in the scanner, but yeah, you could also make a request to send a support. Just say, Hey, I can back test on if it's XPS or XSP. I think I might have actually entered it wrong, but yeah, if we can backtest on a particular strategy and you're not seeing it in the scanner, then yeah, certainly you can just let us know.

Max Katz (41:10):

I'm being told it's the baby SPX, the XSP. I'll look and see if you can backtest with it and I'll send a request into support. Jason, thank you so much.

Jason Hitchings (41:24):

Likewise. Thank

Max Katz (41:25):

You so much for taking all this time, Amanda, my apologies for putting you on the spot. Yeah, no worries. We thank you all for coming.

Jason Hitchings (41:37):

Yeah, and it's great to see we got a lot of nice questions coming in. Yeah. So next time we might try, this one is going to be intended as more or less a pure Q and a session, but I just had some follow up from the last that I wanted to get into. And so yeah, next time we'll just carve about a pure Q and a session and so we can kind of dive into everyone's questions in a little more detail.

Max Katz (42:00):

Alright. And I'm always in community. You can always ask questions in community.

Jason Hitchings (42:04):

Yeah, ask Max in community. All right. Thanks everyone. Appreciate you being here. Alright,

Max Katz (42:07):

Have a good day everyone. Stay warm.

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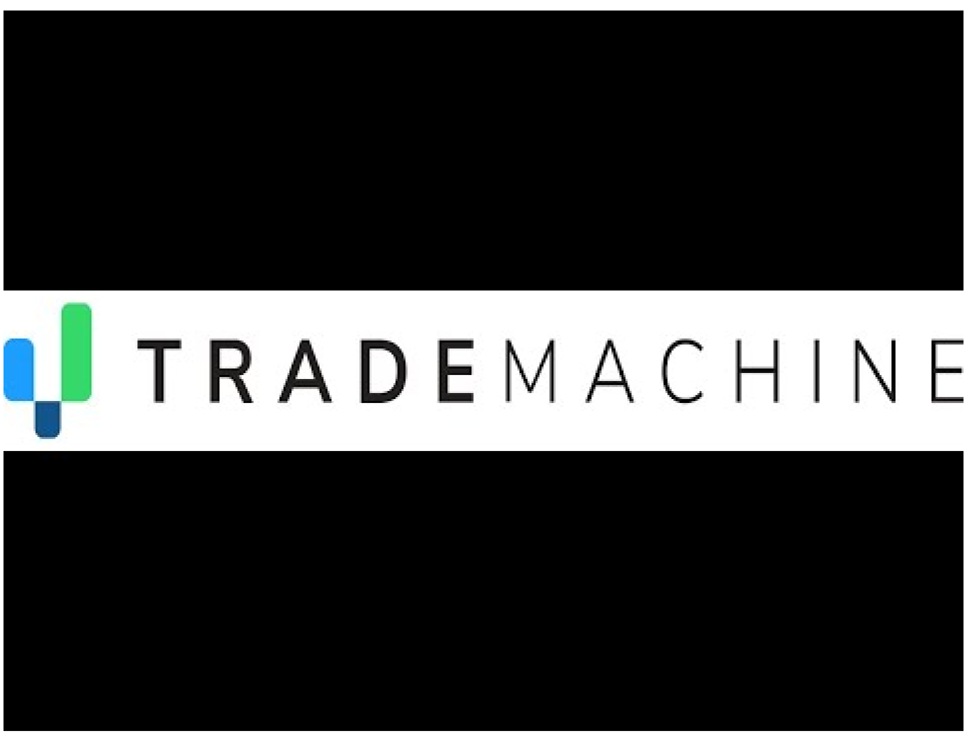

Max Katz (01:13):

Good evening. Happy Thursday to everyone.

Jason Hitchings (02:31):

Hey everybody.

Max Katz (02:34):

Jason, how are you

Jason Hitchings (02:36):

Doing fine. How are you doing?

Max Katz (02:39):

Can't complain.

Jason Hitchings (02:40):

Good. Yeah, we'll kind of get going here in just a minute or two. Hey Jana. Hi David. Good evening to you both. You too. Bill, you might start just maybe one minute after the start time. Just let everyone officially log in or if they have a Zoom update they need to do. Appreciate you all being here. I log into this account. It gives me a very generic name. Let's see. Let me change my participants.

Max Katz (03:48):

You don't like CML support?

Jason Hitchings (03:52):

Doesn't seem, doesn't seem that personal

Max Katz (03:56):

Should be C-M-L-C-T-O.

Jason Hitchings (04:00):

That would be an option.

Max Katz (04:04):

You're recording already, correct? Yeah,

Jason Hitchings (04:06):

I tried to start it last time. I ended up recording the whole session. It was just too messed up to do it that way. Yeah, it shows a little recording dot, so we should be good there. Hey Mitch. Thanks. We are recording now. Should be

(04:27):

Okay. Great. Thanks for being here everyone. We are going to try a couple sessions to see what we can pack in in 30 minutes as much just to make it so that people feel like they can attend. I think a lot of people feel like they can carve out 30 minutes in their day, more than an hour, so we're going to experiment with that format, see where we get and go from there. As always, I'm just going to start off 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.

(05:19):

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 and trading can be substantial. Carefully consider the inherent risks of such investment in light of your financial condition. Okay, so you've seen me on the last couple sessions. My name's Jason Hitchings. I'm the CTO of Capital Market Labs. Been working with PHE for a long time and been in the options world for a long time. So we've had a lot of requests where people are asking, Hey, show me how you actually put a trade in from trade machine into a brokerage account. So I'm going to walk you through the steps that today it's after hours intentionally because the purpose here is not to say, Hey, I think this trade that I'm doing today is a great trade and you should do it. I specifically am not recommending this trade and I'm not recommending that you do this trade. I kind of went out of my way to find a trade today that would have multiple legs, would have some complexities.

(06:31):

I changed the order in which I'm presenting information because I wanted to show you as I started looking at a particular alert on the today tab when I decided not to do so. I just wanted to walk through the process of just how someone might actually go from looking at the trade machine today tab page to executing a trade. Again, this trade is not one I think you should do and it doesn't matter what I think. We don't make any recommendations. Specifically our whole goal is to give you a super powerful tool, the kind of stuff that a hedge fund would have or a prop shop and empower you to make your own trading decisions and just give you really powerful data to do it. Okay, so I wanted to go, there was a bunch of pre earnings long calls, which would've been very simple to put on you just find the closest delta and expiration.

(07:28):

I wanted to look at some of the diagonals one, they have a little bit higher win rate, long-term on average, and two, I wanted to just have something with a little bit more complexity. So I sorted by the number of wins. You could also sort by the percent return I sorted by the number of wins and I just sorted looking down the list and I kind of chose this one as our starting place. So I started looking at it and so when I opened the today tab link, one thing I was going to do is just make sure the technical conditions were still true. So at the top here, you see the end date. So I made sure, I think the end date on this today tab link was yesterday, but I updated it to today. Now the alert is generated off data today, but the link, as I think I've mentioned before, it kind of uses scans from the last week or so in order to verify if the good trades, it runs the actual test for today, but if it happens three or four hours earlier, conditions can change.

(08:30):

If this stock had been just above the 50 day moving average, it might have dipped below. The technical condition on this particular trade is very simple. It's just stock above the 50 day moving average. So verified that it's well above the 50 day moving average. I quickly looked up this stock on c vis WW CMO vis just on the profile link. It just shows you some market cap pe, that kind of stuff. So already like, okay, no, lots of stocks do well that don't have earnings yet, but seems suspect to me already started looking at the expirations. Okay, we have a couple expirations that are okay with this particular trade.

(09:17):

This diagonal the first leg, which we're targeting for seven days and we'll get into that in a second. The first leg needs to expire before the earnings event, and the second leg needs to capture the earnings event. So it's a 14 day pre earnings and the custom strategy, which I'll show you in a second, it says 14 day call, but that 14 days needs to be on or after the earnings date because that secondly needs to capture the earnings event or else it's not an earnings date. So when I started looking up in this montage, I was like, okay, well the deltas are already, I clicked the options chain and I started looking at the deltas, and so this short call is supposed to be before the earnings and the long call when this case would be the 36 days was after, that's okay, but the deltas or 85 and 30, that wouldn't be a complete deal breaker, but it was just something I was keeping an eye on.

(10:19):

But that, yeah, so we would've had the 12 and a half strike in February and sold the 15 in January. That's fine. It's not a big deal just for the heck of it. I tried back testing that I'd made a little custom strategy. I wouldn't normally do this, but just because you can, I kind of looked at, well, what if I actually do the 85 30 diagonal? So I kind of tested that specifically, didn't have good results, the company didn't have earnings, so I just kind of moved on looking at care. Here's the back test that I was looking at, well above the 50 day moving average. The stock is well above it.

(11:01):

Look at the earnings also. It doesn't say unverified, it would say unverified if we weren't sure about the earnings. We use a vendor called Wall Street Horizon, and if they're very, very consistent, they have a very high percentage of being correct. If it's a verified earnings event, looked 'em up, they have some revenue, they're relatively small. This is the trade, the seven day short, the seven day 30 delta call along the 14 day 50 delta call as mentioned. So I pulled up the option montage in think or swim and I started looking down. So here's the deltas. These deltas should be moving in the uniform direction. As you get further and further, the out of money that you get lower and already this was like a 21 delta. Then you notice that these are all zero bid. So zero bid to 15 0 5 5, that's this deltas out of wax.

(11:54):

I'm like, okay, these deltas are not clean and I intentionally did not filter the today tab on NASDAQ 100 or Nasdaq or the s and p 500, which we call the largest 500 because we just filter by market cap. But yeah, so this isn't one I'd mess with, especially for a multi legged strategy, zero bid all the way across. Okay, so went down the list a little bit more, and again, I intentionally went out of my way to look at a couple examples that would be kind of real world examples where you might pass on a trade. So I see this Sherwin Williams, I did notice that this VLO has both this stagnant have worked and also just a long Paul have worked in VLO. So I thought that was interesting to take a look at if the Sherwin Williams trade didn't work out for me, looking at all the same stuff again, we're above the 50 day moving average.

([12:48]):

Here's my trade, updated the date, it's verified earnings. So then I open up the montage options chain inside of Thinkorswim, and now I'm looking for something after earnings. Earnings is on the 25th. So here's February is after earnings and I'm looking at something close to the 50 delta call. So looking down, this is the deltas and this one is the closest to 50 delta. So I'd be long, the 300 strike, I see the bids eight 50 at eight 80. That's pretty tight markets relatively speaking. And for the short, I'd be looking at a 30 delta. So the closest to 30 delta is also the 300 strike. So that would be more like a time spread than a diagonal. It would still probably work fine. This is going to expire before earnings. This one's going to expire. This one's going to capture the earnings event. So in that scenario, if you had the same strike, you could backtest it.

([13:52]):

I don't think it would make a huge impact, but I want it to be true to what the backtester actually did. And so I actually was looking at a couple of trades just to show an example. So these things they're going to sell, they're going to close the trade with the front month option. So you can see in this case when actually pulled up for this Sherwin Williams trade open 14 days before earnings, this is the 12th of January that this took place. It's buying the two 60 call and it will not do a straight time spread. It is forcing it to be a diagonal because this short option has a lower delta than this at the money option. So even if the closest one is the same strike, if you don't set these deltas to the same delta, it will force this thing to be a diagonal kind of what you asked for.

([14:57]):

You said something more out of the money. So it'll choose a higher strike because it thinks that's what you're attempting to do. I mean, in 99% of cases, that's what people are looking to do. So I just wanted, you can always, if you're wondering exactly how something functions, you can kind of dive into the trades and really see how it's working. You can see that the second, the short strike is always higher because we're going for a 30 delta. By 30 delta, you mean more out of the money typically. So that's what the back tester is doing.

([15:24]):

So following as closely as I can to what the back tester is doing, I said, okay, for my long strike, I'm going to be long the 300 strike, and for the short one, I'm going to be short. This three 10, I'm not capturing a lot in this trade. It's only 25 cents at 45 cents because this one's expiring in only eight days. This one's expiring a ways out. So again, definitely not specifically recommending this trade to me to sell something, to sell this short option to only capture 35 40 cents is a little suspect, but I just thought I'd walk through the entire process that people could have a real example.

([16:05](#)):

So yeah, you could play around with different ones, but I just to hold true to this, I walked through this, so I end up going into this trade one leg at a time. You can also execute these on the quote complex order book where you put both trades in at once and say that you want to put it on for eight 10 or eight 20 or eight 30 for the combined trade. I just did one at a time, partially. I know this long back test of just owning this long call was fine. It did fine. So if I had a hard time getting a fill here, I didn't really care, then I'd just have the long call. It wouldn't be a true agonal, but I'm not worried about that. I wouldn't want to be short and then have a hard time getting into the long position.

([16:45](#)):

I looked at a couple of variations just to see where it all stood. So when I actually clicked on the offer, it populated this, it said the midpoint would be here, the asking price would be at nine. I went all the way down to the midpoint to try to get this executed. I did it five times and this is the order ticket that came up. It said it was going to cost me 4,300 bucks. I'm just blacking out a little bit of information here on my account, and I got filled right away. Got filled at like 8 70, 8 75. So that's why oftentimes you can get filled pretty close to the mid-market. After that I sold, I just did five, this line is showing 10 here, but I only did five. I kind of did the same thing. I'd grabbed this snapshot a few seconds later, but I got filled pretty close to the mid as well.

([17:45](#)):

I got filled at 35 cents and then I had my diagonal pre earnings call spread on. Now the question is, okay, I own this thing, but then what this particular trade doesn't have any stops or limits, but what it says is to close all legs with the front month options. I go back to this, you can see the back tests are only held to trade here for eight days because this short option expired January 20th, and so on January 20th, it closed both, and that's what that closed both legs at the front month means. So if I'm going to honor that, sorry to flash these slides a little fast, I need to close the position with the front month options. The front month options expire Jan 19. So I set a little calendar alert for myself and I say, Hey, sell this thing that you bought on January, January 19th. So that was just to walk through a real quick example. I don't think that's a particularly awesome trade. I think it's probably a little bit of a coin flip, but I just wanted to show a real world example.

([19:04](#)):

People are always asking to see a real world example. Okay, great. And so from there, that'll probably generate plenty of questions. I did want to mention that within trade machine in this saved back test, you can load a strategy, you can load the pre earnings diagonal strategy, and you can create your own, you can tweak it with whatever you want. Then you sort by the wins or the percent wins or the average trade percent, and then you just click the one. So the ones I clicked here, I'm like, oh, if I only want trades that are above a hundred percent, you could click those, you click add alert, and then you can kind of create your own customized version of it. So again, you don't have to rely on the today tab, and I might even, let's see, is it showing this screen?

Max Katz ([19:57](#)):

Google?

Jason Hitchings (19:59):

Yeah, I just want to make sure. Yeah,

Max Katz (20:02):

Before you leave your stuff, there is a question. Can you go over how modifying the deltas affected the desirability of the trade? So in one of your examples, you had to use like an 85.

Jason Hitchings (20:18):

Yeah,

Max Katz (20:18):

Absolutely. And a 30.

Jason Hitchings (20:21):

Yeah. So I mean the best thing you can do if you're wondering, okay, I'm not saying the deltas I want is to backtest one against that stock and then two against the portfolio stock. So let me just pull up an example. So if I do the pre earnings diagonal, I can load it. So I'm on the backtest tab, I click save strategies, and all of the today tab scans are preloaded in here. So I can load this one. It's going to pick a specific one that we just back in October we loaded into this. But I'll click it for the last three years and then I'll click portfolios, and now it's going to backtest the NASDAQ 100 in that stock. But yes, if I want to do a variation on it, because I was looking at a bunch of different ones today, yeah, you could say like the 85 30 diagonal.

(21:12):

So you could even compare, you could let this thing finish, which I have platinum, so it runs a little faster for me than if you're not annual. But yeah, if you want to take a second, we can take the next question. I'll let this run and then I'll run the same back test with different deltas and we'll see how it does. When I quickly was testing deltas, I was finding that the 50 30 was better and short. Generally when it comes to limits or it comes to the technicals or it comes to the deck times expiration, we tried and phe tried dozens of different combinations in order to find one that worked pretty well across a large set of stocks and all that kind of thing. So there are definitely a good starting place, but market conditions change and all that kind of stuff. So if you think that the last six months is more indicative of what you think future trading is going to be like than you could do your own back test on the more recent data. So I will just let this finish. So if you don't see any trades, it means that when an earnings event occurred, the stock was not above the 50 day moving average, or the strikes were just so funky that the deltas were nonsensical, they were so thinly traded. But that's probably not the case with NASDAQ 100 stocks. So this thing just finished and I'll just do

(22:46):

The same thing. I'll load the earnings diagonal and I'll put this portfolio, but this time I will do a different one, which was not only, I think with this custom strategy that I was playing with, not only did I do different deltas, but I also was looking at, okay, if the front month's only eight days away from expiration and the back month is 36, because that was the situation as of today. So I was just kind of testing those things. So now we're starting to make it a pretty different back test. Hopefully it didn't confuses some. Yeah. So here now we'll start running in the background once it gets to the custom strategy loaded, and then I can just come back to this in a minute and let you know how it did.

Max Katz ([23:33]):

Okay. Load up any kind of questions that you guys have in the chat. In the meantime, I can tell you that for this trade, the 14 day long diagonal pre earnings, if I see that the underlying stock that generated the alert only has monthly expirations and they're not close, I don't spend any more time on that alert and I move on to the next one. And what Jason said at the start is most important, if you're doing a pre earnings trade, whether it's long call diagonal or long call, the earnings date must be verified. If it's not verified, I do not suggest you take the trade. I've seen too many times, and a number of people in community are going through this right now with Microsoft, it had a date of January 23, but it was not verified, and they missed the discussion in community about not taking unverified earnings. State trades. Well, Microsoft jumped $6 and they now, they now have the problem that the stock is over its short strike, which can be rectified. I mean, you can take the small loss or you can move it to a call spread, close the short option and take a short in the same expiration that your long option is. But they would not have had this issue if they had waited for verified date.

([25:42]):

I'm sorry, Jason. The other potential problem with the verify with not having a verified date is January 23rd can go to January 30th, and now both of your options, if you took a Jan 26, Jan 19 trade would be before the earnings date. And the whole premise of this trade is to have your long after the earnings state. So its theta decay is minimalized until the earnings are announced and you've closed the trade. Sorry, Jason.

Jason Hitchings ([26:23]):

No, no, that's all great stuff. Yeah, so just showing this example, this one has done very poorly by comparison. So this has had a net negative return. If you look at, it's not only about the total return isn't the whole picture, the average trade percent is actually slightly positive. This total return can get skewed by the bigger stocks like Google you see is like Google, Tesla, some of these stocks are outweighing, it's kind of like having an index where certain things in the index outweigh it. So the large dollar stocks are going to distort this total return number a bit. So the average trade is still positive and it still has a 55% win rate. So it's not necessarily a terrible trade, but you can see here the average trade percent is 13%. So this is definitely the better version.

Max Katz ([27:11]):

Yeah, while you have your screen up, if we're really going to stick to a half hour, if the next question is, could you go over the CMC short put spread from the today tab, I assume?

Jason Hitchings ([27:30]):

Do you mean fade the dip or because fade the dip is a put spread.

Max Katz (27:35):

It just says short put spread CMC. I'll look for it as well.

Jason Hitchings (27:46):

When I see CMC, I think it means

Max Katz (27:48):

CMLC. I think it's the name of the stock.

Jason Hitchings (27:54):

Yep. Okay. Well, this is the, was the short put spread actually in, yeah, it's on the today tab. But anyway, this is the, oh,

Max Katz (28:03):

Yeah, yeah, it's the post earnings short put spread. Okay. You see it all the way down at the bottom

Jason Hitchings (28:11):

Short earnings post. Okay, cool.

Max Katz (28:15):

Alright.

Jason Hitchings (28:21):

Alrighty. So I'm going to update this to today.

Max Katz (28:29):

So what is a 30 day trade

Jason Hitchings (28:32):

Day's expiration is 30 days.

Max Katz (28:34):

Alright.

Jason Hitchings (28:35):

It's a put spread where you would sell the 30 delta and buy the 10 delta. We'll see it has good clean options chain or not. Sometimes you'll see strikes missing because we're only showing things with deltas that we use SIBO for the live data and they compute the delta. So if you see data missing, it's because the delta is funky. If the bid is underwater, it won't try to compute a delta. So if there's some strike that's $3 in the money and the bids at two 90, then that's an undefined. It has a negative value, so it won't try to compute implied volatility and it won't try to compute a delta on that. If it doesn't have a delta, we're not showing on this chain. This chain is about looking up data expiration at Delta. But anyway, February is 36 days away from expiration. And what was that, the 30 10?

(29:29):

Yeah, so the 30 by the 10, right? Yeah. So over here on the puts, so you had to put Delta. Yeah, so you'd be kind of, it's a toss up between whether you'd want to use the 50 strike or the 47 50 strike, and then you'd buy this as your protection. So you'd sell one of these two and buy that as protection three and two in the last three years. So that's what's happening in trade. You can look at custom earnings. So two days after the earnings event, it puts it on and then it will close the position basically after a month or pretty close to when the options are going to expire.

(30:20):

And it says if the last earnings event was up 0.1%, so the last earnings event in this case was two days ago. So it's saying basically the concept behind this is, hey, if there was a earnings event where the stock at least didn't go down historically when we backtested this against a large basket, the stock was unlikely to drop significantly. And when you're selling the 30 delta and buying the 10 delta for protection, you have a little bit of room before you start paying out. So I might choose the strike that's a little bit further away from that. The money might've taken that kind of 21 delta version, and then, yeah, there's no stops or limits. And so yeah, you just hold that trade if you want to honor this version for 29 days and then you'd exit the position. Right. So that's, that's that in short.

Max Katz (31:21):

Alright. All right. Could you show the today tab again? I don't. I think this next question highlights something that you went over last time that you can easily summarize. C-M-C-S-A 14 day pre earning long call diagonal. Do you see it? I don't think it's there. C-M-C-S-A?

Jason Hitchings (31:46):

Yeah, when I searched it didn't come up. Sorry, which trade did you say it was long haul diagonal.

Max Katz (31:51):

Yeah, 14 day. So this

Jason Hitchings (31:55):

Came up, yeah, the 14 diagonal. Yeah.

Max Katz (31:56):

Yeah. This came up in community earlier today. The CM CSA alert is part of the 140 alerts webinar that PHE did. And I put those alert, I think it was Amanda probably did the most work, putting those alerts together and sending the links out for those alerts. I think it accompanied the webinar. And then people downloaded onto their own personal alerts, those 140 alerts. So this person received a personal alert for C-M-C-S-A and it contained the following verbiage. All back test conditions must hold until a few minutes before market close. This is early notification for convenience. The question is if that alert triggers that is, does it end up on the today tab? Not necessarily.

Jason Hitchings (33:02):

Yeah. The alerts in your own alerts that you set are independent of the today tab. The today tab is essentially a very nicely formatted like alerts history from our own alerts that we've signed up for and get generated. Then we kind of clean 'em up and put 'em here with a little bit of information about how they've performed. But you can set your own alerts that have nothing to do with the today tab alerts, or you can click here and set today tab alerts for whichever ones you want. In which case this is an email version. It'll say today, tab alert, and it'll say the name of the strategy such as Fade the Dip, or Buy the Dip, or something like that. Yeah, that notice about the early notification, the back testers placing trades. At the end of the day, we started getting feedback from people saying, Hey, I got this alert, but when I do a back test a week later, it's not there.

(33:59):

It didn't trade, it wasn't real. It can happen for one of two reasons. One, the alert, let's say stock had across above a 200 day moving average. Well, it might have intraday and then it might have come back down underneath it. So one possibility is that the conditions were true for a while and then they stopped being true. And another is that when we're sending alerts, we're saying, we're assuming that you're starting the trade as of this moment, and you're not in the middle of a back test. If you're in the middle of a back test, we have a 30 day holding period. It won't, Jessica has sent you an alert that day. It doesn't mean when you pull up the back test, it's going to show a trigger that day because if it triggered a week earlier and it already has an open position, it won't reopen a position. The create tab does, create tab shows a little icon. Every single, there's a little arrow every single time something triggers. So it's, it's not holding the trade. It gives you an impression of how often something triggers. So you can use the create tab for that if you want to, but when you get a backtest link,

(35:02):

There's history built into that, which is different than when you get an alert for that day. So hopefully that helps.

Max Katz (35:08):

Okay. We are past the half hour. Half hour. It's not a problem for me, but I don't want to break any of the rules. We have three questions in q and a and someone in chat is asking, can you do day trades with trade machine? I believe they're talking about zero DTE, and right now you cannot. The term is one dt, which I have experimented with, and if you come to community, we talk about those 1D TE trades every once in a while.

Jason Hitchings (35:47):

Yeah. If you really were really dead set on doing intraday trading, you could take an alert from the previous night. You could open it in the morning and close it at the end of the day, but you're really not going to get, you could set a one day, you could say on the back test tab, you could say close after one day. It says after it's been open X day, then close it so you could test closing after one day. So yeah, you could try to force the tool to give you some information. I personally think that, just my opinion, you're probably better off doing that than just going off your gut. But the tool is really built for holding something at least a day or two, because the data that it's using for the back test is nightly. It does update the data on the backtest tab for the current stock date and all that kind of stuff. So when you load a test, it will show the most recent stock data and that kind of stuff. But the system is built around holding is opening and closing things at the end, the end of the day.

(36:53):

Obviously I'm new, but the trades you're talking about are not done actually through trade machine, but through your broker, correct? Yeah, you can trade through any brokerage you want to. We've had a lot of requests to start executing trades through brokerages. That ends up as to us. It gets a little bit of a slippery slope because now you're talking about our incentive changes a little bit now, rather than wanting to give you the best information possible, all of a sudden we have incentive to get you to trade a lot, and we like being able to provide you with great information and being completely agnostic about where you trade and how you trade. And if you decide goes through three weeks, you don't want to trade before fed announcement that we have no financial stake in how you're trading, where you're trading. So yeah, right now we're not connected to any brokerage in particular. It also gets into a lot more licensing things and that kind of stuff. PHE and I helped create a brokerage backup, a company that got bought by sibo. Yeah, we're actually more free to speak our minds and tell you what we think are good and bad trades when we're talking kind of free speech than if we're brokers or licensed people telling you that we need to assess your financial conditions and all that kind of stuff. So yeah, we're keeping a little bit of buffer for a variety of reasons so far.

Max Katz (38:14):

Okay. You tell me when you want to stop.

Jason Hitchings (38:17):

Yeah, we can grab a couple more questions real quick.

Max Katz (38:19):

Alright. Once something triggers on the today tab, does it stay all day even if the conditions no longer exist? Yes,

Jason Hitchings (38:28):

It does. Yeah, it does. Which there's pluses to doing it both ways. If things kind of appear and disappear, that could be a little bit confusing to people. That's why when something triggers on the today tab, what I will do is update to the current day and then just verify that the conditions are still met for. So the R rssi is below 40 and that the macd is above the signal. So I can come here and see the RSI, and this is an example of RSI is just over 40 for today. So this one would've been true for a portion of the day and then stop being true, you can zoom in here to get better information. So yeah, RI is now 40.35 is this trade. It says the RI is below 40. So yeah, this was true at one point in the day, and then it's so being true as the day went on. So that's a perfect example.

Max Katz (39:25):

When something triggers, does it tell you the time it triggered? I believe it does.

Jason Hitchings (39:30):

Well, right now, honestly, it's just saying today. I mean, if you get a text message or an email, then it's going to come with a timestamp. If you subscribe to alert, you're going to get an email at a specific time that'll tell you when it triggered or a text message on the today tab in the database, we have the exact time it triggered. It just gets a little more confusing. We do have a version coming up, which I'll mention, I'll maybe pull it up in a side screen, and this is the development version, so we'll see if it loads as expected. But the new environment, when you click a trade, it's going to run a quick one day back test and it'll kind of tell you if those conditions are still true or not. And if something doesn't populate here, then it means it's not true. So this says trigger Jan 11, and this is the time it was tested. Now it's after hours. So it's essentially the closing mark for the day and coming up is it's actually going to show you the current strikes according to the montage as we're seeing it. But you need to verify that with your brokerage before you actually enter the trade. But that should speed up that work quite a bit. So we're going to have this out in mid-January, so that version's coming up pretty soon.

Max Katz (41:00):

Cool. For simple buy calls, the profit limit is almost always 40%. However, looking at historical trades, the gain is much more than 40%. What is triggering the sell to close?

Jason Hitchings (41:18):

Yeah, so in that case, if you're just buying a long call, oftentimes IBM's there, oh, it still thought it was on that back test. There's a little quirk there, so sorry, I have all these technical conditions loaded and stuff. Let's see, normal time on call. If I don't put a comma, then it's going to run multiple deltas. So this one had saved from a previous trade gains above 50%. So when you, just logically speaking, if you limit your gains, it means as soon as that reaches 50%, you're going to take a profit. So you're taking profits earlier in that scenario, and that means you're going to have a higher win percentage, but your average, the maximum possible win is certainly going to be capped. But this is just a random, maybe I'll put a couple of tickers in here.

Max Katz (42:36):

Can I take a crack at this question?

Jason Hitchings (42:37):

Yeah, definitely.

Max Katz (42:38):

Okay. So the backtest has a 40% profit limit, but the backtest and the closing out of the trade are evaluated towards the end of the day, about 3:45 PM

Jason Hitchings (43:01):

Oh, I see you're saying, yeah,

Max Katz (43:02):

Eastern time. So during that day, that trade could have gone up to 80% profit. So when you're looking at the history, you're going to see the evaluation at the end of the day when you are in that trade. However, you may have a GTC trade with your broker to close it when it passes 40% profit that you've calculated when you put the trade on. So you put the trade, you buy a call for a dollar, 40% is a dollar 40. As soon as that trade is active and you have those long calls, you put a GTC, I'm going to sell this at a dollar 40 because the back test, the strategy calls for 40% limit on gains.

Jason Hitchings (44:02):

Yep. That's great. I didn't read the question closely enough. That's exactly right. Yeah. So if you look in the historical trades, yeah, it's going to still use end of day data to close it. So it's going to say at the end of the day, if my profits are more than 40% exit, it's not going to assume it can exit in the middle of the day. Also, if intraday the thing would've been something you could have closed at 40% and then it drops back down, it's not going to capture that event. So that's part of the end of day trading that. So it's really just looking at that window at the end of the day to make the decisions. Right. Thanks for you. Definitely you zoned in on exactly what he was looking for.

Max Katz (44:38):

Okay. Okay. There are no other questions in chat. There are a couple in q and a.

Jason Hitchings (44:47):

Yeah. Okay. We can take another question.

Max Katz (44:49):

Alright, I'm having trouble getting ion condor to come up with trades on SPY and Q. QQ.

Jason Hitchings (45:01):

Yeah, it's going to be custom deltas. So yeah, once the custom deltas get set, if these get customized and you have

Max Katz (45:15):

The

Jason Hitchings (45:15):

Same delta for both of these things, it's going to say it can't open the trade,

Max Katz (45:19):

Right? Yeah, I do 'em like 20 apart. So like 60 40, 50 30, 40 20, 30 10.

Jason Hitchings (45:28):

Let's go to Iron Condor here.

Max Katz (45:32):

So

Jason Hitchings (45:34):

It's going to say one, it's going to take a long time, and two, it's going to say that trades are conflicting. So it's taking a long time. It keeps trying to research the montage somehow, make something come true that you can't really make true. Same if you did a call spread, be a little faster with those two things. So yeah, if you click this little settings gear, this little equalizer board, just uncheck these and it'll use deltas. That make sense. Or what Max is suggesting is if you want to do something 20 deltas apart, it's in the middle of trying to do a big back test. So it'll take just a second to finish, but yeah, that's what's going on.

Max Katz (46:12):

Alright. You want to explain the efficiency score column in the lower section? I guess that's in the stock trading

Jason Hitchings (46:19):

Alert. Yeah, so on the today tab, the efficiency score, oh, what is happening is that we are running some scans right now after the market. That's why things are a little slow. Yeah, we kind of hammer on these machines to populate the scans at the end of the day, so things kind of slow down a bit. So sorry about that. Yeah, the efficiency score is for, on a lot of stocks you get trades that are up 3%, 2%, that kind of stuff. And so the efficiency score is trying to, it's essentially coming up with a metric of your return on risk. And so if I click on one of these, the efficiency score should have something to hover over, pull up the exact, I think actually on the,

Max Katz (47:16):

Isn't it average gain over worst loss or the total risk? Something like that?

Jason Hitchings (47:24):

Yeah. So here's this page on it. The efficiency score is the average trade return from each of the trades divided by the maximum drawdown, which the drawdown is how we're looking at the risk on the sort of stock version of backtesting. So generally, if your average return is better than your worst case loss, so if you're trading stock and you have a thousand dollars in your position and it goes down 10%, then we're saying, okay, that's kind of your drawdown is 10%. Then yeah, if your average trade return on this short term technical trade lasting 20 days is 12%, then you're going to have a 12 divided by 10. So you're going to have a 1.2 efficiency score. Occasionally you'll see max on the efficiency score. If the stock just goes up and into the right and you never have any losses, if you never even have a drawdown, if you never have a mark to market loss, then it'll be infinite. There was no drawdown. So now I just did call spreads, but once I changed to the 40 20, then we see that it's getting trades again. So yeah, just check that. Just be careful about this. Custom deltas

Max Katz (48:44):

Customize both lights of your deltas and you should be fine.

Jason Hitchings (48:52):

In terms of options, order flow, yeah, we have access to the data. We haven't currently done anything in order to look at unusual options flow. It's pretty challenging to analyze that stuff. You don't know how it's being paired or how things are getting placed over time. So someone buying 10,000 calls or selling 10,000 calls, you don't know what their stock position is. They could be shorter, long stock, some huge fund. So it's not that there's no value in it, it's just pretty hard to, it's not as simple as you'd think looking at that order flow. So we haven't put it in there. If we are able to do some machine learning and that kind of stuff in order to tell us that we think there's signal there, then we'll certainly look at adding it. Okay. Maybe two more questions.

Max Katz (49:38):

Okay. Are there guidelines for what is sufficient credit or debit to execute a trade based on the width of the strike? The width of the strikes for a spread. So I can tell you what I prefer. This is not trade machine rule guidance or preference, but Max Kat's suggestion, if I'm doing a credit spread, like I'm selling a put spread and it's $5 wide, I want to try and take a credit in for selling the 30 20 put spread that's $5 wide between the strikes for one third of the width, that would be like a dollar 67 in credit that I would want for a $5 wide credit spread.

(50:38):

Others in the community will go a lot lower down to 50 cents on a $5 credit spread, and that moves them much further out of the money. So it's a lower risk, but when that risk occurs, they're going to lose $4 and 50 cents for every spread that they have. On the debit side. You could say it's the inverse for me. I mean if I'm buying a $5 spread, I don't want to spend more than a dollar 67. Another great example came up in community today and that was the long call diagonal in Microsoft in this case that some people had put on it was a $5 spread between the long call and the short call. The width was only $5 and they were paying 6 98. When I'm doing those kind of trades, I want my debit to be slightly less than the width of the strikes between the long and the short. Okay. Last question.

Jason Hitchings (52:04):

I was trying to respond to this. So Bill asks, do you have a setup for the time when stock is way overbought to place a cover call? So one way to measure overbought is RSI. So we could say if the RSI is over 80, did you want to say sell a cover call or buy a cover call?

Max Katz (52:20):

I think he wants to sell, sell the cover

Jason Hitchings (52:23):

Call stock is way over. Do you have to wants when the stock is way overbought to place, is that place covered calls? But either way,

Max Katz (52:33):

He wants to sell a call against his long stock when it's overbought. That's the way I read it.

Jason Hitchings (52:41):

Yeah. Okay. Well, so for the SBI and the QQQ, they don't get over 80. That RI isn't coming up as expected, but anyway, you could set up a technical open with RSI and then yeah, you could either go, you could trade a custom strategy if you wanted to sell it, and you could say short, I mean if you wanted it this way, you could either just sell calls In terms of holding, I think the closest way to do it would be to say be short 100 shares of stock and be long like a whatever, 40, 30 delta call if you wanted to think about doing it that way. Or if just selling, you could just look at selling calls and see how that did. But yeah, there's not a way right now to hold stock all the time and only sell the options at a certain time.

Max Katz (53:34):

Okay. So as we're signing off, higher efficiency is better than lower, right? Jason?

Jason Hitchings (53:42):

For efficiency score, yeah, it means your average trade return is higher and higher relative to the drawdown.

Max Katz (53:48):

Okay. We covered 'em all.

Jason Hitchings (53:51):

Great. Great. Okay. Thanks everyone. We'll be doing these Tuesdays and Thursdays. We'll kind of go between half an hour and an hour to kind depending on what works for people. Appreciate everyone being here. Thanks for being part of the trade machine. Please go to community and ask questions or just read and comment. We'd love to see you there and we'll look forward to seeing you at the next one.

Max Katz (54:17):

Good night everybody.

TradeMachine® Live Help 1-9-2024: More Today Tab and the MACD Strategy

Jason Hitchings (00:03):

Hi everyone. My name is Jason Hitchings. Thanks for joining us today. We're just going to dive right in because I think we're coming up right on 11 Pacific to Eastern. I'm on my laptop today, so sorry if the image is a little less clear. We are going to dive into two topics today. One, we're going to go in a little more depth on the today tab. I covered quite a bit about today tab on the last session, but I wanted to give a little more detail on a few aspects I didn't have time to cover last time. And then we're going to dive into the macd momentum strategy that we have on the Today app and just go into a lot of detail about that and then Max and I will answer any questions that you have at that point. Thanks for being here. So we'll just go through the boring part real quick.

(01:00):

Legal 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, materials are not a substitute for obtaining professional advice from a qualified personal 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 money 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.

(01:46):

Great. So I think most of you know who I am. My name is Jason Hitchings. I'm the CTO of Capital Market Labs, and I'm the person who did the actual coding for trade machine. It was PHE and I together who decided everything that was going to be in the product and how to allow people to simulate historical results and how to improve their future trading. So yeah, I've known PHE for a long time. I've been in FinTech for pushing 20 years now, and I've known few since about 2006, seven or eight I think. Yeah, so he's been just an awesome human being the whole time. Okay, so the gen data, as I mentioned, we're going to dive a little deeper into the today tab. I want to show you a little bit of how it works under the hood, and then we're going to look at the Mac D momentum strategy, and then we'll just do QA. Okay, so here's the today tab, and we're going to look at the Mac D in a little more detail to see how it all works. So one question is, how often do these today tab strategies actually check for signals or triggers? The

(02:58):

Answer is that we start about an hour after the market opens, and then we check every hour from that point forward. And that should be fairly familiar to you because that's also exactly how often we check your own customized alerts that you set in the alert tab, and there's a really good reason for that. So let's see how this actually works. So I have a special internal account that we just call alerts at single biz. And what we actually do is in an automated way, we look at all of the scans we've ever done in the market, we look at the results of our various timeframes, and then we subscribe ourselves to alerts for the best strategies for every single ticker from all the strategies that we've created or out of those 13 that are showing on the today tab, and we just actually add them.

(03:58):

And so on any given day, you might have, in this particular example, we have 1,465 strategies that we are actively looking at for the current day that meet all of our quality controls, including if there's been a lot of liquidity issues or that kind of thing. And then we subscribe to the alerts ourselves and then as they trigger, we format them and we present them on the data. But it's really the exact same tools and functionality that you have access to. We have just created our own strategies and our own alerts, and then we just format them a little bit differently. And in order to determine if we want to set an alert for the day, we look at the historical win rate and percent return, average trade return liquidity. And we look at those over various timeframes generally. For instance, if over the last three years there have only been one trade, even if it was a great trade, it was one win zero losses and you made 150%, that wouldn't really be enough of a track record for us to include it on the today tab. And so we apply a lot of filters and kind of come up with a basket of stocks for the day that we think are going to be the most interesting to trade based on the historical results. And then we start each day fresh. So it could be 1465 1 day, then 2000 the next, and then 1200 the next day, just depending on the recent backtest results.

(05:27):

So yeah, this is just an example, like looking at Apple, there's I think 40 scan strategy results from Apple. And so we were really just parsing these results. We calculate some of these fresh if they're not fresh enough, and then we just actually behind the scenes in an automatic way subscribe to the alert the exact same way that you would if you just clicked down on this alert thing and said, add alert. And this is an actual view from this account of things that have triggered today. If I just went to the account tab, looked at the history, and then looked at the messages that I've been sent, I can actually log into this email account and see the actual same alerts that you'd be getting. And this is an example. This is where it appeared in the historical alert messages from the alerts tab, and then this is where it showed on the today top. Now we add a little bit more information just to make it nice to look at. We show the percent return, we show the wins and losses, so we capture that additional information on the backend just to format this in a nicer way. But other than that, it's exactly the same thing. And then we just have a little share link that we use to share the access result.

([06:38](#)):

So the good news is that you literally have access to everything there to make your own version of the today tab where you can set up custom alerts on either you can take our strategies and tweak 'em, you can take our strategies and say, look, I just want alerts on things that have a hundred percent win rate. So you could go down, this is the macd strategy, and you could say, just give me the ones that have a hundred percent win rate. I want alerts on just those. You could say, Hey, the macd doesn't have a stopper limit. I like to use stops and limits. Or you might want to have a limit and not a stopper, vice versa. So you might just want to hold 'em for seven days. You could take the foundation that we've created for you and you can do anything that you want with it.

([07:20](#)):

And especially for platinum members that have the faster access to faster servers, you prepay us, we prepay Amazon, and then we can kind of afford bigger servers that way. So for platinum members, you can back test a whole portfolio in a very short amount of time. I think the NASDAQ 100 maybe took 60 seconds or something like that for me to back test using this macd strategy. And then you can just subscribe to whatever you want, add 'em to alerts, and you'll be getting a customized version and you can actually get text alerts that way as well. So you really have access to everything that, all the power that we do, especially with this new portfolio back testing. Okay, we're going to dive into one of the strategies on the today tab, the Mac D momentum, and we're going to look at that in some detail.

([08:04](#)):

And so here is the tile from the today tab strategy, and you can see that there's only one that triggered today. So after we apply all of those filters and all this water controls, we've seen one that met those conditions today. And so when I click on that, it pulls up this screen and there's quite a bit of information here. And so I wanted to choose this one today to dive into because there's really quite a lot to look at. And so let's dive in and to kind of take this screen apart piece by piece.

([08:38](#)):

So this uses a technical open when it says open here and it shows the technical additions. So this is using an RSI, and it says the RSI has to be below 40. This is the Mac D indicator, and I'll go into it. We're showing you all the details. You can customize this. So this Mac D 12 days versus the 26 days can be customized. And so that's why it looks like a mouthful, but what this is saying is that the Mac D is greater than the signal and the signal is set to nine days right now. So what is that stuff? So let's look at that. So this is the Mac D chart. You can see that the black line is the Mac D, the signal is the orange line, and then this gray bar is the Mac D versus the signal. So the numbers in and of themselves could be a little bit confusing if you haven't been using the macd in your own trading much. So let's just do a quick dive into it or it can be a refresher if maybe you use it, you know how to use the chart, but you haven't thought about it in a long time with all these lines and bars actually mean. Okay. So if you hover on the very last one, you can kind of see all the details or generally it shows most of the stuff along the top as well.

(09:58):

Okay, so the black line here is the Mac D and what the Mac D is. It's the difference between a shorter term moving average and a slightly longer term moving in average. So in our case, we look at the last 12 days of movement. Can we subtract from that the last 26 days of movement? And so when the value is negative, it means that the stock price for the last 12 days is below the average stock price of the last 26 days. So the 12 day average is below the 26 day average. And as a little refresher, if it's an exponential moving average, all it means is that it gives extra weight to the recent data. So the recent couple of days are going to get more value in that average than the very first days when you look 12 days back. So these values are negative here. This is the zero line, so these are negative, but you can see this black line is above the orange line. So let's look at that. So here's the macd as mentioned to 12 days versus the 26 days, and then looking at the 26 days, this is 26 days of data, and you can see, okay, it was higher 26 days ago than it is now. So certainly when you're factoring in these data points, the 26 day average is going to be higher than the 12 day average. But how do we feel about the momentum here?

(11:36):

So this is kind of interesting. It was plummeting a lot, and then it's kind of reversing and stabilized out a little bit. And so the MACD is negative, but is this good or bad momentum? The signal line that we're using to determine that is we're looking at the last nine days of the exponential delivery moving out, which we're looking at it on a basis of how much it's changed so that we can do this as a comparison. So it's kind of a normalized look at that. And we're saying when you look at the last nine days of movement versus the last, when you compare the recent movement to the further back movement, you actually see that the trend has been pretty good. So that even though looking back 26 days, it doesn't look that great. The momentum recently is good. Oftentimes people look at these crossing points as being of interest, and that you can see as these bars increase, that's the actual distance between these lines.

(12:39):

So you see the maximum distance here, and then you can see that essentially the strength of this signal is how much space there is here. So the signal's getting stronger and stronger and stronger. Now it's these values getting closer together, but that's giving you a sense of what the recent momentum is. And that makes sense. If we went back a few slides like, wow, that's strongly moving in the right direction. So that's when the signal got really strong and it's still the difference between the recent movement, the further back movement's not bad, but this is where it kind of peaked in strength. And so the indicator kind of captures that momentum all in place. So what else do we have in CMLs version of macd strategy?

(13:29):

Well, down here it says never trade earnings. And so what that means is that if you have the strategy in place and then there's an earnings event coming up two days before the earnings event, you would exit out of the strategy. So you would not hold it through earnings. Then after earnings passed two days after, you would only enter back into it if the technical conditions are still true, but you'd essentially be starting to trade fresh. But the main thing to consider is one, if it's in the middle of an earnings event, don't buy it if you want to follow the back test. And then number two, once you come up to the next earnings event, you may want to exit it, and you can actually set an alert within the alert section saying, well notify me two days before the next earnings, and I can put a note and say, exit my macd strategy and SSL or anything else so that you don't have to think about when the next earnings event is. It'll just send you a text message when that's going to happen. So that or an email so that you'll know when to exit it.

([14:33](#)):

So our version of the macd does not have any gains or losses set when he stops or limits. And so yeah, it's kind of nice. We didn't find that there's any advantage with this particular strategy to exit it early. So the only time that you really need to think about exiting it is when it's expiration, and you can set a calendar alert inside

([14:50](#)):

Of the alerts to tell you when the expiration is, so you don't forget if the thing ends up in the money. You don't want to forget to close it out because you might not want to be assigned stock. Yeah, you can also set if there's an earnings event coming up, so you can set those calendar alerts in terms of when to exit. But yeah, there's no specific stops or limits, but of course you can always test it yourself and see what you like better. Okay, now there's the custom strategy. And so if you click edit on the custom strategy, when you click the share link, it automatically creates this custom strategy for you and it gives it the name that we gave it way back in the day when we first created this. So the name's a little funny, this qa, you can kind of view that as CML. So it's basically the CML diagonal 50 20 call spread. And what we're looking at here is as two legs. The first one, you're going to be long, the 50 delta call 60 days out. It doesn't have to be exactly 60 days out. It's going to look as close to 60 days as it can, and it's going to be long one contract.

([15:54](#)):

Additionally, it's going to be short a call and it's going to be looking for something that's around 20 delta and about 30 days out. So this 20 delta is going to be quite a bit out of the money and it's going to be shorter timeframe. So this option on top is always going to be worth more than this short because one, it's higher delta, so it's more closer to being in the money or at the money and it's further out. So if the option is closer or it has a higher delta, which you can view as a higher chance of ending up in the money, and if it's further out, it will always have more value than the option that is short, that is 20 delta and 30 days out. So it's further out in time and it's more in the money. So this will always have more value.

([16:50](#)):

So the reason that this exists here is because when you own this option every single day that expires, I mean every single day that passes here is you're getting closer to expiration. You're losing value in the option. So when you're owning options, like time is counting against you. The good news is when you're shorter term options lose their value faster than longer term options. And options that are out of the money lose their value faster than options that are at the money, at the money options hold their value the absolute longest. And so this is a clever strategy that if fear created and what it does is gives you the potential to capture that momentum over the long term. You can never lose more than you initially put in with this strategy. This is always going to be worth more than this, but this short option is decaying faster than at the money option. And so it's helping finance this option a little bit. It's saying, we're going to hold this and this is going to depreciate. If nothing happens, this one's going to go down faster than this one. So if nothing happens in 30 days, you are likely to find that you actually made a teeny bit of money in this strategy with nothing happening.

(18:18):

It depends a little bit on other things that are happening with fall and that kind of stuff. But yeah, that's the benefit of selling that shorter term out of the money call. Now, this strategy says close all legs of the front month options. So when this first expiration expires, let's say the closest it could find in 30 days was the February 3rd Friday options. You're going to close the whole position at that point. If you want to follow this strategy, this will not roll the short leg and try to do it again. It'll just close the whole thing and then wait for the technical conditions to be true again and then start fresh. That's what that little checkbox means there. So how has this strategy done just on the today type? You have to want to trade it. So I just did a quick back test of the NASDAQ 100 with this strategy, and yeah, I mean three years we've went up a lot and back down and then up a lot again.

(19:13):

So it's not surprising that something would do reasonably well, but there was also a lot of chop, a lot of up and down, and the average trade return has been 23% per trade over that entire timeframe. So that's pretty great. The percentage of wins is just okay, but at least it's over 50% and these are being long options. So that's not bad. And selling that out of the money, 20 delta call, definitely helping this winning percentage, but a 2020 3% average trade return over that timeframe is pretty impressive. We tend to look at this more than the total trade return because the total trade return is going to, stocks that have a high dollar amount are going to get a huge amount more weight than low dollar amount stock. So it could kind of bias the results one way or another. If you ever see a total return that's negative, even though the average trade return is positive, it's for that reason because you could have a couple stocks that do really well or really poorly that kind of make the total return, not really reflective of if you just traded, if you put a thousand dollars into every one of these trades, equally with your average trade was.

(20:21):

So yeah, over the last three years, this has done quite well. But yeah, test two years, one year and you can dive in and customize as much as you want. You can set all your own alerts on top of this or any other strategy within trade machine. Great. And so just as a reminder, if you want to take the strategy as it's defined in the today tab, you can set today tab alerts, and then you can choose for

(20:46):

Macd or any other strategy if you want all the alerts or NASDAQ 100 or anything else. So this is kind of a fast shortcut to the kind of customized version. So you might start here and then over time you might start to tweak these strategies to the way you like 'em. Great. So from there, we're going to dive into some q and a and let's turn it over. I'm going to have Max, I take over in just a second, but I'll answer the first couple questions.

TradeMachine® Live Help 1-4-2024: The Today Tab: Everything On One Screen

Max Katz (00:00:22):

Hi Amanda.

Amanda Kelley (00:00:25):

Hi guys.

Jason Hitchings (00:00:32):

How are you doing tonight, Amanda?

Amanda Kelley (00:00:36):

I'm good. How are you guys?

Jason Hitchings (00:00:38):

Yeah, not too bad.

Max Katz (00:00:42):

I'm doing better than my trading account.

Jason Hitchings (00:00:46):

Take a hit today.

Max Katz (00:00:48):

Just a touch. Just a touch. It's my long-term option trades.

Jason Hitchings (00:01:02):

So yeah, we'll get started here in just a minute. I did start the recording and that will be sent out to everybody. Now we have the chat enabled. It's nice, I like to chat. It used to cause us some questions between people not knowing whether to ask questions in chat or in the q and a, but hey, it's nice to get little feedback and see people. Yeah, is it cold in Connecticut? I'm in Colorado. It's been a pretty pleasant winter so far, but now it's starting to cool off a little bit.

Max Katz (00:01:38):

Any snow?

Jason Hitchings (00:01:40):

A little bit here and there. Some in the mountains. I mean for skiers, normally I ski, but I have a baby on the way. My second child is due in February, so I did not get a ski bus this year, so it can just be 70 degrees all winter as far as I'm concerned. Yeah,

Max Katz (00:01:54):

Yeah. Cool. Congratulations.

Jason Hitchings (00:01:56):

Yeah, thank you. Thank you. Alright, let's jump in. Thanks everyone for being here. These sessions, we've got about a month of these under our belt. We've had some positive feedback, so appreciate everyone being here. We try to strike a balance between some brand new users who are seeing the product for the first time and we don't want to overwhelm people, but also we want to have enough detail and richness in there that so the more experienced traders can still learn something from the session and have a little sneak peek about something, which is pretty cool coming in the product, which we'll do a bigger webinar on later. But towards the end I'm going to show something that's coming up that's new that we're pretty excited about. I'll start with the disclaimers. This is not a solicitation to buy or sell any security ever. This is not advice.

(00:02:59):

Advice. You should read the characteristics and risks of standardized options. The results here are provided for general informational 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 considered at the inherent risks of such investments in light of your financial condition. Great. Probably most of you guys have seen me here or there on a webinar or two. My name is Jason Hitchings. I'm the CTO of Capital Market Labs. I have known Ofir since about 2007 or eight.

(00:03:53):

We started, I was the first employee of a company called Live Vol and he came on to head some of the quantitative research and we became friends there and then our careers kind of went different directions and then he created Capital Market Labs years ago. It was about a year in and then I joined Capital Market Labs and we kind of built everything that we have today. I wrote all of the code for trade machine on the front end and the backend. I've been in the options market for approaching 20 years now, and yeah, I've traded throughout that time and additionally I've gone very deep on options analytics and building custom models. I was trying to build a live figure out models that were very accurate for predicting implied volatility and all the other Greeks, but to do it 200,000 times a second on a moderates size computer. So it was trying of getting as much out of the models as I possibly could. So I've been at this for a minute now. So today we're going to do a deep dive on the today tab. We're going to look at what everything is there, what are the links do, what does that little AI signal thing mean, which is a relatively new addition to the today tab.

(00:05:17):

How do you decide which strategies you want to want to trade and what are the different strategies? We're going to do breakdowns and deep dives on each one of the individual strategies, but I'll give you some guidance on that kind of stuff. And then how do you know if something triggers on the today tab? Well, maybe it was active in that moment, but how do you know if it's still active? It's a source of a lot of questions and we're going to get into it. And then after we do that in about 15 minutes or so, then we'll just kind of turn it over to a general q and a, which could last two minutes or 20 minutes depending on people's appetite and then we'll call it a night.

(00:05:55):

So this is the today tab and just a real quick breakdown, this is the first thing you see when you log into trade machine. These are the tabs at the top to navigate in the application. There's a little filter at the top and this tells you whether the results that you're seeing here are for all possible tickers where you can filter them down to just the DOW 30, just the NASDAQ 100 or the largest 500 by market cap. Each one of these individual tiles is a specific strategy and within the tile you have the ticker, you have the return that this specific strategy with this specific ticker has generated over the last three years. Generally this is a strategy over the last three years. It says the number of wins and the number of losses, and then when it triggered, and pretty recently, maybe a month ago, instead of only showing the triggers that happened on this very day, we started including triggers that happened recently. One, sometimes they're still very relevant and also it just gives you a context of what's been going on. It's nice on the weekend when you log in, not to have a blank screen, but it just gives you a sense how often things are triggering and what's triggered. And sometimes a 14 day pre earnings call strategy, if it triggered yesterday, you might decide that that's still close enough to the window that you care about and you might go ahead and take the trade. So there's some kind of discretion at that level.

(00:07:36):

So each one of these items here represents an individual back test, but when someone's just starting off, it's quite overwhelming to figure out, okay, there's all of these different strategies. They all have different tickers to click on this thing's called a fade, the dip that's called a buy the dip macd momentum. That's fine. So I see a ticker here, I see jack in the box or GDS, I see all these different tickers, but what am I supposed to do with it?

(00:08:13):

So a great way to start understanding what's happening is just to go ahead and click one of the individual links here and then to dive in to see what the backtest is. Each one of these backtest has a link associated with it that can be shared and that link carries all of the information that happened when that back test was created. So any earnings rules, any technical conditions, all of that kind of stuff is built into that link. So when you click a link, for instance with this jack in the box by the dip trade, and if you're brand new, you don't know what buy the dip is. I mean you've heard the term buy the dip, but you don't know what our version of it is. So when you click the link, it opens up this back test tab. Back test tab is a simulator that is simulating what is happening in the market over time, but it's using real data to do it.

(00:09:19):

So it's not a model like you're modeling the weather and you're kind of guessing what's going to happen in the future. It's actually saying, had you taken these trades, this is exactly the kind of performance that you would expect to pretty high degree of fidelity. So just like if you can look at a stock chart and say, Hey, if I bought Microsoft back 15 years ago and then I sold it today, that's a pretty easy simulation to do. You just look at the price 15 years ago. You look at today and take the difference if there's dividends, you collect the dividends along the way. That's essentially what this is doing. It's just doing it with options and it's doing it with a lot of technical and earnings rules and that kind of thing in order to give you a lot more ways to optimize your trading than just to buy and hold an underlying stock for a long period of time.

(00:10:04):

So when we see this page and we're trying to understand what is this strategy, anytime you have a share link and you click it and you're trying to understand what's going on, you have this backtest result tile in the middle, and this is telling you what the actual trade is and what the results of that have been. Historically, it's at this start date and at this end date. So when we ran a simulator from 2020 in December until recently in December, the results were that we had four wins and two losses and that the strategy made a 74% return. But what is it exactly? It's like, well, we can see that it says buy a call. It says a 40 delta call delta. You might vaguely know that delta has to do with how in the money you're out of the money something is, but it can all be a little overwhelming at first, especially for relatively new options traders. So let's dive into the different pieces of this a little bit so we can see that from that backtest tab, this information carried over 74% return, four wins two losses. That will generally be the case. Sometimes there'll be slight differences, might be four in one or something like that, depending on if there's a slight change in the price before the end of the day on an option or something like that when it ran. But generally there'll be very close.

(00:11:30):

So let's dive into actually when exactly this triggered. It said it happened four times. This is options that are expiring every 30 days but only happened six times in three years. So what exactly when did it trigger exactly? So these are the technical conditions and you can click technical open on the back test tab in order to see the actual settings if you want to change them or see it that way. But what does this stuff mean? So it says the stock right now is greater than the 200 day moving average, but yesterday it was less than a 200 day moving average. That means that it cross up through the 200 day moving average. It says that the stock is greater than the 10 day exponential moving average and that the 20 day RSI is below 70, so it's not overbought according to the RSI.

(00:12:26):

Now remember when you want to actually look at these for today, you want to update the end date. Those share links get generated over time as we're scanning the market, but update to the most recent day if you want to drill down and see if it triggered today and really look at the data. So I'm updating that to the current day. Then let's look at these things. So you can zoom in on and I'll open up. So we're looking at the buy the dip for Jack in the books here. So at the very bottom here, there's this scroller that's pretty hidden, but if you scroll all the way across, now you have kind of a zoomed in version of this actual strategy and see it on this particular one I haven't updated, so I'm going to update it to the current day because otherwise it would look like it hadn't triggered yet. So then we zoom in and I can really dive deep into this data and I took a screenshot to make it a little easier to look at this, so I'll go back to the screenshot, but that's what I did to get this real close in look.

(00:13:40):

So it's saying that the stock crossed above the 200 day moving average. So yesterday, the red candles, the bottom is where it closed. It was a down day and the blue is the 200 day moving average. That blue line is a 200 day moving average. When you're zoomed in, it's not moving very much. So it had to yesterday it was below the red, and today this black bar it crossed up through and the black bar is, it's the top of the bar that tells you the closing price. So it went from this from down there up here, so it did cross. So that's still good and active. Let's look at the next condition that the stock is above the 10 day exponential moving average. All the exponential moving average is, it's just something that moves faster. It weights the current day's data more than the older data evenly count. The value of all those days moving average is just looking at the average price over a period of time. Exponential means it counts the most recent days a little bit more. So the green line, as you can tell with this little square, the green line is the 10 day exponential moving average, and we can see that the stock is above because the black bar is up here, it's above the green line, so that condition is also true. Finally, we scroll down to this RSI can show you here.

(00:15:09):

This is the RSI. You can see I can kind of pan left and right here, and if I hover over this on the left side, you can see a 62.82 and also in this little tool tip, you can see it So that says it's below 70, and so that means that all of these conditions are still active. So we know that the technical conditions held true, but is that everything for a strategy that determines whether this is ready to purchase or not? Almost there's generally, we look at earnings a lot. We decide whether to actively choose to trade an earnings event or to not trade the earnings event. We rarely just sort of stumble into earnings and just hold a strategy through earnings with being oblivious to earnings. That is a choice. There is a ignore earnings or nothing special in the earnings handling, but typically we say we're intentional about our earnings, and if it's not an earnings strategy and fear created most of the strategies inside of trade machine, generally it's never trade earnings. What that means is if you're within two days of an earnings event, then you need to get out of the position. It means close if you're two days in front of it, and then you can open it back up if the technical conditions are still true two days after. But generally it would tell you if you're within two days of earnings, then this strategy is not active if it's a never trade earnings.

(00:16:41):

So right inside of the trade machine, there's a lot of information at the top, but we actually use a really good quality vendor to come up with the projections for the next earnings events, and when they become verified, then they're putting money behind the fact that it's a guaranteed earnings event. But earnings are done anytime soon, so that condition is also met because earnings aren't for another seven weeks or so. So in that case, all of the conditions for this trade are currently being met. So now we know that this strategy is ready to trade, but what do I do exactly? What am I supposed to buy? I'm not just going to buy the stock. What am I going to buy? So looking back at this little earnings tile says it's jack in the box and to buy the 40 delta calls and it says days expiration is 30 days to expiration.

(00:17:37):

So let's use this to look at a real world example because what it's saying is you want a delta as close to 40 delta as you can and you want an expiration as to 30 days as you can, but generally these will not be exact. It will not be exactly 30 days. It will not be exactly 40 delta. So this is a good example of a trade. So what I'm going to do is I'm going to click the show options button in the very top and it's going to pop open this options chain. That's this button right here. When you click it, it opens this options chain, and then you can dive into it. You can actually filter by days expiration. You see that we have kind of not a great choice. It's either 15 days from expiration or it's 43 days from expiration. That's a little bit of a tough.

(00:18:26):

So the 43 is slightly closer. I can filter on that, and then when I look over here at the delta, I'm looking for a 40 delta, which would be slightly out of the money. Jack in the box is trading at 83 85, so anything above 83 85 would be slightly out of the money and have a delta above 50. One definition of delta is moneys, and so there's not a lot of strikes here though. They're $5 apart that strikes, and so I now have a choice if I want to trade the 50 delta or the 30 delta. There's no specific, oh yeah, sorry, I think I might've mispoke the 83 at 83, 85 right now.

(00:19:10):

So in this particular example, I looked at the 90 as the 30 delta, and sometimes that stock price can move after hours. So the delta might drift a little bit apart from the stock price if it moved after hours a little bit, which is also a possibility. So now I know roughly that I'm going to buy either the 85 or the 90 call for this in the February 16, 20, 24 options. So then I buy the thing and then how long do I hold or when do I get out? So let's look at that next as the next piece of this puzzle. So on the left hand side, there's these earnings handling rules and that will tell you if you have a customs earning, like you want to sell it before an earnings event. If it's an ever trade earnings and you'd sell it two days before the next earnings, there's no technical closes.

(00:20:12):

You could say, Hey, if this crosses back down under the 200 day moving average and we close it, but this doesn't have any technical closes set, but it does have a 50% stop and a 50% loss set. So if the position goes up or down 50%, then according to this strategy, we would exit. If none of those things happen, then we would just hold it to expiration. We might take a 20% win or 20% loss. Obviously we're hoping for more wins than losses. So let's actually take it one step deeper and say, okay, 50% gain or loss of what does that really practically mean? So this shows the midpoint price, at least at the end of the day, and this is showing a buck 62 and change for that option. If we did it five times, then that would mean that we outlaid 815 bucks.

(00:21:12):

This is just a simple naked call, and so there's no more complicated picture of risk when you're just owning the options like this. So 50% would mean if your p and l goes up or down 407 bucks, then it would be time to exit if you wanted to hold to this strategy the way it's written. Also, the backtester tests using data at the end of the day or just a few minutes before the end of the day. So if you really want to be as true as possible to how this is simulating the market, then you'd wait towards the end of the day and see if all these conditions are still true.

(00:21:52):

If you don't want to set a stop and a limit, and if you're at your job and you don't want to be staring at the screen all day, you might ask, well, do I really have to set the stop and limit or is it a good enough trade on its own? It's a good question. So let's try. Let's say if we set the gains and losses, the stop loss stuff to zero, then it won't apply it. And what happens with this trade if we set it to nothing? Ouch, we go from a nice solid winner, I think it was four and two to zero wins and four losses. So I think there's a great and perfectly valid thing to do. You can check deltas, you can check stops and limits. You can definitely do your own testing, make it fit your own ideas and the way you like to trade. Maybe you want to set up bigger stops and limits, maybe smaller, but using the tool you can say, Hey, is that a good idea or not? Should I let the trade go? Should I let it ride? Or do I need to exit this thing and take a profit or take a loss early on?

(00:22:59):

And in this case it's telling you a so single, you should probably use some stops and limits. You don't want to just let this thing go to expiration without having some of that in there. Okay, so now you've figured out when this thing triggers, you figured out what to trade, how to get into it, when you should get out of it according to the strategy that we've created. What if you want to dive in and get deeper on the philosophy of this trade? What's really behind it and why every single one of these trades has a little question mark. It's kind of faint and hard to see, but if you click it, it's going to pop open more information about this specific trade. Most of them have a really high quality video that goes deeply into when it triggers what's happening in the market, what that dip looks like, how we measure the dip and looks at some historical performance and why it's done well. So we definitely encourage you to dive in and look at each one of these, and we're also going to be having additional help sessions pretty much on every strategy on the today tab. I think we're going to go through piece by piece.

(00:24:11):

Some do have passwords, so if it has a password, please do make a note of that. You'll have to enter the password. Some are too proprietary. Okay, so something else that we added recently is this AI signal, this little AI with a flag. So what does that mean? If you see this little AI star and you might see the strategy without it and the strategy with it in this case, the results are the same, which just means that the signal was the AI signal was also triggering every single time. Many times you'll see there's a difference where you have fewer trades with the ai, but that the results are better.

(00:24:58):

So what that little AI means is using machine learning, we've come up with our own proprietary version of what SKU and kurtosis are, which essentially means skew is when the stock moves, it tends to move to the upside or tends to move to the downside more often, and the kurtosis is how often it makes those jumps. We are calling them SKU and kurtosis, but they're actually a little more involved than that, and that kind gets into some of the heart of what makes it kind of special. The secret sauce in there, we have put at the top of the screen our proprietary versions of SKU and kurtosis that you can just see and make sure that they're still active and valid in all of that. So those are there for your ability to see them, but just know if you're just trying to look at skewer ketosis in the most basic way, it's not going to be quite the same way that we do it. We have found truly excellent results from these trades when using the skew and kurtosis data. I personally, and again, I can't make any recommendations to anyone, but I personally am trying to take as many of the today tab SKU and kurtosis trades the AI trades as I can because that's just really performing extremely well right now. So I also, I'm a software engineer. I have a very busy day, but I set alerts on the today tab and try to take as many of those traces as I can.

(00:26:27):

So a question that comes up is, let's see, so I only see this macd momentum. There's only three tickers here. Does that mean when you set the technical conditions, there's only three stocks in the entire market today that met those technical conditions? That seems unlikely that's not the case. We put a bunch of additional filters on these to make sure that the strategy has performed very well, not only across the board but in the specific stock. So we test different timeframes. As an example, I said the win rate in the one in three years has to be greater than 50%. We need a certain amount of return, so we want to see at least a 15 20% ROI. We also test a bunch of other timeframes, so for each strategy, we've kind of tweaked and customized for that particular ticker. What makes this successful? Many times there could be five different criteria.

(00:27:33):

There's five year back test, there's 10 year back test, so there's a lot of different things that goes into this. We make sure that there's a minimum number of trades because if it only on a five year back test, if it only has one trade, yeah, that's a hundred percent winning percentage, but we don't consider that enough of a track record that we would feel comfortable saying, yeah, this is something that you might want to think about trading. So there's a bunch of criteria that go into it and we are filtering on a select few that seem the most valid and most interesting. From a backtesting perspective, you might say, well, okay, so you have set a bunch of criteria, but I like doing the macd momentum trade. I clicked here and I watched the video, and I think it's a great trade and I think that I'm more interested in just what the results of the last five years are like, because I don't think the last six months or year is going to be what the next three or six months is going to be like, what if I want to do some version of my own?

(00:28:32):

Wonderful. Really the backtest, the today tab is really just to kind of an entree into what this tool can do, and so let's just dive in and do that.

(00:28:52):

So we're looking at this MACD trade. I'm going to click it and that's going to pull up a custom strategy. This is one of the more advanced ones that just says that it couldn't open on a certain day. The more legs and the more if you have three legged strategies, et cetera, then sometimes when it's looking for a certain delta at a certain timeframe, et cetera, it just can't find it. So it's just letting you know, okay, so you see this funny name. It says it's a 50 20 diagonal. Maybe CS is something that you're familiar with that terminology, maybe it's not. So I want to just take one second to show you on the, if it's not one of these strategies that's prebuilt here, you can click edit and dive in to see exactly what the strategy is. And so this is showing you it's a custom strategy that we've created and it's doing a diagonal call, spread a 50 delta at the money that's 60 days out and then selling one 20 days, 20 delta that's 30 days out.

(00:30:02):

So something that's going to expire more near term, got to gain it back, but it's going to keep rolling this as often as it comes true. So that's the strategy from the back test link. But what if you're interested in five years and what if you're not just interested in GDS, but what if you want to test the entire NASDAQ 100? Well, you can test all kinds of different sectors and industries and ETFs here. You can create your own portfolios. You can do new baskets of your own favorite stocks. You might be a subscriber to CMO Pro. You might just want to enter top pick stocks in here so you can do anything that you want to, and you can see that this is running relatively quickly, and that's because I'm a platinum user, which means I've just paid for a year of my service upfront.

(00:30:57):

It lets us buy servers a year at a time on Amazon, which gives us a nice discount so we can kind of give more server more speed to users that are able to do that. We also give you a little break little price break as well because it just kind of helps us. So it's going to go through and test the entire NASDAQ 100 and it's doing just a few a second. I have the results in another screen, but it just completed and now these are all of the results over their five-year timeframe, and if you want to say, look, I want to do my own criteria. First of all, you could go in here and you could set stops and limits or you could put technical closes. You can modify and adjust this to your liking. You could edit it and you could change it to a 30 delta call spread or anything else you want to do.

(00:31:44):

Once you've done that, you can start searching by the biggest returns. That's a nice return, seven 52%. You could look at the average trade return, so you can get in here and start izing it, and then you can set your own alerts just by going down and clicking these results. Anytime you click on an individual result, you can dive down and see every single trade, so you can really go deep. You can download it, you can copy it and just analyze it as deeply as you want to really understand the strategy thoroughly. But after you've selected whichever strategies that you're most interested in, you can click add alert, and it's going to create this share link, and that share link is going to be the strategies that you just selected. Here's that QA 50 20 spread, and so that's going to pre-select those for you, and you click add alert, and now from that point forward, you are going to get alerts on those strategies delivered directly to your email or to your phone number so you can really own it and start to customize it yourself.

(00:33:12):

Okay, well what if you're not quite ready for that? That might be something that you kind of get into over time, but at first you're just like, Hey, I picked one strategy. I picked buy the dip. I get it. It's buying a call. I understand it. I watch the video. I understand when it happens. It seems like a good strategy. I just want to know when there's new ones of these. I can't just be staring at my computer all day. You come up here, you click set today tab alerts, and you can do exactly that. You can say, Hey, I just want to do buy the tip, and I only want to do it if it's a pretty large company, one of the largest 500 stocks by market cap, and I want you to email me throughout the day. I have time during my day to check one or two strategies that you send, and I'll pull it up on my brokerage account and I'll see if I want to trade it or not.

(00:34:06):

You click save and there you go. Now you'll get emails for those specific strategies sent to your inbox. Then yeah, you can click on it and have a look. You can see if there's liquidity warnings on it. That can happen. It can give you liquidity alerts if it's the case, or you can look at the options montage and say, Hey, this is super wide. I might be able to get in, but I might have a hard time getting out. I don't want to mess with it. Or you can say, this thing looks great, I want to buy it. It will also tell you if you subscribe to one of these things, it will specifically say in the today tab alert email that you get if it's an AI trade, and so if you only want to trade the AI trades, you just go ahead and subscribe to all of them and then just look in your email.

(00:34:50):

If it says ai, those are the ones in the future. We might have an AI filter, but we haven't added that yet. Okay, just a couple more little things to notice underneath this, we have this kind of stock notable technical breakouts. This is pretty similar. It's just stocks that have triggered based off of holding a stock for 22 days and then closing it 22 days is basically the average number of trading days in a month. That's why we ended up with 22 days. Same basic concept, when you click one of these, it opens a stock back test, and if you ever want to see the conditions, you can just click this and open it. It'll show you the exact conditions that make that true.

(00:35:31):

Finally, down here there's a little earnings calendar, and we're not in earning season right now, but this is pretty helpful to see what stocks are coming up if there's things that you want to trade and earnings. You can also set your own alerts for earnings and things coming up, and something I like to do when setting alerts. If I'm going to, let's say if I have an earnings trade, I'm going to hold for 14 days or something, I go into the calendar and I set an alert to close a trade, so I might just say, if I know when the next earnings is, I could say for a certain stock and say on a calendar day, either you set before earnings or if you just want to hold something for a week and sell it, I just set this and say Close apple or whatever the thing is, I can add an alert and just sends me a little reminder to close it on that day. Heck, you can send yourself text alerts for things in your private life. You get unlimited alerts in the alerts thing. So yeah, if you just have to pick up your cleaning from the dry cleaner, feel free to set a calendar alert in there. It's a pretty handy little tool.

(00:36:31):

So that's the today tab alerts. You can set as many as you want. Okay, so we spent quite a bit of time trying to determine if a trade was currently active. We had to drill down into the stock. We had to look at all of the technical conditions to see if the stock was still above this line and below that line. It took a lot of brain power and it took some time, and then we had to go to the options montage. We had to look at the expiration, we had to look at the delta, and there's more complicated scenarios where there's an earnings event where you're trying to make sure that you have the earnings event, so the stock, the option has to be expiring after the earnings event. So there's a lot involved in that, and it puts cognitive load on you to have to take 15 minutes out of your day. It's both time and just brain power. It's not just something you can do on your phone on the side real quick. You have to really study it, and it's a lot to ask people to stop in the middle of their day and do that kind of stuff. So let's go back to the trade that we were looking at in Jack in the Box. What I'm about to show you is not available to everyone yet, and we spent a lot of time analyzing this trade to see if it was still active on the day.

(00:37:55):

What if it could just tell you what if it could say it triggered as of right now and that the trade is to buy 5 85 calls no longer Delta, just 85 strike calls for the Feb 16 expiration, and that gets even more helpful the more complicated the strategy gets, because if it's a custom strategy or call spread, it might say it'll tell you each one to buy, showing you that as the delta goes up. There's not a lot of strikes here, but you can see that once you're at the 20 delta, then that'd be the 95 calls and the 30 delta would be the 90 calls. All of these are because it's a 50 delta call, all of these are for the current options today are buying the exact same strike. I click this little settings thing if I want to say, okay, what if I want to look at really deep options?

(00:39:07):

You can see this is buying now all the way down to the 70 calls, which would be the closest to the 90 delta. 90 delta means it's very in the money, so we're really excited about this feature. We are planning to release it in about 10 days and we hope that it makes using trade machine a lot more fun and you can use your mental faculties to do lots of other important things in the day other than staring at options chains. Now you can just confirm that this is indeed the tray that you would want to take, but that's coming soon. Alright, with that, we would love to just dive into some general questions and answers.

Max Katz (00:39:52):

Beautiful, beautiful job. Let's see if I can turn my camera on from the top. Besides all the good evenings and the hellos and thank yous, at what time during the trading day does the back test capture the option pricing to generate its results? Do you want to answer these or you want me

Jason Hitchings (00:40:18):

To? Yeah, I'd be happy to answer that. Yeah, so on the back tester, it's using closing stock prices and closing option prices or just a few minutes before the close because the options are a little more liquid. If you've ever watched options oftentimes 20, 30 seconds before the close, a lot of algorithmic traders and market makers, that kind of stuff, they don't want to get stuck with a position that they can't, if someone sells 'em 5,000 calls right before the close, they don't want to hold it overnight without being able to sell some other calls against it or something, and so they make their market very wide the last minute or two before the market closes so that, yeah, if someone sticks a 500 lot trade on them, they know they're getting paid to take that risk. They're not collecting a penny of however they're calculating their edge, they're not collecting five or $10 to take that huge trade on overnight.

(00:41:11):

They're going to say, okay, you're going to have to pay me thousands of dollars of edge in order for me to take that big trade and take that risk. So they oftentimes make their markets go wide at the end of the day, and so oftentimes the very end of the day prices end up a little wide, and so we use prices just a little bit before the end of the day for both stock and options for the historical back testing. That's also when lot of the volume happens. Most of the volume and trading happens in the first 20 minutes of the day and at the last 20 minutes of the day. If you're ever watching an inner day chart, you might see that towards the end of the day it really starts jumping around and that's just the nature of the beast. A lot of different firms, shops, humans, individuals figure out what they want to do and they kind of are waiting for the opportune time over the course of the day, deciding at the end of the day if they want to take the trade or not.

(00:42:00):

So historically, it's using end of day prices, but to see if things are triggering for the alerts it we're using intraday stock prices. So we are taking this Oracle data and then we're tacking on the current stock price within the last 5, 10, 15 minutes and saying all these technical conditions true for simple moving, average, all that kind of stuff. So we're doing all the calc by appending that most recent stock data, when things trigger in trade machine alerts, trigger alerts are triggering based off of the stock data and the stock earnings data. They're not triggering based on the options data. For instance, currently the backtester doesn't say, Hey, if there is increased open interest in the options and the 85 strike call for February, I want to buy it currently. That's not the way that the back tester works. The back tester generates its signals off of the underlying security, and then once you have your signal, then you decide how to trade it.

(00:43:11):

Now, many times with the strategies that we've created, they come with a trade, they come with a buy a 50 delta call or buy a call spread or bio diagonal or sell a put spread, but that what to do next is independent of the signal and the signal is based off of the stock technicals and the stock earnings is basically the whole thing. One other thing to consider is that there could be a strategy on the today tab that says, buy this thing and hold it for 30 days and only sell your call if it goes up or down 50% like we just looked at with Jack in the box. The today tab is not factoring in if it said that that thing triggered seven days ago. It doesn't know if you took that trade seven days ago or not. It's approaching everyday new and it's saying if you have no position, now is a valid time to open a position.

(00:44:07):

If you already have a position, you could decide whether you want to place a trade again or not. If it bounces down below, if it crossed above the 200 day moving average, you decided to take a position, then it dropped below and then it dropped back up again. That trigger can go off, but it's not paying attention if it triggered two days ago or not. Each one is fresh, so it's up to you to decide if you want to take the position based off of the positions that you have. So yeah, don't be confused if it triggered four days ago and it says, Hey, this thing triggered today, but I thought I was supposed to hold this thing for 30 days for the alerts and for the today tab, it's assuming it's approaching, it's looking at what the historical performance has been, but then it's saying, Hey, if you don't have a position, now's a perfectly good time to get in,

Max Katz (00:44:56):

Right.

Jason Hitchings (00:44:58):

Long-winded response. But the final piece of it is what I just showed you about the options, which is not in the product yet, but where it actually says this strike this delta, et cetera. That is based on intraday options data, and that will be the first time we've ever had intraday options data in the product. So before you place the trade, you should definitely look at your brokerage and look at your options chain and make sure that the numbers line up and the deltas make sense and the stock didn't move radically since that options chain data was printed, but that should really speed things up for you. So that's the first time that we're providing that in that form to users. Also, when you click this show options chain, that also is showing the intraday options data about 15 minutes delayed, but that's coming from the CBOE, so it's very solid.

Max Katz (00:45:44):

Cool. As far as the current day, this is not a question, it's just me amplifying very quickly. I usually wait until three 30 to 3 45, evaluate if the alerts are still valid at that time, and then make my decision and my trading software if I want to take the trade or not. And I was under the impression that for the current date data, you are capturing the results at around 3 45. Is that too early or is that about

Jason Hitchings (00:46:21):

That's about accurate, yeah.

Max Katz (00:46:22):

Okay, cool. For the technical parameters, does the back tester use closing prices or current prices for whenever the back test was run? So you're going to get the alert based on that day's prices. The back test of historical results is going to use the historical prices on the day that you're back testing or the start between the start and the end date that you're back testing. Do you want to add to that?

Jason Hitchings (00:46:59):

Nope, that's good. Okay.

Max Katz (00:47:01):

All right. Just feel free to jump in. All right. We have a quick pattern fire into question. When can we get a dark screen choice? Very hard on the eyes currently?

Jason Hitchings (00:47:15):

Yeah, that's fair. Definitely email support if you haven't made that request. If we get enough requests, we'll get that in. We just had this big release on trade machine and so I know that's something that people have wanted for a, I don't have a date for you, but we'll try to get that out as soon as possible.

Max Katz (00:47:32):

Alright. Along those lines, Jason, can you possibly make the text and trade machine darker so that it's easier to see? It'll also be nice if the font was larger. Us older folks have trouble reading the text as it is presented. Thanks. Do you want to highlight the dark mode?

Jason Hitchings (00:47:56):

Yeah, we could see if the, in case you don't have the dark mode. So yeah, I always thought of myself as pretty spry and young, but I will say when I'm working on my laptop, I have to push it a little further away these days than I used to, so I feel you on that. Let's see what's going to come up here. So in case you don't know, and in case this helps this little moon up here, we'll switch to dark mode, which depending on your settings and that kind of stuff, depending where you're seated could help. I'll show you one other thing. I'm going to be pressing

Max Katz (00:48:43):

The dark mode. Definitely helps me. I just wanted to interject for a second.

Jason Hitchings (00:48:46):

Yeah, thank you. So there's something that you can do, which is beyond, I do think we could do better with contrast or having a really high contrast mode that's even beyond the dark mode. I think we could certainly look at that. I want to show you something that you may not know, and what I'm going to be doing is I'm going to be scrolling up on my mouse wheel while holding the control button on my laptop, and if you're on Chrome, this should work. I hold control and I do this. It makes everything huge, so your browser has an ability to zoom in that you probably are not using. You can zoom back out this way, but at this stage, and it should still, things might get a little chopped off. You can scroll in or out a little bit. You can also try reloading the page once you've zoomed in a little bit, but now things are pretty big, so let us know if that helps.

Max Katz (00:49:54):

So it's holding the control down and then using the wheel on your mouse

Jason Hitchings (00:49:58):

And every time you go in or out, you can see it's Justin's zoom. Actually, I could tell sometimes I do the shorthand so often I forget how to do the other thing. That little zoom button started showing definitely inside of settings. Here's the zoom. This is going to be easier, so the dot.dot gets you settings. Then you can zoom in this way. So I hope that helps let us know if it doesn't. We always want to make the product easier for everyone to use.

Max Katz (00:50:27):

Alright.

Jason Hitchings (00:50:29):

Oh, you know what? I'm sorry. I thought I was sharing my screen. So you

Max Katz (00:50:32):

Yeah, well I saw it.

Jason Hitchings (00:50:34):

Okay, good. I don't have the green box around my screen, so then I thought maybe no one was seeing it, so that would've been a very verbose if you weren't seeing my screen. Okay, I'm going to stop sharing.

Max Katz (00:50:43):

All right. All right. A well established liquid ETFs included in the universe being drawn from the strategies as shown in today tab.

Jason Hitchings (00:50:58):

Generally not. They're generally non ETF stocks. Well, we do. We do backtest them, so you might see them appear, but if you want to do your own, we definitely encourage you, click one of the links, bring it over to the back test tab, and then click portfolios and then choose. We've included about eight or 10 big ETFs in there, X-L-F-X-L-U-D-I-A, et cetera, et cetera, Q, Q, Q. So you can definitely create your own or create your own basket if you're not seeing what you want in there. We really encourage you to create alerts for yourself that really customize it, make it your own,

Max Katz (00:51:42):

Especially

Jason Hitchings (00:51:42):

If you're a platinum user, then that stuff happens. It's very quick to backtest that kind of stuff.

Max Katz (00:51:47):

Yeah, I do a lot of personal back tests with SPY Q-Q-Q-I-W-M-A number of the crude oil ETFs, gold ETFs. It's very easy to create a portfolio or to just enter these symbols and do whatever kind of back test strategy you like. Okay. How important is the volume and open interest as far as being able to close the trade? This question's come up before I personally and Jason can tell us what he does. I personally hardly ever look at the volume or open interest for an individual strike an individual option. I look at the bid ask and if it's reasonably tight, then I consider that liquid enough for me to trade. So it's really how far apart are the bid versus the ask for the options that I'm interested in trading.

Jason Hitchings (00:52:57):

Yeah, I agree with Max a hundred percent. Ask yourself this question, would you rather trade something where the bid ask is a dollar or two at a dollar six with no volume and no open interest, or would you rather trade something that has 5,000 contracts traded on the day with 200,000 contracts open interest where it's a dollar at $2? Now if it's a dollar at $2, depending on your brokerage, you might be able to go back. You might see the recent trades. Oftentimes there is hidden liquidity more than the bid ask spread looks like, and if you put in a bid at a buck 50, you might get filled there. So I think that the volume and the open interest could give you hints about if there's ability to trade more than the bid ask spread looks like. But I think the gold standard is a tight bid ask because the chances that you're going to take all of the volume available on the bid are on the offer is very small unless you're trading 500 lots.

(00:54:06):

So if you're trying to do a five, 10 lot 20 lot trade, the bid ask is going to have plenty. It's going to tell you all the liquidity that you need to know, and the chances are now if there's one, if you're looking at an option montage and you see everything is a dollar, $2 wide and the one strike that you're looking at happens to be very narrow, there could be a person who is putting in a bid and slowly ticking up their bid over time because they're trying to get in or out of a position. So you could see one strike that's very tight, and if the rest are super wide, then yeah, it could be that you get into this trade now, but it's hard to get out of. But if you look down at options montage and things are 4 cents apart, a nickel apart, 10 cents apart, up and down, then the volume and open interest are almost secondary.

(00:54:55):

That said, you can always, whether there's any open interest or not, you can always try to get an aggressive fill and see if that works for you or not. Even if things are very wide, if there's not a lot of volume or open interest, but if you are filled, you might have to accept the possibility. That could be a little bit harder to get out of the trade at a price that you like. The chances that you're going to have to hold it through expiration are higher. That said, at expiration, if your option ends up $2 in the money, someone's going to be happily buy it from you for a dollar 95.

Max Katz (00:55:30):

Yeah,

Jason Hitchings (00:55:31):

Those are some considerations.

Max Katz (00:55:33):

Yeah. If I've seen, if the bid ask is relatively wide, put your limit in where you'd like to get built and you just let it sit there, you might modify it as the underlying stock moves, but perhaps someone needs to unload what you want to buy or the opposite. But in general, if it's wide getting in, it's going to be even harder to get out by factor of at least five, and it's going to take away from your potential profits. You want to get out of the position making money or you're losing a certain amount, and if it's a wide bit ask, it's just going to exaggerate those conditions and lessen your profit. At least that's what I've found.

Jason Hitchings (00:56:21):

No, I definitely agree with that. Something if you end up with something really deep in the money, you have some calls that really do great and you can't get out very well. You would, it's more advanced, but you would have the possibility of selling a certain amount of stock against it so that if the stock goes down, you kind of lock in your profits a little bit. If you have 10 contracts that are deeply in the money and they're super wide getting out, then if you sell some stock to kind of balance it out, it's a little bit more of an advanced topic, but you can use the delta to kind of tell yourself approximately how much stock you'd have to buy. If it's 90 delta, then you basically need to get 90 shares of stock. If you're long calls, then if you short 90 shares of stock then going to be, it's no longer going to matter to you whether the stock goes up or down the next dollar of the stock movement, you're going to make it in the calls and lose it in the stock or vice versa. So that's called being Delta neutral. So you can make yourself Delta neutral that way, but the Delta changes constantly, and so it takes a lot of active management to do that. It means that going on every day and adjusting your stock position, that kind of stuff, it's a lot of stress and headache, but if you have a winner that's 20,000, made, $20,000 on a trade, it's a huge win, but you don't want to lose $4,000 getting out of the thing. You could do a little research about that.

Max Katz (00:57:42):

You just have to balance that with the short stock fee that your brokerage firm is going to charge you.

Jason Hitchings (00:57:51):

Yeah. But that's a little bit of a more advanced topic.

Max Katz (00:57:56):

Alright. Will you be integrating Trade machine into a brokerage like Toss or Tasty Trade?

Jason Hitchings (00:58:04):

Yeah, thinker, swimmer, tasty Trade, we've had interest expressed in us to do this. The first step that we're taking is just making it a lot cleaner for you to see exactly what strike and expiration to trade. Fyre and I ran a company that started a brokerage back in the day, and the closer you get into the brokerage, it just ends up, it just opens a lot of cans of worms and for us to kind of move really quickly, develop new things, keep it fresh and exciting, just we have decided so far not to take that direction to be more agnostic with a brokerage, but that could certainly change. But no plans to do that currently. And I think with this new feature, it'll be a lot easier whether you're trading on Thinkorswim or TA Trader or Schwab or anywhere else to get your trades placed really quickly and easily.

Max Katz (00:58:50):

Alright, fantastic presentation Jason. Thanks for the technical look and explanation. Good to know. You can also take trades from the alerts. Great. Alright. Now There's a personal comment here. I don't know if you're seeing these, Jason. I haven't

Jason Hitchings (00:59:08):

Looked yet.

Max Katz (00:59:09):

It's a good thing Max is wearing a tie, otherwise he would just be a floating head.

Jason Hitchings (00:59:14):

Yes, I had the same thought.

Max Katz (00:59:16):

Thank you very much for that feedback. How do you use your skew and kurtosis are the extremes in these strategy by itself,

Jason Hitchings (00:59:29):

I think it's definitely worth testing. They're going to happen less and less. You're saying I only want to look at things where a SKU is above 10 or the kurtosis above 20, theyre going to be far fewer trades. But I do think that even though they won't happen a lot, you could place a bunch of alerts. You could put alerts on the entire NASDAQ 100 because they might not trigger often, but they might be extremely profitable. So I would definitely say dive in and backtest things and when we come up with the numbers that we're using, we also are conscious of the fact that we want it to trigger relatively often. I mean it's a balance. The AI triggers right now trigger less often than the exact same strategy without the ai. But I do think that if you push those numbers more, you might get more edge out of it. So I definitely encourage you to do that.

Max Katz (01:00:15):

Right, and if you look at the back, the strategies that trade machine is using currently, they've been back tested thousands of times. So you can use those values and try and apply them to a custom strategy that you may have. So it's a good thing to look at all the AI strategies and see what those conditions are for ketosis and sku.

Jason Hitchings (01:00:45):

Alright. It's a good, sorry. Place. Like Max said, all of the strategies inside of the trade machine, we've done thousands and thousands and thousands of back tests against, and so at least when we generated the strategies, they were excellent strategies for that time in the market. So it's a good starting place.

Max Katz (01:01:02):

Okay. Speak very quickly. Speaking of skew and kurtosis, someone asked in community today to ask because they could not attend, is there a way that you'll be able to see the historical values of skew and kurtosis for a stock, even if it's on a graph or something like that?

Jason Hitchings (01:01:21):

Yeah, it's a good request and we'll probably get it in there. The SKU and kurtosis are relatively new and we haven't charted them out yet, but we'll probably get there.

Max Katz (01:01:32):

Alright. Okay. We're at eight. Do you have a few more

Jason Hitchings (01:01:36):

Minutes? Yeah, let's give it, I was kind of long-winded in a couple of my answers, so yeah, let's try to turn through some more real quick.

Max Katz (01:01:41):

Okay. Is the bottom of the today tab a replacement for stock trade machine from three years ago?

Jason Hitchings (01:01:51):

The bottom of the today tab replacement? Yes.

Max Katz (01:01:54):

The second part before the end,

Jason Hitchings (01:01:55):

Basically what we promised all of our trade machine users, because trade machine with options, it's a more data intensive, more complicated product is that we said to the current trade machine members when we include major features in stock trade machine, we're going to also include them in option trade machine. So there are some users that have both products, they just kind of like the flow a little bit different. But yes, we included those to kind of reward our longstanding members for being members of trade machine.

Max Katz (01:02:30):

Okay. Duplicating triggers. So if something happened four days ago and it's a 30 day trade, but it happens four days later, that used to not trigger if there was an open position

Jason Hitchings (01:02:45):

On the back test tab, the back test tab keeps a running current position, so the back test tab will not trigger multiple times. If it doesn't close, it's not going to open the same position multiple times for an options trade, for alerts and for the today tab, however, it will assume that you have no position and that it will trigger every single time.

Max Katz (01:03:09):

Got it. If I see the charts are very bullish and you're at 50%, I assume that's 50% profit by staying in the trade, are we going against the back test? Should we retest or stay in a little based on the charts so you are not following the guidelines of the back test number one, that's not necessarily a bad thing, that's your personal decision. You could do another back test without that limiting condition or what I will do sometimes is I will take off a significant amount of my size and maybe I'll leave 1, 2, 3 runners

Jason Hitchings (01:03:52):

On. That's how I like to do it too.

Max Katz (01:03:54):

Yeah, okay. I

Jason Hitchings (01:03:55):

Got trained by a floor market maker and that was something, one of my very first option trades back in 2006, 2007. I'm like, Hey, I'm making some money, should I sell? And he's like, sell half. I'm like, that's great. I love to be able to sell enough to lock in a small profit. Maybe I lock in 10, 20% on the trade, but maybe I leave three contracts open where if it takes off then I do great. I feel so much better and so much less consternation about do I sell the whole thing or not. When I can take a little bit of profit, I can lock in a winner no matter what happens, I have a winner. And then you're kind of playing with house chips at that point, so I love to do exactly what Max said.

Max Katz (01:04:32):

Okay. Will part of the intraday data include implied volatility or things like implied volatility rank or percentile?

Jason Hitchings (01:04:43):

So the implied volatility is used to come up with a delta. So the delta uses that in some sense we may bring back implied volatility intraday into the products. We are actually sourcing it from SIBO and they kind of pulled that product altogether. I've generated my own intraday, implied volatility into see that I can do it if I need to, but we lost our vendor basically on it and we asked our community if that was a big deal and most people said that they weren't using it heavily. You can use the VIX as a proxy. I know it's not the same, but if you want to know how the market volatility is doing, you can look at the VIX and if that's something important to you, please email support. We take those requests very seriously.

Max Katz (01:05:28):

Okay. Yeah, I found it very helpful, but I guess I was in the minority. I mean even if it's just IV rank, which is a very simple calculation, it would be very helpful. I mean, I have it in my trading software anyway, but just for alert generation and back testing strategies, be good to have. Very nice presentation. Lots of help. Thank you.

Jason Hitchings (01:05:56):

Great.

Max Katz (01:05:57):

Could you please demonstrate how one can look at a backtesting at a portfolio level, say risking 5%, 1% or 2% of an account over one or two or three strategies? This is a very complicated portfolio.

Jason Hitchings (01:06:18):

Yeah.

(01:06:20):

Yeah. I think that would be, there's a really, really, really great option speculation webinar that PHE gave on the learn tab where he takes two different trades that he builds up over the course of a year and he walks through them and each trade were seven figure winners. So they're huge wins for him. So it's really interesting. It's on the learn tab under option speculation webinar, so that would be a good way to look at a real world example of diving in deep when it comes to a portfolio. I mean, I think you should have your long-term investments and you should have the stuff that you want to take shorter term, more riskier bets with is how I would approach it. I mean, we can't give advice. I'm not giving advice, but yeah, I have my long-term stock investments that something like CML PRO is, I personally find super helpful to help me create those. And then I have, yeah, I might take five or 10% of my account and be willing to take some buy out of the money calls that I know I might lose. I lose $2,000 on a trade, but that's not my retirement account.

Max Katz (01:07:26):

Yeah, excellent. I think this person wants to take it a little further and is looking if there's a way to backtest an overall portfolio at different levels of involvement of different components which trade machine doesn't currently have

Jason Hitchings (01:07:48):

I portfolios obviously, and you can put limits and that kind of stuff, but yeah, it's not going to look at your overall, it's not going to say I have a $200,000 trading account and I want to deploy maximum $20,000 in option trades. What are the best couple to take? I mean, I think you can kind of piece that together yourself, but that's not the approach that trade machine takes. It doesn't do those steps for you right now. It take an Excel spreadsheet and some consideration.

Max Katz (01:08:27):

Okay, it's 8 0 7. We'll make this the last question and then anybody else who has still has questions, bring 'em to community. I'm there every day. If I can't answer it, I'll get the trade machine team to tell me the right answer. Is there a way to save dark mode as your default versus having to click on the icon every time you went there? I don't know. I clicked it once and I've got it every time.

Jason Hitchings (01:08:58):

Yeah, that should be saved as kind of in your local storage. So if you've disabled local storage on your browser, then it won't save, but otherwise it should.

Max Katz (01:09:07):

Okay.

Jason Hitchings (01:09:09):

I see the question. What is trade machine written in the backend is written mostly in C in terms of the language.

Max Katz (01:09:15):

Okay. Are you looking at the Q and as?

Jason Hitchings (01:09:18):

I just did. Yeah, I just,

Max Katz (01:09:19):

Okay. Alright. I haven't even gotten to those. Are the graphs displayed? This is the last question. Are the graphs displayed in trade machine always up to date or are they only updated periodically? Okay, this is for trade machine. When you get on a back test, the first thing you do is click three year test length. That will guarantee that the end date is today and that will also mean that your graph goes through today.

Jason Hitchings (01:10:03):

And if the end date in your backtest is today, then it will append the live stock data to the chart, in which case you'll be current on everything. The links capture a moment in time, so a link is going to also capture that end date. That end date, unless you created that link today or unless the scanner created the link today is not going to show today's date. We're going to put a little yellow flag around the end date just to highlight it so that people know that this backtest was up until a week ago or a month ago. So that's a little bit less confusing. But like Max said, if you press any one of the buttons at the top one year, two year, three year, it will update the current timeframe and then you'll, your data will be current, including your stock data.

Max Katz (01:10:50):

Okay. Alright. It's eight 10. We got a lot of thank you, Jason, for excellent presentation and we will call it an evening or afternoon in your case. All right. Thank you everybody. Everybody come visit us, come visit us and community.

Jason Hitchings (01:11:08):

Yep. Check out community and we'll send the recording out to everybody.

Max Katz (01:11:11):

Alright, you have a good night. Take care.

TradeMachine® Live Help 1-2-2024: What a Portfolio of Trades Is; What Effort Is

Ophir Gottlieb (00:00:02):

Thank you. Alright guys, welcome to Live Help for Trade Machine. We do this twice a week, Tuesdays during market hours, Thursdays aftermarket hours. Max is over there. Max Katz, a longtime trade machine member, seven years former option market maker, commodity option market maker particularly in sugar for almost two decades and he's also available in community every day trading day. Oh, I'm there every day. I am there every day. You have live help whether you like it by chat or video or whatever. My name is PHE Gottlieb. I am the CEO of capital Market laboratory, former option market maker on NYC, ARCA and sibo, former head of Algon trading, former hedge fund manager, former managing director, quantitative research for firm that was purchased by Morgan Stanley, MSCI, former trade structure with countrywide. Lots of things. All right, let's start the presentation and then we'll get to trade machine. I will share my screen. You can see that? Yeah, max? Yes, I can. All right, let's do it. This beginning will seem familiar to you because it's the same beginning, but this time I tell you why I start with the same beginning.

(00:01:38):

We will start with disclaimers. The results here are provided for general information purposes. As a convenience to you, the viewers, the materials are not a substitute for obtaining professional advice from a qualified person, firm, or corporation. This is not a solicitation to buy or sell any security, nor is it ever. This is not advice and past performance is not necessarily indicative of future results. Okay? So I'm going to go through the same intro I normally go through, but this time it's going to be a little bit more meaningful. I certainly hope so. I'm putting my glasses on. Ah, the screen is suddenly so clear. To be a successful trader, you need to focus in my opinion on the long arc of a career. Not Thursday, not January, not this week, not in six months, not 2024. The long arc of a career, it's a walk. It's a walk. It's not a sprint. You need process, which in finance we call a plan and trade machine is built for this exceptionally, and I'm going to point this out in great detail later on in this presentation.

(00:02:42):

This is what trade machine is built for. And the truth of the matter is a processor plan simply means what to trade, when to open it and when to close it. And if we were robots, then this is all you would need to be successful trader. If you could magically have a plan, a process that worked, then you would be successful. You would have the long arc of a career. But we are not humans. I mean we are humans, we're not robots and this isn't enough. And why is it not enough? Because no matter how good of a plan you have, since you're not a robot, you're going to need patience. For some people this is easy. For some people, this is hard and it's really patience and not just your plan, but it's also patience in yourself. And finally, you will need effort. And the bad part about effort is that it will probably be harder than you think.

(00:03:29):

So I know that's not what you're supposed to say when you sell software, but it is what I'm saying this but top line, to be successful trader will be harder than you think it'll be. That's the bad news. The good news is therefore it'll probably be more satisfying than you think it'll be. That's just kind of how life works. So you'll get great satisfaction if you're able to attain it. It's just going to be harder than you think. So this little thing, so it'll do hickey, I always do. Okay, now I'm asking you to remember it. Just take a snapshot with your eyes. Okay, I'll bring it back. In the last sessions we looked what happens when a stock has dropped and may recover. So with one strategy, we did spread the sell off plus ai that was selling volatility, but it happens when stocks are basically in free fall.

(00:04:23):

The other one was buy the sell off, which is buying volatility, but it's also when stocks are in free fall and we did it across multiple sectors and then we said, okay, well that's when a stock has dropped might recover. How about when a stock has technical strength? Well then we did pre earnings momentum, diagonal call spread with ai and we did that in multiple timeframes and multiple sectors. So we have selling vol, buying vol and buying vol. And then the fourth strategy we looked at was when a stock recaptures technical failure, another different version of a market, I scrunch things up a little bit and now let's fade the dip. That's selling volatility. So multiple sectors when not to do something in multiple timeframes. Now I want to talk about this. This is what I call a portfolio of trades, but there's a reason I call this a portfolio of trades.

(00:05:11):

I don't call it a portfolio of trades because there's four number of trades. That's not why it's a portfolio of trades. In order for something to be portfolio of trades, it needs three characteristics. First, they have to be trades or setups that work in different times of the market when a stock has dropped and might recover. So that's stocks in free fall. When a stock has technical strength, stocks are going up and when a stock recaptures technical failure, so it's been bad and now it's coming back. These are different places where a stock can be, where a sector can be. The second thing we, that's not enough for it to be a portfolio of trades, by the way, that's not enough. The other thing needs to be a portfolio of trades is that they have to be different types of trades. And what do I mean by different types of trades?

(00:05:56):

The ones in green are selling volatility, and the way you're selling volatility roughly speaking is if you're doing a trade for a credit, this is for a credit, this is for a credit and some of 'em are buying volatility. How you know your strategy is essentially buying volatility. It's if you're paying for it, if it's a debit, buying the sell off is a debit, a pre earnings momentum, but diagonal is a debit. You'll notice that all four of these trades are always spreads because an option can only be hedged by another option and therefore each of these trades have a built-in hedge. They're still speculations, but they hedge some of the directional, some of the non-directional risk. That's not enough either for a portfolio of trades we're there. That's two, but you also need three. You also need it for different sectors. And the reason you need it for different sectors is because different sectors can be in different parts of the market, right? Some sectors can be recapturing, technical failure while another one is in free fall while another one is showing strength. This is what a portfolio of trades is. This is what a portfolio of trades is.

(00:07:06):

So broadly speaking. Now, guys, please go ahead and use chat to answer this question. What is this called? This portfolio of trades, this idea of looking at different types of markets, different types of trades, sell, involve, buy, involve, different sectors. What is this called? Just put it in chat. If you had a word or two words or a phrase, what is this called? I'm going to look at chat. I have to take chat. I have to take it out of full screen to see what you guys said in chat. Diversification a plan. I've got so see a lot. Well watch this. Flexibility. All true. I'll tell you what it is.

(00:07:46):

The reason we do this and the answer you will always hear Max and I say no matter what, you catch us at dinner, catch us at breakfast, catch us at the gym. It's risk management. This is risk management. When you're available to trade with different markets and you're available to have to buy involved and selling vault and when you're available for different sectors and different timeframes, this is risk management. If you are not doing risk management, then you're not trading. You're gambling and I know that on YouTube there's a bunch of videos of a bunch of platforms that say they have AI and all you have to do is follow them. It is just disingenuous and there's a part of you, I know there's a part of you that sees it and knows that it's not genuine. I know it. I deep down you're like, man, that's just bullshit because it does take effort, right?

(00:08:42):

Beyond the process and the plan, right? Beyond the patience, it takes effort and a part of that effort is this portfolio of trades. It's not just, Ooh, I got a trade alert, come on, come on guys, that it's not easy. Otherwise everyone would be a billionaire doing whatever trading sugar options or trading options and that they aren't, there are very few people who do this very well. You just know it. I know that you know this. Whatever your background is, it's just, it's inherent. We all have a bullshit radar. We're like, I don't know. So I'm not actually here to show you how to click buttons on trade machine, okay? I am a little, but in general, I'm not just here to show you how to click buttons on trade machine. That's what I've been doing with these four trades. Here's how you do it. I'll do it again today. I'm here and you are here to see why clicking the buttons on trade machine matters to you. It doesn't matter that I show you how to click the buttons and to set up alerts. The question you should be asking, and the question I should be answering is why do I want to click these things?

([00:10:03](https://www.rev.com/transcript-editor/Edit?token=&loadFrom=DocumentDeeplink&ts=603.88)):

If the answer is because you want to be profitable on Monday, that's not why I'm clicking on the buttons. That's not why I'm clicking on the buttons. So we don't make false promises and by we, I am speaking with the royal we. I don't make false promises. I share facts A, B, and C. These trades are set up for different markets, different trade types of different sectors. That's a fact. The results are facts, historical fact, right? Historical fact, and then I share analysis a bbc, I say, okay, what exactly is the buy the sell off and what exactly is spread the sell off? What exactly is the pre diagonal? This is analysis. And then from that I draw conclusions and those conclusions are completely subjective. They come from objective facts, intermediate analysis, and finally I draw my conclusions and my conclusions are, Hey, I like it when an entire sector has performed well over three years on this given strategy that I like to cherry pick the best performance. Those are my conclusions. You can feel free to disagree with the conclusions and the reason it's so wonderful is that even if you disagree with the conclusions, you're gaining value because I'm sharing facts.

([00:11:12](https://www.rev.com/transcript-editor/Edit?token=&loadFrom=DocumentDeeplink&ts=672.62)):

That's how you become exceptionally good. It's not because of a platform on YouTube that sends you winning trades. It isn't. Remember I said effort? There's two parts of effort. The bad part is probably going to be harder than you think, and the good part it is that's probably going to be more satisfying than you think because it's going to be harder than you think. This is what I mean on that first bullet point with effort. I know this is a PowerPoint slide with far too many words, lots of colors and all this is stuff you have to do if you really want to be a successful trader. I'm sorry I don't have a screen up. This says, all you got to do is click this button because it's just not true. It just isn't. But you can be a successful trader. You can. It just takes effort. Oh, fear. What do you mean by effort? I mean this becoming comfortable with the idea that you're pretty much always spreading. I said pretty much not necessarily always is a big word. I shouldn't have said always, and if you feel like, yeah, I just like buying calls or selling puts, I understand what you like. You're going to lose all of your money, so just skip the middleman because trading doesn't bend to what you like. You bend to trading because it takes effort.

([00:12:49](https://www.rev.com/transcript-editor/Edit?token=&loadFrom=DocumentDeeplink&ts=769.47)):

Are you willing to be flexible enough to instead of running away from the thing that's not familiar to you, to run toward it to say, you know what? I don't know what that is, a one by three by two. I don't even know what those numbers mean at that moment. Do you move on to the next thing or do you say, I want to know what that is. I want to know what that is. If your personality tells you that you want to know what it is, effort's going to be a little easier for you. Naturally cured. If your personality tells you, I don't want to know what it is, it's okay, it will just take a little bit more effort. You have to fight that inside. You fight that move to get away from something that's unfamiliar. Like, okay, I'm supposed to do this. All right, all right.

([00:13:42](https://www.rev.com/transcript-editor/Edit?token=&loadFrom=DocumentDeeplink&ts=822.25)):

This is the long arc of a career. You look at facts, you look at analysis, you take conclusions, you understand what effort means, and I want to be clear that just because it takes effort and it's harder than you think it will be. Never have I said, it's so hard you can't do it. No, that's not what I said. That's not what I said at all. You can do it and it will be more satisfying when you do it than you think it will be. It's just going to be a little bit harder, but why will it be harder because of this page? Because I'm not telling you that all you have to do is wait for me to tell you what to trade or some magical AI bot in the world, which probably isn't even using ai, and you guys know it. You know it, man it. It's in your gut somewhere.

([00:14:35](#)):

There's no easy way. I'm here to tell you that there's no easy way, but there is a way and trade machine can get you a long way there. Can't do it all. Trade machine can't make you do effort. The process, the plan, yeah, we can do that. Got got you covered. Remember I told you to remember a slide. It was this slide. This was the slide I told you to remember. To be a successful trader, you need to focus on the long arc of a career, not just a day or a month, not even a year, and it takes a process which I've been focusing on with our life help sessions, takes patience. I don't have a lot to say about patients and I know either you are a patient and it's easy or you're not patient and it's a little harder, so I can't say a lot about that. The effort part I've now expound upon today, that's what today was. Today was about what does PHE mean when he says effort? So

([00:15:42](#)):

Does this now make sense to you? All these things I say and ugh, I go through all these things and this stupid slide is at the beginning and I repeat it every time and I same words and oh my god, this plan and effort, blah, blah, blah. Do you guys understand now why I'm saying it now that I've repeated it, this is the fifth time and really gone deeper into effort. Does this make sense to you? Just you can report and chat and if it doesn't make sense to you just say no, I got an absolutely. That means it makes sense to one person.

([00:16:22](#)):

I got a yes, I was raising my hand. There's a three getting there. Yes, yep. So there you go guys. What you're doing right now, what is happening in your mind relative to just this? I'm not trying to make this bigger than your life. What you're doing is you're putting on effort. You're willing to sit here and listen to me, repeat the same thing and then go a little bit deeper Each time you are doing the effort, you are succeeding right now in this moment you're winning. This is what it takes and you are doing it. You are winning and since you're winning and since this is starting to make sense to you, then the truth is you've given me a great gift that I'm able to share what I know with someone else and they can understand it and I thank you, thank you, I appreciate it. Now I'm going to go into a trade machine. Next session on Thursday is going to be Jason doing a deep dive on the today tab, like he's going to go through the nooks and crannies. If you were going to a doctor, this would be a proctology example. He is going to go up there and show you things on here that you're going to be like, I didn't know that

([00:17:50](#)):

Because there's two ways to use trade machine. Well, there's three ways to use trade machine. One is what I did in the last four sessions and I'm going to review now, which is to use the back test tab, grab pre-made strategies, look by sector, look by timeframe, add the alerts. Those alerts are you made them. You're going to get, and it's going to be across a portfolio of trades. You're going to get either texts or emails or both, and that's your portfolio of trades. The other way is to use the today tab, which is naturally a portfolio of trades naturally, as long as you're not choosing just one box.

([00:18:20](#)):

The third way is to do both, to use a little bit of the today tab, tab and a little bit of your alerts. I think that's what most people do, but if what I'm about to show again is just not very tasty to you, okay, then that's the effort you don't want to put in. Don't give up on yourself yet. Let Jason talk about the today tab. Okay, that's next Thursday, so all I'm going to do now is go to the back test habit. I'm going to repeat what I did before but much more quickly. Fundamentally, this is how I use trade machine. Now I take a back test, so all I did is I clicked save back test as a dropdown menu. Everyone has these. If it's a CML in front of it, that means it's ours. You can add any strategies you want. You can have a list of 3,987 strategies if you want. It doesn't bother us. These are just the ones that everyone has and you can see the ones that have ai, they have this sort of asterisk AI and are more coming. Yeah, of course,

(00:19:17):

And the one I did last time and I started with was spread the sell off. So you just pick one, it doesn't matter. Choose the one you want and you just click load and just give trade machine a second, it's going to load a ticker and you're like, okay, it's spread the sell off, right? Okay, that worked. That worked. The backtest dates are actually saved, so you probably want to bring it to the current day, so I just click three years, that's all, and then I say, okay, let's try this on portfolios. You go to your portfolios. Every trade machine has these portfolios. You can add your own portfolios, NASDAQ 100, Dow 30, whatever you want.

(00:20:01):

You let it run. You check for two things. You check that the summary at the top which comes at the end is strong. That's what I like to do. I want to make sure that the strategy I'm looking at, whatever the strategy is, doesn't have to be this one is strong in the sector. If it is not strong in the sector, then I'm not going to do that trade probably in 2024 for that sector. I could do this trade for another sector and I showed that and fade the dip. I showed a fade, the dip, I showed that technology didn't look so great because it's been so volatile that it might have been underpriced. I'm going to go easy on fade, the dip for tech next year, this year I'll do it for other things. I showed it in healthcare, I showed it in financials, and then after you have that kind of first checkbox, then if you like, you look for the ones that perform the best, so let this load.

(00:20:49):

Just a reminder that if you're a standard trade machine member, so you're paying monthly, you get to do 50 tickers at once as a trade machine, annual member, we have a special name for it. It's called platinum. You get to do up to 200 tickers at once. It just makes this process a little faster. You don't have to, you each have the same power. Also, the back tests are faster for annuals because we can commit more to your account. With Amazon, we can prepay, which saves us a little bit of money, so the back tests are just faster for your annual. Having said that, if you're monthly, it's okay, you can do all of this. It might take a little bit longer. It's fine it it's not like you don't have the same program, so as we recall, this did really strong in technology. I start by average trade and I choose the ones I think that I want to know, right?

(00:21:34):

These are the ones I want to know. I'm just looking at the wins, the losses and the average trade. Just go down the list. That's it. Six wins, no losses. Here's Microsoft. Love to get that one on Microsoft. Just go down the list. That's it. When I've got the ones I want, I simply click add alert, and that's it. It's already loaded. You don't have to do anything. If you want, you can give yourself a note. If not, what you're going to get is this link. This link is those. That link is this and they just say whatever This is, spread the sell off and this is in the NASDAQ 100. That's just a reminder for me and you click add alert, that's it, and you try the next sector, right? I'm going to go a little shorter now, like the mega banks just, I don't think the mega banks are a sector, but it's fine.

(00:22:33):

You choose another sector, see how it does, check 'em, check another sector, check another sector. As many as you like. What I was showing was financials, technology and healthcare. They tend to be fairly liquid. Check, check, check, add 'em to alerts. Do it for at least four strategies. Why four strategies? Because we want a portfolio of alerts. Why the four strategies that I showed? Because the portfolio of alerts, those four trades are actually a portfolio. You're buying vault, you're selling vaults for a bear market, it's for recovering market, it's for a bull market. I just happened to choose those four because they make a portfolio of alerts. They don't have to do 11 help sessions and show you 11 different strategies, and it's not an accident that those four also have our AI built in because I know that with those four, I have a portfolio of alerts.

(00:23:22):

Then you check the next strategy, fade, the dip with ai, load it, let trade machine load a ticker, bring it to three years and off you go, right? We'll just do the mega banks just to make it shorter, but okay, it's only happened five times in three years in these mega banks. Four times for Citi and one time for JP Morgan. Then check, check, check what you want to get alerted to. That's it. That's it. Now, if this is too much effort for you, okay, we each have what we can and can't do because of work. Next session Jason, Jason is our cto. He is also the one who created a trade machine. He's going to show you the today tab where it's all done for you. You don't get personalized alerts on the today tab, although you can a little, you can a little, but if you don't want to go through this process, probably takes half an hour or an hour as a trade mission member when you start, probably takes about half an hour to go through those four strategies or whatever strategies you like. Go through three sectors, check, check, check the ones you want, add 'em two alerts. If you don't have the half an hour to add, okay, who might I judge you? I don't judge you. You're the only judge of you that matters. Anyway, so that's it. This was simply a review to make a point.

(00:24:45):

Then I didn't just choose these trades for fun. This is very much on purpose. This is very much on purpose. One thing you can trust of me is if I'm going to take you on a journey, I know where we're going. I know where we're going. I plan. I plan. I'm good at planning because being a successful trader required the first PA plan process. You can rest assured I'll do that for you. Whether or not you'll like what I have to say. I can't promise you that. Okay, that's it for the formal presentation. We can take q and a tomorrow, sorry, not Thursday is going to be the today tab and now if you have any questions, please feel free to ask and Max will be happy to answer.

Max Katz (00:25:40):

Beautiful presentation, beautiful outfit that you're wearing today, by the way. Nice new outfit, very nice

Ophir Gottlieb (00:25:49):

Little wintery.

Max Katz (00:25:51):

Please put all your questions in the chat. There is one question in q and a, which is basically where can I find the previous zooms?

Ophir Gottlieb (00:26:01):

Sure, I'll show it right now.

Max Katz (00:26:03):

Thank you.

Ophir Gottlieb (00:26:06):

Share my screen. Okay, so when you're in trade machine, you go to the learn tab right here. Okay,

Max Katz (00:26:24):

There you

Ophir Gottlieb (00:26:24):

Go, and when you click on it, live help sessions.

Max Katz (00:26:32):

Okay, first chat question. Some of the alerts on the today page and my personal saved alerts have terrible liquidity. It would be nice to have a filter that I can set liquidity parameters going forward. Nonetheless. Do you have any suggestions on a workaround? I tend to use the Theo price and put in IV that I'm happy with and if I get the trade, great, if not other trades will come along. It's a great philosophy to have. I personally, if I don't like the bid option spreads my definition of the liquidity for an option trade, I'd say 95 out of a hundred times I will skip the trade right there and not do any further analysis on that alert. It's one of the first things I look at. If you really need to put that trade on, I caution you as hard as it is to get the trade on in a quote, terrible liquidity market, it's going to be five to 10 times harder to get out of the trade when you want to get out of the trade, whether you are winning or losing, but if you do, I think using the Theo and putting in a price that you're willing to get in is a very good way to go.

Ophir Gottlieb (00:28:08):

Yeah, soon in the next few months we'll be introducing a liquidity index proprietary. It'll be like one to a hundred or one to 10, and anything that's maybe say anything that's seven or higher, you'll reset your alerts. You'll have another technical open condition, and if it's less than seven, I'm just making it about number. I dunno if seven's the number, but you just say, I don't want to know. I don't even want to get this alert, and it'll also be on the today tab so you can slide. Right,

Max Katz (00:28:36):

Right, and one thing I forgot, but I remembered while you were speaking before the liquidity index comes along. If you look at the today page, and I'm sure Jason's going to cover this on Thursday, what's displayed is all symbols, all stocks where an alert has been generated. You can easily cut that down to the largest 500 stocks to the NA

Ophir Gottlieb ([00:29:02](#)):

About right here

Max Katz ([00:29:04](#)):

Or to the NASDAQ 100 or to Dow 30 if you want to be that small, and that'll reduce the number of alerts you're seeing on this day tab, as well as if the theory is the larger the company, the liquidity, the option liquidity should be better, so that can help as well.

Ophir Gottlieb ([00:29:24](#)):

Yeah, so it's just across the top right.

Max Katz ([00:29:29](#)):

Okay. Is this recording going to be available? Of course, within hours, definitely by tomorrow morning and it'll also be in the learn center in that learn tab that Oio showed us. Okay, now we're getting a question from somebody that I really appreciate in community and he's calling me out as he should. Why is it worth selling a short leg of a diagonal for less than 30 cents and the width of the spread is $2 and 50 cents? I did that trade.

Ophir Gottlieb ([00:30:09](#)):

What's the cost of the long option?

Max Katz ([00:30:11](#)):

The spread was, it was like the 1 50, 1 52 and a half in both calls in JPM, but

Ophir Gottlieb ([00:30:21](#)):

How much was what?

Max Katz ([00:30:23](#)):

I paid 2 45 and my short option was 28 to 30 cents. I can say that in general, if it's much less than a dollar for the short option, I try and pick another long and short where there's more decay in the short option, but I wanted a JPM trade and I put it on for 2 45. The last time I looked, I'm now jinxing myself, but the last time I looked it was trading for 2 79, 2 80, so I can get out for 20% if I want, but I'm going to let it ride for a while. But you know who you are, the person who asked the question, since we're not mentioning any names, and you're absolutely right, it is not the way a good trader should operate.

Ophir Gottlieb ([00:31:21](#)):

I would do it. I have no issue, Daniel.

Max Katz (00:31:24):

All right, there you go. Alright. Then we get a whole bunch of diversifications out allocations and risk management plans and okay, someone has dollars on all four strategies all the time. If all four trigger symbols be selective on market condition, oh, that's a question. Should they have dollars on all four strategies All the time? I think that's something you strive for.

Ophir Gottlieb (00:32:00):

Yeah, don't have to have Or

Max Katz (00:32:01):

Similar. Or similar,

Ophir Gottlieb (00:32:03):

Right? You don't have to have the same dollars on every one, right? Right. It doesn't have to be equal weighted, but in general, as you're trading, I mean there are going to be times where you don't have all four on or whatever. It's a long arc of in general, that's kind of what I do and we can't provide trading advice. I could tell you what I think, but this is just opinion. It's not advice. We're not allowed to give advice. I'm not registered to give advice, not licensed to give advice.

Max Katz (00:32:31):

Can I give my personal opinion?

Ophir Gottlieb (00:32:32):

You give personal opinion, of course. Okay.

Max Katz (00:32:35):

I usually say this, my personal opinion, I don't want to be breaking any rules though. I don't want to get you in trouble.

Ophir Gottlieb (00:32:42):

No, it's freedom of speech, man.

Max Katz (00:32:49):

Yeah, so just to expand on that question while I'm scrolling down to all the yeses and thank yous, I usually have a bias. I have a long delta bias in my portfolio of option trades, both short term and long term.

Ophir Gottlieb (00:33:08):

Me

Max Katz (00:33:08):

Too, because most of the alerts and I trade the CML Pro top picks most of the time with longer term option spreads, so I'm always looking for short delta trades, number one. Number two, I also have some hedges on pretty much all the time between 10% and usually between 10 and 30%, sometimes a little higher of the value of my portfolio just to prevent a major down move and just getting killed. I want some kind of protection. That's me. That's my personal opinion. Makes sense. Successful trading is hard work. In doing this, I found myself staying away from any trade in doing this. I found myself staying away from any trade that did not have a minimum of three or more trades because I did not feel just one or two trades with sufficient history to use. Is that a plausible thesis? Absolutely,

Ophir Gottlieb (00:34:22):

Absolutely reasonable. Yeah.

Max Katz (00:34:24):

Yeah. I go with two or more on three year. I personally don't worry if when it gets down to the one year there are not any occurrences. If there are profitable occurrences on three year and two year and three year has at least two occurrences, I will take the trade If I can get filled,

Ophir Gottlieb (00:34:50):

Yeah, there too long for me, the sector has to have done well because if the sector's done well, then I feel like this group of stocks behaves a certain way and I feel like it's a little bit less of like I'm not actually looking at two back tests. I'm looking at 300 back tests and I'm picking these three for example,

Max Katz (00:35:08):

From another favorite from community. Okay, so I have a question about this. When you have skew and kurtosis as a trigger, how many years does data go back for that trigger?

Ophir Gottlieb (00:35:23):

2007.

Max Katz (00:35:25):

2007. If it doesn't go back before 2023, say 2021, does the trigger just ignore that condition? Well, we don't have that issue. Alright. How did you determine the delta and expires for the pre earnings diagonal save back test based on your previous experience based on backtesting, different deltas and expire. I think it's the latter.

Ophir Gottlieb (00:35:55):

Yep.

Max Katz (00:35:58):

Alright. Our previous presentations archived somewhere. We've answered that question. It's in the learn tab and you probably got an email about it as well, at least for the last four. Yeah, Some more thank yous. Apologies if this is covered elsewhere, but can you test strategies with a delta five or 10? You can test strategies with Delta 5, 10, 1 30.

Ophir Gottlieb (00:36:34):

Lemme just show so people know how to do it, but yes, you can test any delta you want. So we'll go to the back to step. I'm going to show a silly trade. I just want to show you something. So I'm going to just do Apple. This is not, I don't think this is a good trade. I'm just showing you something. This says, pardon me, this says this is testing, buying a 60 delta call. So first of all, take out the comma. All right. You'll notice have it says 60 50, 60 thirties, all over the place. So you just go to your settings. So this weird looking thing and down here,

Max Katz (00:37:11):

What is that symbol called?

Ophir Gottlieb (00:37:13):

I don't know. So you put whatever deltas you want. So let's say you want to check you 10 and the five just save it and off it goes. It's also a good lesson on win rates versus gains, right? Options are levered, so the win rates are going down, but the total return is going up because apparently one or two of these trades were huge. So yes, you can back test any deltas you want.

Max Katz (00:37:47):

Okay. Once I run the scans, how often do I run them again or am I good for the next few months or longer? You're good indefinitely. What? The first thing I do when I get an alert or I take an alert off the today tab is I hit that three year Tesla length button and I rerun the back test because sometimes things change. I had a very good alert for Goldman Sachs, one of the favorite stocks that I like to trade, and I received it I guess on Friday, and it had the date ending in June of 2023, and it had great results. I think it was pre earnings, one called diagonal, and when I hit the three year test length, those good results disappeared and it was not a good trade and I had to skip it. So you always have to backtest when you get an alert that ends on the current date. Thanks Sophia. Appreciate the repetition of process and principles. I understand the trades TM gives me. What would be effort for me? Please give me a short example.

Ophir Gottlieb (00:39:16):

I think I did. I think it takes a fair amount of effort to do those four trades go through three years in one year, go across at least three sectors, choose the sectors that work that you feel satisfy what you want, the timeframes that satisfy you want. Set those alerts when you're, you're receiving alerts, write it down, write down what the plan is. Don't think you're writing it down, write it down. Literally write it down, write it down, and then start looking at your book. You're like, wait, I have seven pre earnings diagonals on fine, but do you have anything else on? Because then that's just one type of trait. So the effort is saying, man, I love this alert, but I have eight of these on and I only have one of the others. Part of the effort. That's actually part of the patience is saying, okay, if I'm going to do this, I got to do something else.

(00:40:01):

Otherwise I don't want to pile on the risk. So maybe you want to close one of your other ones and put the new one you got, or just skip it. That's a part of the effort. Part of the effort is not just blindly to getting the alerts, it's like I got too much risk in this one direction. Or alternatively, if you're like, no, I really want to have this risk on, okay, then just know that it's risk management. Risk management can also mean I want to go big right now, but just know it. That's the effort. That's the effort. Don't let your portfolio be an accident.

Max Katz (00:40:32):

Yeah, or you have seven of 'em on. You get this fantastic alert. It's worked the last four times that you did it, let alone it's got great results going back three, two in one year. So you close one of the other seven if you really need this one at some point in your analysis. Okay. When you show the back tests and the average stats, eg win rate, return, et cetera, at the top of the table, will future roadmap include a summary slash averages that adjust for tickers? You have ticked for alerts. What I do, interesting, what I do, just clicking the box won't change the total line, but when I'm done doing my three, two, and one year analysis, I make a new back test just with the symbols I've created and I run those three year and you'll see different numbers for the total line going across.

Ophir Gottlieb (00:41:40):

I'll show you the trick.

Max Katz (00:41:42):

They'll be better. There's another trick.

Ophir Gottlieb (00:41:45):

Yeah. So go to portfolios. Again, I don't want to run a whole big portfolio because, okay, magnificent. Seven buying calls. Hey look, it works. Okay, this is not, let's pretend these that just ignore the numbers. Let's say, oh gosh, I like, oh, that's interesting. Look at that checkbox, aren't there? See that?

Max Katz (00:42:10):

Yeah. What happened?

Ophir Gottlieb (00:42:13):

It's a bug. All right, I'll do the Dow 30. So lemme show you a trick and I definitely do this. So let's say I did the Dow 30, oh, look at that. There's a bug. Hey Mandy, can you show Jay this bug? The check boxes are gone.

Amanda Kelley (00:42:28):

Yep. Got it.

Ophir Gottlieb (00:42:34):

So let me select a strategy, show you how to go, let's just do pre earnings diagonal, and you're like, yeah, I only want to do the ones that work. So we'll do three years, we'll do the magnificent seven. Okay, ignore the, it doesn't matter. I'm just going to click a few. Okay. This, I say, oh, I like these three. So go to add alert. Look what it magically does for you. It takes the symbols for you. So when I take these symbols, I'm copying, right?

Max Katz (00:43:07):

Oh, I write 'em down,

Ophir Gottlieb (00:43:10):

I go to tickers, right? And I

Max Katz (00:43:12):

Just, that's fantastic. Why didn't I see that?

Ophir Gottlieb (00:43:14):

Right? And then I click tickers, then I let it run those and it will, and if this was longer, if this was several tickers, it would give you the summary at the top. So that's one tricky way to do it. It's also a way then you can just set this alert and then when you get your alerts, you'll only see the tickers that interest you. So that's kind of a little bit of,

Max Katz (00:43:39):

Yeah, I do that totally manually and thank you so much. Saved me a lot of time. Sure. Appreciate.

Amanda Kelley (00:43:46):

Hey, try that again. It's working for me.

Ophir Gottlieb (00:43:49):

Okay. Yeah, I just worked on one group. Okay.

Max Katz (00:43:52):

Alright. When setting alerts, I want to avoid inserting my phone number when setting alerts, but I haven't had a look and inserting my phone number as a default so I don't have to repeat the request, including using the bulk alert tool. Is it possible to have the phone number as a default? Like the email address?

Ophir Gottlieb (00:44:18):

No, because then it'll get marked as spam. But what you do is you add alert or actually just go to your alerts.

Max Katz (00:44:25):

Yeah, you can do a bulk alert,

Ophir Gottlieb (00:44:28):

Bulk update alerts, a new number. (555) 555-5555. Set all phone number. Right? Clear, all set all. And then you got it. So I'm going to set my phone numbers. Well, I'll never get texts again, but it's fine. Okay. Now all of my alerts to all 332. Yeah, that's my phone number. So I'm going to stop sharing my screen and I'm going to put mine back. I actually do want to get those, so I'm not going to show my phone number, but I don't like that.

Max Katz (00:45:00):

Okay. Alright, I'll continue. Someone said in chat that it's a good suggestion to limit the today tab to the top 500 tickers. Not a guarantee, but their better chance of liquidity.

Ophir Gottlieb (00:45:18):

Okay. And soon enough we'll have a liquidity index, give it three or six months and you can actually just do it that way. And then did it even matter?

Max Katz (00:45:24):

Yeah.

Ophir Gottlieb (00:45:26):

Okay. So you used your bulk update tool and it didn't retain your phone number. Okay, email support. Tell us which alerts you want to have, that phone number or all, and we'll take a look.

Max Katz (00:45:38):

Where'd you see that? Oh, you're at the bottom of the chat. For strategy selling options. How is the percent return calculated? If you're selling options, you have a credit and the percent return is on the credit that you received when you put the trade on. So if a strategy has a 50% limit as the closing strategy, it would be 50% of the credit that you receive. You giving me, you're not smiling, are you?

Ophir Gottlieb (00:46:18):

So for stops and limits, that's exactly it. So when you're like, what does this 80% mean for stop? That's how a percent return is calculated for stop and limit. That's how traders usually look at it. But for the actual risk, so you want to go to the learn tab,

(00:46:37):

You can just ask what about amount risks? How has that happen? That's actually more complex thing. How is amount risk calculated? And you can read about it. So for a stop or a limit and on a credit, it's exactly what Max said. Let's say it's a dollar limit, sorry, a dollar credit, a 50% stop would be if that went up to a dollar 50 because you're short that, right? And a 50% gain would be if it went to 50 cents, how we're actually calculating the average trade. So those summary lines, no, that's actually a bit more complex and that's how we do it. You can just read how is Mount Risk calculated.

Max Katz (00:47:16):

Thank you. I'm a big fan of running tickers through the ProScan screen. Are there any of those older strategies that you no longer recommend? IE the bold, squeeze the bear Mammoth three inside up.

Ophir Gottlieb (00:47:35):

I haven't had great success with some of them, but I would do what I showed in the last webinars or this one is, or live help. Sorry, is just, I would just pick the strategy, pluck it out, run it against the portfolio, see how it's doing.

Max Katz (00:47:50):

Yeah.

Ophir Gottlieb (00:47:51):

Let the numbers speak for themselves.

Max Katz (00:47:54):

Okay. Second question from this gentleman. I'm not even supposed to say gentlemen from this person. Oh, fear Michigan or Washington. Then I'll tell you my answer.

Ophir Gottlieb (00:48:09):

I think it's going to be Michigan because I think Jim Harbaugh is going to go to the NFL after the season. He wants to leave a champion, but there used to be a PAC 12 and I'm a PAC 12 fan, so I want Washington.

Max Katz (00:48:23):

Yeah, I've been rooting for Washington for weeks. I want a new team to win the championship.

Ophir Gottlieb (00:48:29):

Well, Michigan hasn't won one. We've got a new one. There's no SEC team in the

Max Katz (00:48:34):

Michigan. Never won one.

Ophir Gottlieb (00:48:36):

Never. Not under Harbo.

Max Katz (00:48:39):

Oh, not under Harle. Okay. Gotcha, gotcha, gotcha. All right. Very dedicated coach. He puts in the effort. There's no doubt about that. That's right. Is it possible to go from a today tab ticker to the sector? It is part of,

Ophir Gottlieb (00:48:57):

No, we can't do that yet. It's an interesting idea.

Max Katz (00:49:04):

Okay, so well fear is going to send an email to support for a future development in trade machine. How max, how when you assess bid ass spread, what is good value for trading? If it's a hundred dollars, I just look at it. I know it when I see it. I'm sorry, that's not a more analytical answer. If it's a hundred dollars stock and the bid ask is more than 10 ticks wide, I'm very unlikely to take the trade. I'm sure there are exceptions. Since I do most of my things as spreads, I might still put the spread in and see how tight the spread market is. If the spread market, in a lot of cases, the spread market will tighten it up. So even though it's two individual options, each 10 ticks wide, if the spread market is five ticks wide, I might put the trade on.

Ophir Gottlieb (00:50:10):

It goes into the complex order book and oftentimes those tighten up fast.

Max Katz (00:50:17):

But if it's a $29 stock and the options, the spread between the bid and the ask is 20 ticks, I move it on. Okay. For newbies to your platform and not too robust on option strategies, is it suggested to get one's feet wet? I assume that with the today feature before migrating to personal alerts?

Ophir Gottlieb (00:50:47):

I don't think so, but you can,

Max Katz (00:50:50):

Yeah.

Ophir Gottlieb (00:50:51):

And come to tomorrow, Thursdays and you'll learn a lot about the today tab or if you can't make it, just wait for the video.

Max Katz (00:50:57):

Yeah, I think it's a good idea to start with an alert on the today tab from a stock that you know is going to have good liquidity and to see the strategy and think about what the trade does and where the risk is and where the potential profit is. I think that's a very good idea. And don't be afraid to ask questions and don't be afraid to ask me in chat in community. Excuse me.

Ophir Gottlieb (00:51:30):

I'll show people how to do that. We can keep it talking just for anyone who doesn't know, where do I find Max on call? Go to community if you so choose, accept the terms of service. If not, then don't go into community, go to trade machine and then his chat uncle here, and then just I have a question and it is, and then just write it and then he'll get it. You're welcome.

Max Katz (00:52:09):

Thank you. This is referring back to my JPM pre yearning learn call diagonal. The long is two 90. All I can tell you right now is that the spread that I paid was for that long called diagonal, was 2.45 and it was trading 2.8 the last time I looked, which was before this started. So I don't really know what's going on in the market right now. What conclusions can you draw, if any, for a stock or ETF that has a negative skew and or ketosis for the previous year, but the six month has turned positive? Would you consider that a bullish phenomenon? Thank you much for spending your valuable time with us.

Ophir Gottlieb (00:53:09):

I haven't tested that. You can test it in trade machine. You can do a stock back test and have it where one year kurtosis is negative, but one year, but six month kurtosis is positive and just see if you tend to get, I haven't tested it, but that's very good. Very good thing to do, I think.

Max Katz (00:53:27):

Is it possible to graph kurtosis and or skew over time?

Ophir Gottlieb (00:53:34):

No,

Max Katz (00:53:35):

Its not.

Ophir Gottlieb (00:53:36):

We will.

Max Katz (00:53:37):

Okay. Thank you. Okay. Thank you so much. From the gentleman who called me out. You're very welcome. Thank you for keeping me honest. Is there an option for back testing using position size a percent as a percent of the total portfolio?

Ophir Gottlieb (00:54:03):

No. You can set the number of contracts, but we don't have that yet.

Max Katz (00:54:06):

Yeah, you can set the number of contracts, but you have to figure out what that is as a percent of your portfolio. I have been diligently trying to find a positive back test. Should we get a sell off, like selling upside call spreads and have really been struggling? Yeah. Yeah. I have similar issues. That's why in my case, my personal opinion, I call it hedging and I'll long put spreads taking advantage of the, in my case, the slash es positive put skew to protect myself for a significant sell off, but it doesn't backtest well,

Ophir Gottlieb (00:54:58):

Short-term speculations that are short, speculations are hard. Market tends to go up guys

Max Katz (00:55:06):

Over the long run. I got alerted PNC 14 pre diagonal on email. Me too.

(00:55:13):

Me three. Why isn't it on today tab? Well, if hadn't prepared a presentation, I was going to cover that. The answer is it has no one year results and I will be sending an email to support because I think in today's environment, I think we can relax that condition, especially with the back tests that have the AI component. There are naturally fewer occurrences with the AI component, and I think if it has multiple three year results and it still has a two year result, then I personally will take the alert even though it won't appear on the today tab. But that's the reason why.

Ophir Gottlieb (00:56:06):

It's also, I always set personal alerts, by the way, and you don't only rely on the today tab.

Max Katz (00:56:12):

Okay. I think the comma was the issue when I tried editing it. Yes. Got to get rid of that comma. Also, is it possible to show the percent return for the back test based on notional value versus margin? No,

Ophir Gottlieb (00:56:40):

Don't have that.

Max Katz (00:56:43):

Alright. Well, fear mentioned by volatility is a debit trade and selling volatility is a credit trade.

Ophir Gottlieb (00:56:51):

Roughly speaking, that's a shortcut.

Max Katz (00:56:54):

Yeah. Does long volatility mean positive Vega? Yeah. Yes. And negative volatility mean short Vega. Yes. One symbols are chosen before entering a trade. Should we look at the chart as part of our process? If you know how to use charts and you find value in looking at charts, you should definitely look at them and you should look at them in a related product that CML has called Pattern Finder, I believe. Is that correct?

Ophir Gottlieb (00:57:30):

Yeah. For trade machine members, it's like $99 for a year. So we just basically give it away for free to trade machine members.

Max Katz (00:57:38):

Yeah. I know a lot of people though in our community who first thing when they get an alert, they look at the chart and see if it makes sense.

Ophir Gottlieb (00:57:47):

Yeah. A large percentage of trade machine members just use Pattern finder just as an add-on.

Max Katz (00:57:54):

Can you create a portfolio from the checked items on a strategy with one or two clicks? It's going to be a little more than one or two clicks, but you can definitely create a portfolio, a custom portfolio. Thank you so much. O Fear slash max for the answer to the table summary question. You're more than welcome. Most of the credit goes to O Fear. I have to. I'm contractually obligated to say that, by the way. That's

Ophir Gottlieb (00:58:30):

Right. That's right.

Max Katz (00:58:31):

I used the bulk update alert tool and it didn't retain my phone number. Hopefully you've sent an email to support Go Dogs. Is that Washington hu?

Ophir Gottlieb (00:58:44):

Husky Huskies. Okay.

Max Katz (00:58:45):

Yeah, yeah, yeah. The Huskies, right, right, right, right. I have many alerts set from three to five years ago and they may longer be helpful. I have trouble eliminating this. Please help go into the alert tab.

Ophir Gottlieb (00:59:00):

Yeah, I'll show you.

Max Katz (00:59:02):

Then you can delete 'em right there. There's a little X all the way over on the left

Ophir Gottlieb (00:59:06):

Side. Yeah, you can go by the date they were created. Right? So let's say you want to delete these, you just X, X, X, x, X, they just delete. So here, right.

Max Katz (00:59:16):

And I've done that for big deletions of old alerts, but also even if I get an alert today via email and I execute the back test and I fix the date, so it's three years starting from today's, going back from today's date and it no longer works. I just go into the alert tab and just delete it right there. Okay. Hey, you guys have changed sides. Fear was always on the left. Is that true? I thought you were always in

Ophir Gottlieb (00:59:48):

The middle. I think I'm always on this side then.

Max Katz (00:59:51):

Well, we like to rotate.

Ophir Gottlieb (00:59:53):

Yeah, exactly.

Max Katz (00:59:55):

What is 10 ticks in 20 ticks in money terms, please. So a hundred ticks is a dollar. So 10 ticks would be 10 cents, but everything gets multiplied by a hundred. Have I answered the question sufficiently?

Ophir Gottlieb (01:00:16):

I feel like you have. Yeah.

Max Katz (01:00:17):

Okay. Is there a way to test between specific dates? Yes, there is.

Ophir Gottlieb (01:00:24):

Yeah. Here, I'll just share the screen again.

Max Katz (01:00:26):

Thank you. You are great with that.

Ophir Gottlieb (01:00:30):

So right on the back test tab, you just enter your dates and

Max Katz (01:00:35):

What's that start date and end date? Yep. How many trades would you consider statistically significant for strategy to actually implement it? Many of the default strategies only seem to return a few trades over many years. Why don't you answer that one before I go to the next one?

Ophir Gottlieb (01:00:53):

That's why I look at sectors. I want to see that if it works in a sector, it works in a type of company, then that's what I'm using for statistical significance. Then I'll go and try and find the best ones.

Max Katz (01:01:04):

Even more general than that, you've developed these strategies by doing thousands of back tests. Right? So I have confidence even though I look at JPM and it may only have, it may be six and oh or it might be four in one. I know that this is a strategy that PHE and the trade machine team have back tested thousands of times over hundreds of different stocks. I'm sure.

Ophir Gottlieb (01:01:35):

Yeah. I should share a lot of videos with that. Yeah.

Max Katz (01:01:39):

So I think it's a reliable indicator, something that can be used. Is there a way to run through a bunch of parameters in an automated manner with Python, for example? Thank you very much. We don't

Ophir Gottlieb (01:01:54):

Allow automating, we don't allow automation. Yeah, you can get a CML trade machine, API, but that's pricey. That's for institutions. But you're welcome to do it. You get your own environment AWS and do whatever you want.

Max Katz (01:02:07):

Would you ever use UOA to determine a trade? I don't know what UOA means neither. Okay. Tell us what UOA means.

Ophir Gottlieb (01:02:20):

We got to go in two minutes.

Max Katz (01:02:21):

Okay. Sorry, I never look at the clock.

Ophir Gottlieb (01:02:25):

Oh, unusual options activity. No, I don't care about unusual object activity.

Max Katz (01:02:29):

Oh, unusual options. Ah, okay. Is there an option in trade machine to find a volume profile? No. I think there are multiple people named. I'm not going to say it. Yes. Yeah. Okay. If it wasn't you, I apologize. All right, great question. Someone else's commenting. Great question on PNC and great answer. By max and o fear. Okay. Not mentioning any names. Is there a way to load tickers with an entry and exit dates run the back test for specific tickers between the custom entry and exit dates? Yeah, I think fear just highlighted where you can set the start and the end date and you can load the tickers to the left where you went through either a portfolio of tickers or individual tickers separated by a comma or a space. Thank you. Do you have any thoughts on trading platforms? Do you have any thoughts on trading platforms?

Ophir Gottlieb ([01:03:39]()):

No. And this person said they mean different entry exit for each ticker. No, each back test is going to have the same dates.

Max Katz ([01:03:45]()):

So Right. Sorry, I misread the question. No,

Ophir Gottlieb ([01:03:48]()):

You didn't misread it. They clarified.

Max Katz ([01:03:50]()):

Okay. Do you have any thoughts on trading platforms? Am I allowed to answer this question?

Ophir Gottlieb ([01:03:55]()):

Sure.

Max Katz ([01:03:57]()):

I personally use Tasty trade in the past I've used interactive brokers. Before that I used toss. The same people who developed toss developed tasty trade. I think it serves all my needs. There goes, that's the end of my promotion. Thanks to any plan to add volume profile in the future to trade machine.

Ophir Gottlieb ([01:04:25]()):

No. So I have a personal thing about this. What you're looking for is liquidity, and liquidity has nothing to do with volume. Liquidity in the option market is two things and two things only. It's the width and depth of the book, right? If it's tight and deep, then it's liquid. It can be wide and shallow and have lots of volume. That's not liquid. That just means there's a lot of volume. So volume's not what you're looking for. Open interest is not what you're looking for. Is it true that options that are liquid tend to also have high volume? Sometimes, yeah, but not always. You want to look at width and depth of book. That's what liquidity is. There is no other definition of liquidity that's real not for trading.

Max Katz ([01:05:07]()):

Okay. We've gotten to all the questions in the chat. There may be something new in q and a. Bring those questions to the community and I will be happy to answer those questions.

Ophir Gottlieb (01:05:18):

Yeah. Alright guys. See you Thursday. Jason will see you Thursday with Max on the today tab. Bye guys.

Max Katz (01:05:23):

Okay. Have a good day. Bye. See you community.