Jason Hitchings (00:00):

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. 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 those water controls, we've seen one that met those conditions today. 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. So this uses a technical open, but 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.

(00:45):

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 can 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.

(01:31):

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. 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 and 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.

(02:16):

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, the 12 days versus the 26 days, and then looking at the 26 days, this is 26 days of data, and you can see like, 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? So this is kind of interesting. It was plummeting a lot and then it's stabilized out a little bit.

(03:01):

And so the MD 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 kind do this as a comparison. So it's kind of a normalized look at that. And we're saying when you look at sort of 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. You can see as these bars increase, that's the actual distance between these lines.

(03:43):

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 is 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? 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.

(04:38):

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 exit it.

(05:20):

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 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. And 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

(05:56):

Custom, 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 do 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. 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.

(06:38):

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. 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 you, 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 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.

([07:36]):

And so this is a clever strategy that PHE 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 the 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. 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.

([08:20]):

Now, this strategy says close all legs of the front month options. When this first expiration expires, let's say the closest it could find to 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 tab? 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

([08:55]):

Went up a lot and back down and then up a lot again. 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 is helping this winning percentage. But a 23% 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.

([09:40]):

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 put a thousand dollars into every one of these trades, equally what your average trade was. 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. 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 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 customized version. So you might start here and then over time you might start to tweak these strategies to the way you like 'em.