Ophir Gottlieb (00:10):

First the 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 ever. And even further, this is not advice. Past performance is not necessarily indicative of future results. Alright? Number one, to be a successful trader, you need to focus on the long arc of a career. Not on Thursday, not on a Wednesday, not on a February, not on a December. Take a deep breath, it ain't a sprint. You will need a process which most people in finance call a plan trade machine was built for this. It's exceptionally good at this. If we were not human beings and we were machines, in fact, all you would need is a process. Because what is a process?

(01:04):

A process is what to trade, when to open the trade and when to close the trade. And if you think about it, that's all you would need, right? If I knew what to trade and when to trade it, when to close it, then I'm a successful trader. But you are a human. I think you're fortunate to be human. So it isn't enough to just have a process plan. Otherwise I could sell trade machine as the end all be all. And trade machine is not the end all be all. And just being a trade machine member will not make you wealthy. It will not make you a successful trader. You will not be this just because of trade machine. And you say, well, why not? Because you need two other things and those things, trade machine can't give you like what? Patience for some patience is easy.

(01:45):

For some patience is hard. You have to have patience in your plan and yourself, believe in yourself enough to have patience with yourself. And you say, well, okay, I happen to be a patient person. I'm not. But you might be saying that. So if I happen to be a patient person and I have trading machine, does that mean I'm going to be successful? Not enough. You're also going to need to put in the effort and effort has two parts. The first part, you're not going to like, it's probably going to be harder than you think it will be. And I know that's different than everything you see on YouTube. When you see a signal and they just follow their ai, you have 80% win rates and you'll just be rich and it just isn't true. You must know somewhere deep inside of you that isn't true, right?

(02:32):

There must be something, some part of you that sees that as like that's just not real. So that's the bad part of effort. It'll probably be harder than you think, but there is a good part. If you are able to get past it being harder than you think, it's probably going to be more satisfying than you think. And that's just the nature of humanity. When things are harder than we think, but we do it, it's more satisfying. It just is. So that's what it takes to be a successful trader focusing on a long arc of a career process, patience and effort. I want to do this again. So that's what I'm going to do tonight. I'm going to do spread the sell off plus ai. Again, I got better after I did these and I was like, I didn't do this. I didn't do this justice in particular because this is the most difficult one.

(03:16):

So that's what we're going to do today. We are going to go to saved back tests. Everyone has this. Everyone has these saved back tests. You can add your own, but everyone has these, and tonight we're going to do spread the sell off with ai. It's a ratio spread a one by three by two. I'm going to explain that better than I did last time, but just for nomenclature, that's what we're doing. And you just click load and let it do its thing. It's going to load a single ticker, it loaded Amazon, but I want the three years ending now. So I'm just going to click the three year button.

(03:54):

Before we start looking at how this goes on portfolios and why it works and why it doesn't work, let's first just try to understand what's going on. First things first, when does this trigger? We don't even know what we're doing yet, but let's just know when it triggers before we do whatever we're about to do. So you can see it right here. I actually like to go to the technical open and just look at it that way. It's the same information. It's just easier for me to look at it this way. So, okay, when does this thing happen? Having not defined what thing is, there's some trade we're going to do. I haven't said what the trade is yet, but I know that these things have to happen first. These four things have to happen and all of them have to happen for it to trigger.

(04:37):

So it's their and this and this and this and this. Number one in the last 30 days, the stock is down 10% from, so we're looking at a stock which in the last three days has corrected in market jargon. A correction is when a stock is that. Well, when a stock or the market is down 10% or more, we call that a correction. And then more than 20% we call a bear market. So this stock has corrected it's down a fair amount in 30 days. That's number one. Number two, so also the stock is below the 200 day moving average in my speak. When a stock is below the 200 day moving average, I consider it in technical failure. So the first just we have two more things to do, but the first two elements of this are one, the stock is dipping pretty hard in the last 30 days and the stock is in technical failure.

(05:34):

Those are two things now, and now I need a third thing and the six month asymmetry of returns. So the skew is negative, which means that the probability distribution, the returns are leaning to the left. There's more downside days than upside days in the last six months. If you want to learn more about SKU and things like that, you can click that and there's a whole video which really explains at least a portion of our ai. I don't give the full algorithm, but a portion of our ai. So 1, 2, 3. And then the fourth thing we need is in the last year, the tailored of returns is below zero. That means when there's a really big move for the stock, a tail move, it's bigger on the downside than the upside. So this stock is really in trouble. This stock is in trouble. This stock is in a correction.

(06:27):

It's in technical failure, it's asymmetric to the downside. And when it has big days, the big days tend to be bad. This is pretty bad, okay? That's the technical open and that's why the strategy is called spread the sell off. The sell off part is what we just looked at. This is a sell off. This is a downright straight down the middle stock that is selling off in almost every way. You can measure it. There is a closing rule before we even discuss what the trade is that says at 80% gains, close it, you're done. You're out. Okay? That's what trade machine says. If you have an 80% gain, again, I haven't even told you what the strategy is yet. I'm just telling you whatever the strategy is, if you have an 80% gain, close it. And the last rule is never trade earnings. And never trade earnings means this. Let's say earnings are right here, okay? Let's say this is a timeline. I know I'm drawing with my hand and it looks terrible, and each tick is a day.

(07:28):

Okay? And I'll just to make it clear, this is earnings day I is earnings. What never trade earnings says Is this the period of time, two days before earnings all the way to two days after earnings? That's a no. It doesn't matter if it triggers, it doesn't matter if all those four things I said happened, doesn't matter if it's below the 200 day moving average. Doesn't matter anything, there is no trading now, and not only that, if the trade opened here, so three days, so five days before earnings, the trade poses here. This is a no trade zone. If you have an open trade, close it. If you get a trigger, ignore it. It's the no trade zone. This is a never trade earnings trade, okay? Now what I've done for you is I've told you everything that will trigger the trade to happen and when to get out.

(08:17):

What I have not done is told you what this trade is. What is this trade, this magical trade. So we'll go down, it's a custom strategy. I'm going to click edit. So first I'm going to talk about it in words. I'm going to talk about what it is in option speak, and then I'm going to show you a picture of what that option speak looks like when it comes to a p and l. In other words, what exactly are you speculating on? Because these are all speculations. So let me first talk about it. Okay? This is, so a few things I want to note about this strategy before we go over it.

(08:54):

This is what we're looking at. First of all, it's all puts, okay? There's no calls in this strategy. This is all puts. So no matter how complex this feels, I want you guys to remember something about option trading. It's very important no matter how complicated something is, it's either a call or a put. Those are your only two choices and you're either longer, short. Those are your only two choices. That's it. The most complicated a strategy can be calls and puts long and short. That's it. So just take a deep breath. It ain't that complicated. I'm not saying that you should do every trade. I'm just saying try to get over that mental hurdle that says, oh, this is impossible. No, it's not. It's calls and puts and it's long and short. That's all. It's okay. And this is only puts number one. Number two, it has three legs.

(09:40):

I'm doing three different things. I'm getting long. A 37 delta put, so I'm getting long and out of the money put, and they're all the options are 30 days to expiration, all the same expiration. Hopefully this is showing you that it's not quite that complex. Same expiration all puts. Okay? So you're getting long, a 37 delta put, getting long and out of the money, put one time. Then you're selling, getting sure a 25 delta put. That's even further out of the money three times. And then finally, in order to make sure you don't have naked risk at this point in the trade, you're now short two options. So you get long and even further out of the money. Put two times, and that makes us long. 3, 2, 1 and three and short three. So this trade is covered. So that's what the trade is and say, well, what does such a thing do?

(10:43):

What does such a setup do? This is what it does. If this is the current price, this line right here, and this is the 37 delta put, the 37 delta put is out of the money to the downside, you actually start making money as the stock starts going down. First of all, you make money. If the stock goes to infinity, wherever it is, you're making money, green means you're up. Good job. You get your credit. This trade must be done for a credit, and the credit is what you receive. If the stock goes up, the stock starts going down, you actually make most, this is where your max gain is. It's at the 25 delta. But remember one thing about this, we're short three of these. So when we get here, no problem, but if it goes through the strike, oh, starts going down fast, right here is where our loss is capped.

(11:29):

That's where we bought those two 10 deltas, those 2, 2 10 delta puts. So this is what your payoff looks like. So now think about it for a second. It's a stock which is in a correction. It's below the 200 day moving average. That's in technical failure. It's asymmetric to the downside. Its tail moves are to the downside. This strategy makes the most money if it goes down even further, makes just fine money. If the stock recovers, it does the worst. If the stock totally collapses, it's covered. So you're not going to lose everything. It's fine. It's covered trade, you know your risk. But that's the idea. The idea is to take a stock which is in a correction, which is in technical failure, which is asymmetric to the downside, which has downside tails and says, I want to make money on every possible thing up and to around the 20 delta, right?

(12:23):

That's the 25 delta rather. And this is where I want to introduce the idea of delta as a probability. Some of you may know this, some of you may not, but a 50 delta option, which is at the money option, has about a 50% chance of being in the money. So delta can be used as a probability in the short term. And if you're wondering why not in the long term, it's a difference between the normal distribution and the log normal distribution in short periods of time. Those two distributions are very similar, but you can go further. What are the odds? At any one time that a stock goes to a 25 delta put about 25% said differently. There's a 75% chance the stock never gets here. And if our loss starts right around 20 delta, it depends on the options. This trade should have between a 75 and 80% win rate because there's about an 80% chance that this never happens.

([13:25]()):

Or if you prefer there's a 20% chance this happens. 20% is big enough that we want to cover this trade. We don't want to be naked short. So this trade should have from there to there is positive. Anything from here over we should make money. This trade should make money. That should be about 75 or 80% of the time. So when we do these back tests, let's look at the wind rates. Is it true that we should be winning about 75 to 80% of the time? Are those the actual win rates? Now that we know what we're doing, we're looking at a stock that's selling off. It's in a correction, it's in technical failure, it's asymmetrically down. It has fat tails to the left, and we're saying, I don't think it's going to go that much further down. If it goes a little more down, I'm in.

([14:07]()):

I'm making even more money. I want to take this 80 20 risk because the stock is corrected enough that I don't think this 20% is going to happen very often. This, oh my gosh, let's check it out. Strategy is already loaded. Now I want to do a portfolio. Every trade machine member has these portfolios. I'm going to do it in the NASDAQ 100, but I'm going to do it in three sectors. Here we go. So what we're testing is over the last three years, how did this idea of taking on a payoff that looks like this in a stock that is correcting in a stock that is in technical failure, in a stock that is asymmetric to the downside in a stock that has downside tail moves, what's the likelihood that disaster's kind of over, what are the odds that we're kind of over here should be between 75 and 80% win rate?

([15:00]()):

And the question is not, will we have 75 to 80% win rate? The question is, will the wins be big enough to offset the losses? Because these losses can be big and these wins can be small. So let's take a look. Alright, my claim was between 75 and 80% win rate, right? I said, eh, 80 20. Yet the win rate is 85%. It's performing even better than the options would imply, and that means, at least in the last three years in this group of company, the options mispriced the risk. We won 85% of the time, and in the month, it's a one month trade, the average trade was 28%. So in tech, relatively large tech, when it's correcting and it falls in technical failure and it's asymmetrically to the downside and the tails are to the left, you know what? That's when the bid comes. That's when institutions come in. Not for all tech. Nasdaq 100 is the 100 largest companies on the NASDAQ Exchange, right? That's going to include companies like Starbucks, but that's Tesla, Nvidia, Microsoft, apple, Google, Amazon, right? Meta boom. Here comes the bid. And that's exactly what the strategy is designed to do.

([16:28]()):

Now, what do I do now that I see this? I sort it by average trade, and I click the ones that I want to know when this happens. Those four technical events, there's no way I can track that on my own. I need a machine to check for me every day. So the ones that I want to know, I'm going to select. So KDP, three wins, no losses. Biogen, one win, no loss. I'll wait for something better. Marvell S Gen, vertex Monster, Microsoft a ZN, Illumina. So guys, what I'm doing is looking at the wins and losses. I'm looking at the average trade. That's all I'm doing. A DP four. Oh, Atlassian eight, and oh, Ross stores four, oh oh, EXC. It's three wins and two losses. But look at the average trade. I'm cool with that. Regeneron, Texas Instruments. ea, Qualcomm, O-D-F-L-C-D-N-S. Lulu is a lot.

(17:30):

IDXX. Honeywell honey. Huh? I didn't know they were on nasdaq. I throw that. Okay, NXPI. Oops, close that. So I'm just going down and picking the ones I like. Tesla's three and oh, full, a MD four and oh, so you just go down the list and pick ones you like. Autodesk, Costco, six wins one. Loss Micron, three wins. No losses. Workday, Amazon, ISRG. Meta. There's just a lot. Go. Sorry, I got this over. So after you choose the ones you like and you're saying, okay, trade machine, can you tell me when this happens for these companies? Because there's no way I'm going to be able to look every day at these four things all coinciding at once. Just click add, alert.

(18:18):

Your tickers are loaded. The technicals are already loaded. All you have to do is click add alert. I like to add a note to myself. This is spread the sell off, and just for my own sake, I know that I'm getting it for the NASDAQ 100, click add alert. 33 alerts were created. I just created 33 trades for myself probably next year. Boom. Just like that. But I don't only want to look at tech because if all of my trades are in tech, then if tech is moving in a certain direction, let's say this is only when, this is obviously when stocks are selling off. If the stocks are selling off and all of my trades are this, then when tech is doing great, I have no trades from trade machine because this only happens when stocks are falling apart. So what do I do with that?

(19:14):

Well, one version is to also look at other strategies, which we did in our prior sessions. But another is to recognize that sectors don't always move together. So let's do the same thing, but let's do it for financials. Let's see how financials did in with this same idea of a trade. And remember this is the draw should have a win rate between 75 and 80%. The losses are going to be larger than the winners, but the number of winners should make it such that the losses are overwhelmed. If not, then we know, Hey, I don't want to do it in financials. It's not worth it. Okay, so let's see what happens. So here we are, an 85% win rate and an even better return. This is close enough to say it's the same as tech. So what does this tell us? This tells us that this thing we found where there's a bid in large companies by a bid, I mean buyers come in when these large companies go down.

(20:16):

It's not just in tech, it's also in financials. And that makes perfect sense. Institutions are going to buy large companies in certain sectors. Tech and financials are like V two sectors, right? When is there not going to be a bid for JP Morgan or Visa or MasterCard or Wells Fargo or Bank of America or Goldman Sachs. When there's a selloff or American Express, there's always going to be a, I mean always is a big word. There's generally going to be a bid. So I'm going to sort this by average trade return, start checking the ones I like.

(20:46):

Two ends. I think that's an insurer. 11 wins. 10 wins, sorry, 11 wins, five wins, a IG. Let's get to some names that are more familiar. Visa only happened once. Good enough for me. Some of these other ones, M Financial is Goldie in here. Here's Goldman Sachs, here's American Express, MetLife, Citigroup, JP Morgan. Aflac. Go down the list, say, Hey, I want to know when this thing happens for them too. So I click add alert. Same thing. Here they are. It's all set. I'm going to give myself the same note, but when I get my email, I want to know not only is this spread the sell off, this happens to be in financials. So I know XLF is financials to me, that's a note. This is financial. Then I add the alert. So I've added 22. So guys together, we've just added 55 trades for next year, 55, just in this very short period of time.

(21:58):

And you go sector by sector and see the ones you like. The one thing I wanted to show you is that if a sector on the overall level, on the high level, the summary level doesn't do well. I personally don't start looking for the best ones. I just skip the sector. You don't have to do that. You can say, yeah, I don't care if the sector's bad. I'll take the ones that did the best. That's not really my thing. I like to know that there's a bid in tech, there's a bid in financials, and because of that, now I want to take the ones that perform the best. I know what's under there. If this wasn't so good, I feel like maybe I'm cherry picking luck. That's personal. You don't have to do it. That's why I don't do things like test the s and p 500.

(22:45):

That's every sector. I don't care about that. I care by sector. Alright, so that is my presentation tonight that I hope I clarified. What spread the sell off is when it happens, what it looks like, what the win rate should look like. It should be in the 80% range, 75% range or better. The losses should be larger than the wins. It's just that there's a lot more winners, right? If something has an 85% win rate, then there's seven wins for every one loss. So this green part is happening seven times. This red part's only happening one time. Yeah, it's going to get you good returns.