

Ophir Gottlieb (00:10):

To help you trade better by using advanced statistical concepts and implementing them directly into trading. We will use historical results. We're going to be implementing ai. That's several different types. We will talk about return distribution characteristics designed for those who have no experience in statistics at all. So that means specific use cases in return distribution characteristics, in particular something called kurtosis. You don't have to know what it is, something called skew. You don't have to know what that is and why it matters.

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So tail events are very rare in normal distributions, but in finance they're much more frequent. So we see fatter tails, much fatter tails than people realize. PIMCO said that, and you always want to look at the fixed income guys for conversations and discussions on tail risks because the only risk they face is tail risk, but there's also the tail of the tails, so tail risk, and then the really edgy stuff in the tails. We're going to talk about that too. So if you're listening to this and you could be saying that's true. I'd like fatter tails on the upside for bullish bet, or I'd like skew leaning positive skew or both. It makes sense. It's a logical argument. You haven't proven it to me yet, so I want to be clear. I have not demonstrated that it matters yet. That's what I'm going to do.

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Now I'm talking about the fatness of the tails. We can call it kurtosis and I'm talking about the asymmetry in the return distribution or skew if you like. So why does it matter? So the first thing I'm going to do is motivate it with stock returns. Then I'm going to motivate it with win rates on option trades. I'm going to motivate it with win rates and returns on successful option strategies already in trade machine, and I'm going to use statistical significance as our backbone. Let's motivate it with stock returns. If we took the constituents of the s and p 500 in 2018 and I said I want to see the average one year return for every stock in that group from June, 2018 to June 20, 23, 1 year return, every single stock in the s and p 500, the win rate, which is simply measured as were the returns positive or negative, was 59.4%.

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In fact, makes sense. Stocks go up in general. In particular large caps. The average one year return was 10%. This is not me doing anything. This is observational. Then I said, well, what if we took a measure of ketosis, which I'm not going to tell you exactly how we did it. It's not just the return distribution, and I just said it was greater than one. This is already standardized for the normal, and the average return went from 10% to 13%. The win rate went from 59% to 63. There was a 99.9% statistical significance. So what that there is a one minus 99.9% chance that we would find these results as they are and that it would be random 0.1% chance. Okay, let's say I said, hmm, that's interesting. What if I took, do you remember when I said the tail of the tails? Remember that the tail of the tails, what if I said the tail, the upside kurtosis?

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The net kurtosis was greater than three. And again, for those of you that are statisticians, I'd be greater than six. It's relative to the normal. All of a sudden the win rates went from 63.1 to 63.9, the average return from 13% to 15%. Statistical significance rose. Now I'm only talking about the tails so far, right? I'm not talking about the asymmetry of returns. I haven't talked about sku. Well, let's do that. Okay? I'm not going to go through everything, but here's the last one. If I said, well, what if I took the tail of the tails, I took the one year kurtosis was greater than three. I took the medium term S skew six month greater than one, and the one year skew greater than two. So I took the tails of the tails and I took asymmetry Win rate went from 59% to 66% and the average trade went from 10% to 20%.

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Very strong statistical significance. So look, as we kept adding return distribution characteristics, how the win rates went up and the returns went up. So remember this. Remember when I said I have not demonstrated that it matters. All I have done is demonstrated why it might matter. Now for stocks, I have demonstrated that it matters. The trading strategy was a triviality. There was nothing special I did here. I checked the skew and kurtosis for each stock in the S and P 500 and if it qualified, I held the stock for a year and I did nothing else. It's the results that are not a triviality. So it wants you to imagine your win rates rising by about 10% with 99.9% statistical significance. And now I want you to imagine your day trading, your swing trading returns double. Just because I checked an annual holding period doesn't mean that we're going to do annual trades.

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So that's the takeaway for stocks. The strategy can be optimized. It was rather trivial. The results were not a triviality. This is a remarkable finding for stock traders. The ability to double your average returns and the win rates go up about 10% is life-changing if it's sustainable? So it's a remarkable finding for stock traders and it should translate into truly remarkable finding for option traders because options are levered. I said first I would motivate it with stock returns, it being return distribution characteristics. I did that. Then I said I would motivate it with win rates on option trades, it being return distribution characteristics. Then I said, I would motivate it with win rates and returns on successful strategies that already exist in trade machine. Now limit, prove it to you. We just did the benchmark. Now I'm going to show you a strategy that's in trade machine fade, the dip. It's also selling a put spread, but only when certain technical conditions are meant. The win rates go from 60% to 75%. The average returns go from a loser to a winner, and the statistical significance is through 32 decimals. Now I'm going to take the fade, the dip and say I only want to do in companies where the skew is positive and the kurtosis same kurtosis, the one year kurtosis is greater than one fade. The dip with tail dynamics,

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17% returns. So what happened? Fade the dip is a winner. This is the immense value of trade machine as it exists currently. Current trade machine members, you've been getting a lot of value with this strategy, but fade the dip with skew and kurtosis is a bigger winner and this is the start of the immense value of trade machines upgrade. Just the start we've just begun. And then I said it would motivate it with win rates and returns on successful strategies already in trade machine. I did that too. I showed stock.

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I showed three option strategies. I could have filled five hours with the strategies that exist in trade machine and how they've improved. This is the second time in my 25 year career that I've seen what can be called the statistical anomaly or even an aberration. An aberration is a departure from what is normal, usual, or expected. This is remarkable. Remember the stock trading strategy that was a triviality. It'd certainly be improved. The results were not a triviality. I'm going to gray that out for a second. I want to talk about the options. The option strategies were not a triviality, so trading machine tested strategies already. The results were also not a triviality. I want you to imagine now on your option trades, your win rates rising by about 10% with 99% statistical significance, and imagine your average returns doubling or tripling. That's the option takeaway. These are the takeaways. A doubling or tripling over the long arc of traits.