Amanda Kelley (00:00):

Hello everybody. We are going to get started. Sorry for my absence last week, but I'm back and ready to get rolling with Max. So before Max gets started, I will run through disclaimers really quick. 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 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. Treating features and options involves the risk of loss. Please consider carefully whether futures or options are appropriate to your financial situation. Only risk capital should be used when trading futures or options. Investors could lose more than their initial investment. Past results are not necessarily indicative of future results. The risk of loss in trading can be substantial. Carefully consider the inherent risks of such investment in light of your financial condition.

Max Katz (01:03):

Okay, so tonight's Zoom is focused on newer users. Of course all users are welcome and I'm going go since it's the start of the earnings season, I'm going to review pretty quickly one of my favorite alerts, which is the pre earnings 14 day diagonal. It's got a lot of good stuff in it. It's a diagonal spread. The long is just after earnings event and the short is before. So let's look at a good example. Now, unfortunately today's examples were all with monthly expirations and that meant that the gap between the expirations was too wide to be used in the 14 day diagonal trade, but there was one a couple of weeks ago. JP Morgan JPM, that is a very good example and JPM has a lot of options traded on it. The markets are relatively tight and it does have weekly expirations. So from top to bottom here, JPM name of the stock, it uses the diagonal special TM diagonal special option trade, which is if you click on the edit button at the bottom of the screen here, I'll move it up a little bit.

(02:24):

You can see that the diagonal special is long and at the money 50 delta call 14 days to expiration and short a 30 delta call with seven days to expiration. Now the 14 and the seven are approximate. It's closest to 14. It's closest to seven, but the long must be in an expiration after the earnings event and the short must be in an expiration before the earnings event. And this trade closes when the front with the short option expires if you don't close it beforehand. Alright, so we'll save that and it'll rerun the back test hopefully very quickly. There we go. So imagine that you took this off of the today tab because it came up that morning. 14 days before expiration earnings are actually tomorrow morning before the market opens.

Amanda Kelley (03:20):

This would be a great time to point out that because it is a earnings trade and the earnings are closer, that's why that not active is still there even if the open condition is still triggered. But because it's an earnings related, it's going to show not active,

Max Katz (03:39):

Right? And it's showing not active because while it is above its SMA 50 and thank you for introducing this subject, it has a custom earnings handling that's down this left hand column on the back test. You click on the custom earnings and it'll show you that you open the position 14 days before earnings and you close it one day before earnings. So since earnings is one day away, it doesn't qualify right here and that's why it's showing is not active. Alright, thank you for that Amanda. Very good. You can see that it's got a good total return percent return.

(04:22):

This is the amount risk that's calculated by trade machine. It's got a four and o record. I've already shown you where the earnings date is because you should always check when the earnings date is for any alert and that the end date is today's date, July 11th. You should do that for any alert because you might receive an alert that may not have the latest date for a back test. So you want to double check that. And you always want to double check when earnings are so that you don't trade something that has the characteristic of never trade earnings, which is not this one. But in general a lot of the alerts have never trade earnings, which means you would close it two days before and not open it until two days after earnings. Okay, but back to the 14 day diagonal special for earnings, it does have one open condition and that's that the stock must be above the SMA 50.

(05:21):

That's the technical open condition. You can see that by scrolling down and looking at the technical open and then you will see that there's only one condition and that's when the stock is above the SMA 50. Alright? And if you decide that hey, they took the kurtosis and skewness off my back test screen and I really would like to see it, here's a little workaround that doesn't really pertain to the 14 day diagonal, but it's good for any alert. So I'm going to go down to ketosis one year and I'm going to say that I it above one and I'm going to click save. And lo and behold, we now have two technical open conditions and our skew and kurtosis for six months and one year are now back on the screen.

Amanda Kelley (06:10):

I know there's been a lot of talk about this in community, we definitely hear you. So we're working on a solution that kind of satisfies everybody on this. So just be patient while we work on that. This is the workaround for now, but we are coming up with a solution that will please everybody in the meantime. In the

Max Katz (06:31):

Meantime, I just figured I'd show everybody on the Zoom or who watches it later. This is the workaround

Amanda Kelley (06:37):

Just adding. No, I think that's a great call out and I just wanted everybody to know we do listen, we do hear you. So when you have suggestions, don't hesitate to reach out to us and let us know we do listen,

Max Katz (06:49):

Right? Absolutely. So I've looked, I see that everything is negative so this will not, we have another trade called the 14 day pre earnings long call diagonal ai. And the one condition that makes it AI is using kurtosis one year and greater than one. So the current condition doesn't apply. The current situation for ketosis one year doesn't apply, but when it does, this is what the ACT test would look like. It reduces the number of occurrences, but it's a stronger trade because it has the AI component. But let me take it out. Going back down to technical open and removing it, getting safe. And now we have the basic pre earnings diagonal and what I do sometimes, and I've shown you that it is 50 delta in the 14 DTE, short to 30 delta in the seven. What I do sometimes is this is a diagonal tray we go back to today for a second.

(07:50):

You will see that there's also a pre-running 14 day just along call. And if this was JPM, it'd be on both of them if it was 14 days before earnings, we have as I recreated it, what a JPM long call alert would look like and same technical open conditions MA 50 stock above it. You'll see that the total return and the percent return are actually higher. I like that. I like that a lot and I'll tell you why in a minute. And that means to me that and this usage is 30 DTE options and it has the same custom earnings condition or handling. It's opened 14 days before the trade. It closes one day before the trade. And what I like to do, especially for higher price stocks, JPM trading around two oh is not just go with a long call. I always like to match along with a short, but look at the results of making this long call pre earnings, a long call spread and you'll see that it's now a long call spread along the 40 delta.

([09:01]()):

Short to 20 delta has excellent results. This to me is very valuable because what I like to do is start with a diagonal. And as this short call runs out of premium and it's down to 10% of its original value or less, I can close the trade if I'm up money or at that point I can roll this short to the same expiration that my long is in for a credit, a nice credit, and reduce the premium that I paid on the overall trade and leave the trade open until there were seven days left and then evaluate whether I want to close the trade at that time or leave it open for a couple of days. Alright? Now the reason why I'm comfortable doing that is because the long call spread had very good results. That's not always the case. And sometimes the long call or the long call spread will have results that are so much better than a diagonal that I will start 14 days to earnings with just the long call or a long call spread and forget about the diagonal.

([10:08]()):

But I like that extra component of the diagonal. I gain some premium when that goes away, it reduces the cost of the debit that I'm paying for the overall trade and then I'm more than likely to sell another call in the longer expiration against that original 50 delta cost. So that's what that looks like and you've seen the variation of a simpler trade just being long a call 14 days before earnings. Now I'm going to attempt to do a new share. Let's see if I can do this without messing up. I want to load my trading platform for a second share. All right, everybody see my trading platform? We do. Alright, so the first thing is I've preloaded the trade in this case with JPM trading. Last trade during the trading day was 2 0 7 36. You'll see that the closest to the after money, which is in the 15 day 15 DTE, which is the closest to that 14 DTE and it's after the earnings event, which was July 23rd at the money is the 2 0 7 and a half call.

([11:18]()):

So I want to buy one of those and then we'll go to the shorter expiration closest to seven days, but definitely before July 23rd in this case, July 19th. So that'll be eight days and the option closest to a 30 delta is the two 12 and a half. And I want to sell one of those. And here's the trade. If it was 14 days to the earnings event, I'd be paying 2 97 or a five point wide diagonal spread. I like the debit that I pay to be less than the width of the strikes. Just makes the trade more effective and that's the trade. Now there were some others on the today tab. I'll briefly show why I did not use them. If I can switch back, you're not going to see this, but I'm looking at the today tab and the first stock was BY. So we'll go back and we're going to type DY in.

([12:14]()):

Can you still see my trading platform? I can. Okay, so now here's the issue with stocks. Sometimes this is a 14 day pre earnings long called diagonal. We want the long slightly after the earnings event and the short slightly before and the other today tab entries only have monthly expirations. So while it has an eight day July 19, which is before the July 23 earnings event, the next option expiration is 36 days away. It's too far. It's not going to take advantage of limited data until the earnings event it well. So I go through and one of my first steps is going through each stock that's on the today tab that has good results and seeing if they have weekly expirations like JP Morganton did. Alright, so that's the way I attack this monthly expiration too far away for the long. So I don't take the trade. Alright, so I'm going to minimize this and I guess I have to do a new share. Again, I

Amanda Kelley (13:23):

Would just add here too, and if you're not comfortable like max trading monthlies in these cases or specifically if you're very advanced and you are looking at trading the Greeks he said like theta, then you want to be more cautious of that. And for the beginners that are not anywhere near Max's experience level, we do have resources that can help you get started. Understanding what he was talking about with data and even more basic with Delta, which is a large part of what trade machine bases everything on is Deltas.

Max Katz (14:00):

Alright, so I just clicked on the learn tab. Now you can get to the learn tab from today tab, you'll see it's right there. Learn I already preloaded it and you'll see what Amanda was referring to. There's one section right here that talks about an options education taught by the CTO, Jason Hitchings. Alright, that's not what I wanted to cover today, but it's right there on the homepage of the learn tab. What I wanted to focus on is

Amanda Kelley (14:32):

You went right into it with mentioning theta, it felt

Max Katz (14:34):

Natural. Now what I wanted to focus on at the beginning, if you're a new user, you definitely want to go through the getting started, how to use trade machine section. You want to focus on the backtester and you want to focus on the today tab. You do those two things. You know how to use those things. You can start using trade machine effectively when you start looking at the individual strategies. If you have questions, you come to the learn tab and you either go to the general section or you type the name of the strategy in the search button right here. So I'm just going to click on the category trade machine strategies and features and you'll see looking down the list that we have all the major strategies right here, including the pre earnings 14 day diagonal. I'm going to click on it and there's some detailed discussion of what we went over. I'm not going to repeat it, but it's very detailed and very complete and I'm sure does a much better job than I did in the 20 minutes that I spent talking about it. And it also includes a couple of videos with some better presenters than yours truly. All right? And you can do that for any strategy that we have. Alright, and with that I'm ready to start answering some questions.

Amanda Kelley (15:52):

I've got you. In the example you showed there are only two trades specifically wins in the history. How reliable can it be with such a little sample size, at least I believe the JP M1 had five trades, but what would you say is the minimum number of trades to make it significant?

Max Katz (16:12):

Okay, here's the way I look at the Backtester alerts for three years. I want multiple, sometimes I'll take two, sometimes I won't go less than three occurrences. So it could be two in one, it can be four and two, I don't go down past a winning percentage of 66.8 or 66.72 thirds, but I liked the original, sorry about that. It's going to recalculate. This was four occurrences, this is a three year back test. That was fine for me when I added the AI component. There were only two occurrences that'd be borderline for me in a three year period, but because it had the AI component, I might do it anyway. That's just my personal preference. Now when it goes down to two year, for me, I want there to be at least one occurrence. So two to three minimum in the three year time period, back test two year, got to have at least one occurrence. If it doesn't have an occurrence in the one year back test for me that's fine. For others, they want to see at least one back test occurrence in the one year period. I can live without it as long as there were multiple in three and at least one in two. I

Amanda Kelley ([17:29]):

Would add, it's important to remember with this because it is an earnings trade in a three year period, there's only 12 opportunities for it to trigger and because it has a technical open, it's not necessarily going to trigger every earnings period. So you're significantly reducing the of seeing this occur in general. So keep that in mind when you're looking at different trades. If it is an earning specific trade, you're reducing the number of chances that it could happen

Max Katz ([18:02]):

Right? In one year there's a maximum of four occurrences. So if there's no occurrence in the last one year, then the stock was sitting below the 50 SMA and I won't hold that against it.

Amanda Kelley ([18:16]):

And it could be market conditions too, depending on when you're looking at that one year period. So it's always important to remember kind of the perspective of what you're looking at in relation to what trades were possible in that period.

Max Katz ([18:31]):

But for other alerts, if you want to set a minimum of more occurrences, no there's nothing stopping you from doing that. The today tab and the back test that will show you the actual results and then it's up to you to decide if it's good enough for you or not. I can show you another example if I can get to it quickly. This is a one day trade and you can see that it's in the last year and a half. It's had 14 occurrences, that's more than enough for me. Alright, but that's not why we're here. Okay, what's next?

Amanda Kelley ([19:05]):

We actually don't have any other questions in chat right now, so does anybody have any questions that they want to drop in there for

Max Katz ([19:13]):

Us? The other important area, while people are thinking of other questions if they have any, is the community. The trade machine community is, I have to say not because I'm the ambassador is outstanding. We have several probably a dozen experienced traders who have learned how to use trade machine and contribute a wealth of non today tap trades, sharing their back tests, talking about the trade and it's just fantastic. I've never seen better and they're very nice. I guess that's one of the rules. You have to be nice.

Amanda Kelley ([19:54]):

It is one of our rules, but I would add that these people genuinely, there's more than a dozen people. We have a lot of people that just get in and look, but there's at least a dozen people beyond max that jump in and will answer questions and some of these users have been around as long as Max, some of them have not, but all of them are willing to help each other and answer your questions and help you find trades that are for every different trading style. I mean we, I can't even tell you how many different people we have that are contributing to the community and the level of expertise there is just absolutely amazing and mind blowing to see every day.

Max Katz (20:39):

Right now back to the 14 day pre earnings diagonal trade. Jack asked me a question earlier today and I'll just click on my response. I'm known for being the trader who finds almost any reason not to take a trade. I'm very conservative before I risk my money. So Jack asked me about the NOW trade from yesterday, but he asked today, so I went in and looked at it and my response to Jack was now is a big boy expensive stock. I think it's over $500 and while the three year, two year and one year back test look good, the options in the July 26 expiration that you would use for the long part of the diagonal are about $3 wide and that's way too wide for me to consider taking this trade. If the option bid ask is too wide, it's going to be hard to get into the trade at a reasonable price and it's going to be five times to 10 times harder to get out of the trade at a reasonable profit or minimize loss. Alright,

Amanda Kelley (21:48):

So Max, since you mentioned that we did have one question come in and I just told the user to go ahead and email support that they have questions about not receiving alerts, but as you were talking about that, you were talking about how you've identified that the liquidity was not great on that. There is a tool within trade machine for platinum subscribers that will help filter out low liquidity options.

Max Katz (22:10):

Can you see that?

Amanda Kelley (22:11):

We can, yes. We are working on rolling this out to all users to some scale. I believe what it will look like for all users is that it's just going to show you three plus automatically or there'll be a button that you can select to only show three plus, but for platinum users you can filter two plus three plus four plus or just C five for the best. There is a very, very detailed resource on the learn tab that tells you how we determined liquidity for each of those levels and kind of what's going to be excluded because five excludes under a certain dollar amount, I believe it's under $5 tickers that are under $5 a share won't even show up when you do a five, but that was something that was highly requested by users to reduce the number of trades on the today tab. It can be a lot.

Max Katz (23:05):

Yeah, the number of alerts and it may have great results and you go and you evaluate the alert and it looks good and then you pull up the stock on your trading platform and it's

Amanda Kelley (23:17):

You're fine to just

Max Katz (23:19):

Like that dollars 60 cents. I have suggested that that minimum be at least 10 bucks, but for now it's five bucks. So I had click three plus and you see just as an example that there are one stocks on the pre earnings 14 day diagonal. Now I'm going to click five, which is the best liquidity and you'll see that there's only one now, unfortunately I did check this out. HIG only had monthly expirations, which were liquid, but as I explained before, the long was too far away for me to take the trade.

Amanda Kelley (23:54):

Currently that is exclusive to annual subscribers. If you have questions about annual, you can always email support asking community. There are also details on the learn tab about platinum as well. There are additional features. I don't want to dive too far into that, but I just wanted to mention it because of the liquidity being a specific comment there.

Max Katz (24:15):

So very quickly since Amanda brought it up, upgrading to trade machine platinum or annual, these are most of the advantages. The backtesting works seven times faster. You can backtest up to 200 tickers at a time. I believe the regular user is limited right now to 50.

Amanda Kelley (24:33):

Correct? That number will be increasing relatively soon. I don't have a date, but I know it's been

Max Katz (24:39):

In discussion. I think they're both going up, right? I

Amanda Kelley (24:41):

Believe so, yes. I think we're discussing 100 and 500.

Max Katz (24:46):

Yeah, something like that.

Amanda Kelley (24:48):

Just trying to make sure that we can still deliver the fast speeds that everybody is used

Max Katz (24:52):

To. And then below where it tells you on a back test, active now or not active, you can see if you're a platinum user, you can see the suggested strikes and expirations for the trade in question. Now I use that as an initial guide. Don't necessarily want everybody to lock into those expirations and strikes because sometimes there's a better alternative, at least in my opinion. But it will give you a great starting point for the options to use in an active strategy. It also gives you that liquidity filter that we talked about on the today tab and you get the latest features before they're available anywhere else.

Amanda Kelley (25:38):

And right now I believe we haven't officially announced it, but I believe you should be seeing HV as back testable options if you are a platinum member. We just rolled that out as a technical condition for platinum users. So

Max Katz (25:55):

I thought that was there for everyone. To be honest.

Amanda Kelley (25:57):

It's not yet.

Max Katz (25:59):

Okay. I announced it on Sunday morning like that, sorry.

Amanda Kelley (26:02):

We always, always use it for our annual subscribers first, give them a period to try it. That also gives us time that if anything does come up, that we can work through it before it's on everybody's screen.

Max Katz (26:15):

Okay, so you can see it on my screen now. I just clicked technical open for that JPM trade and one of the possibilities is the implied volatility 30 day, the IV 30 percentile and the HV 30 percentile.

Amanda Kelley (26:29):

And there may be expansions coming to that in the future, but like I said, this is kind of version one. We had SIBO discontinued the data feed for us, so we had to come up with a solution that was going to be the same level that you guys come to expect. That's why it took us a little while to get it out. Alright, we've got one more question that came in.

Max Katz (26:50):

Hope it's not

Amanda Kelley (26:50):

A hard one. I'll this webinar be in the recording section. The answer to that is it should be in there tomorrow. We try to get it out. Ideally I try to do the same day if possible. Generally it's the next day though, but no more than one to two days most of the time. That was the last question in the chat, unless anybody has anything, can you show where we can find the explanation of strategies? Can you pop? Sure. Pop that up again,

Max Katz (27:16):

I think. So we go back to the home and right on the home screen of the learn tab, you'll see this general category, trade machine strategies and features. Click on it, he says click

Amanda Kelley (27:29):

On it. You can also just use the search bar to search for the name of the strategy as well. The search is actually very intuitive, so anything that has that strategy name in it, you may find other resources that go more in depth as well, but this is where you're going to find the

Max Katz (27:47):

Really, I wanted to show the whole list again. Yep. Alright. Does that answer the person's question? It

Amanda Kelley (27:52):

Did. They said thank you very much for your help, max.

Max Katz (27:56):

Okay. Thank you. All right. Nothing else. Once again, the community is the place to be. If you are also a CML Pro member, you have two different communities. It's also a great community CML Pro. It's a good product. I'm a user.

Amanda Kelley (28:11):

I love CML Pro all the way. Don't get me wrong. The trade machine community is just something special to me. So if you're not in the trade machine community, you need to get in there and just take a look because

Max Katz (28:24):

Right, even if you don't want to contribute, don't be afraid. Just lurk

Amanda Kelley (28:29):

Around.

Max Katz (28:30):

Don't be afraid to ask questions. And don't be afraid to copy someone's proposed strategy. Just backtest it. Make sure you want it to be your strategy, your alert, and then you can add that alert to your personal alert database. There's

Amanda Kelley (28:46):

Something beautiful about the way that everybody chimes in helps out and is just there to support each other in the trade machine community that you don't see anywhere else. We're all on social media. We all know what it's like and this is just not like that. So if you're standoffish because of social media, don't be. Everybody is nice. And if not, max is going to tell me and we're going to handle it.

Max Katz (29:12):

Oh yeah. Oh yeah. Iron Fist will handle it. Thank everybody for coming and we'll do this again next week.

Amanda Kelley (29:19):

Next week is a Tuesday session,

Max Katz (29:22):

Right? Tuesday afternoon, 2:00 PM ET. And I hope to see everybody in community.

Amanda Kelley (29:28):

Thank you everybody. We'll talk soon.

Max Katz (29:31):

Okay. Thank you, Amanda. Bye Max. Have a good night.