Ophir Gottlieb (00:00:01):

This is not a solicitation to buy or sell any security ever. This is not advice. 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. Capital market Laboratories is not a qualified person, firm, or corporation. Okay, what are we going to do today? For those of you that were on the Simpler trading webinar, a lot of this is going to be repeat. I'm just adding some extra color for actual trade machine members and then there's a whole section that I didn't do. Okay? I'm going to talk about what I'm going to talk about point of this webinar. I'm going to talk about what makes a successful trader in my opinion. I'm talking about a successful option trader in particular, I'll talk about what has made a successful trader for the last 15 years. So these are where we get into actual trades.

(00:01:01):

I'll introduce our new social media, which is coming January 31st, 2021 at the earliest. And then I will tell you all of that again in the conclusion. So let's start out with the point of this webinar. I believe that a successful trader, in particular, a successful option trader looks at the arc of a year, a decade, or even a career. And that means that it is not about discovering a new idea every day or every week. Don't get me wrong, when new trade ideas pop up and you want to go size, that's a part of trading that is not a part of developing a career.

(00:01:51):

So what is it about? It's about using the apparatus that has been given to us. And here's the best part for option traders, which we cannot say for stock trading, this apparatus will never change, ever. The mechanism and its paradigms never change. They are fundamental to the pricing of a risk asset, which is a derivative of another asset. That's the good news. There's some not so good news. There is a difference between wanting something and liking the idea of something. Have we have placed in the Los Angeles and right now we're in our place in Nevada, whatever. In LA there are a lot of actors, God bless 'em, and I used to hear a lot of people say that they wanted to be actors, but if you really observe their actions and what they really mean is that they like the idea of being an so in an industry where only the top 1% make it wanting is radically different than liking. And that difference is effort. Someone that wants to be an actor will put in the effort. Someone that likes the idea of being an actor will not a lot of people say they want to be successful traders and investors. And it is a perfectly reasonable thing to say that you like the idea of being successful trader because it sounds like a good idea. It's really okay.

(00:03:43):

And the truth of the matter is if you can only like the idea of being a successful trader because of life, that's okay too. Because when it comes down to it, jobs are hard. I don't know how retail investors have a job and trade that just blows my mind. You guys are my heroes. Jobs are hard. They take time and energy and not only that, life is hard and it takes time and energy. It's hard just handling the tragedies of life. Not to speak of the day-to-Day, but in an industry where only the top 1% make it wanting is worlds different than liking the idea. The difference is effort. So the question that all of us have to answer independently is what is it that we are willing or not willing to do with respect to effort to become a successful trader or investor?

(00:04:45):

So in this webinar I'm going to review what I think it takes to be a successful trader to make millions of dollars every year, but I have great regard and respect for those of you that simply cannot commit to it. Great regard and respect being a mother, a father, a brother, a sister, a husband, a wife, a friend, a decent human being is far more important than being a good traitor. So if you have to choose one, choose the former. So before we get started, I just want to say to all of you, since I'm going to be talking about finance and it means I'm going to be ignoring what's really happening in the world, I wish you all a fabulous 2021 personally and I'm so very sorry for the pain you may have felt in 2020 and what you might be feeling right now.

(00:05:41):

I like to say this little phrase I like to say, it'll get better after it gets bad, but sometimes better isn't really good enough relative to the pain some people have endured. And for those of you, I'm so very, very sorry. Having said that, you are here to see a webinar on option trading and that is what I'm going to do. So here we go. Let's talk about what makes a successful option trader mentally before we get to what could make a successful option trader actually wanting isn't just to be successful. So what does a successful option trader look like in my life that I've seen, the professionals that I've seen, I was a market maker on SIBO and N-Y-C-N-Y-S-C in person and SIBO remotely. I've been a hedge fund manager.

(00:06:48):

I am a successful trader as I define it, I have been for decades. So what you're looking for is roughly eight to 10 months of profitability a year for every year for decades. That's not 12 months of profitability a year, that's eight to 10, but the down months are well contained relative to the up months. So what does that mean? That means your worst month of the year shouldn't be any worse than let's say your third best month. It shouldn't wipe out everything, nor should it even wipe out your best month. That's how you know you're on the right track. So another thing you need is a comfort or expertise in more than one type of trade. You just do.

(00:07:35):

You just do. And here's where I'm going to lose half of you, but I'll bring you back later. You ready? Naked call buying and naked put buying is not a strategy that I have ever seen as successful by the definition above in the long run, that doesn't mean you can't make a lot of money. Buying calls and buying puts naked. I'm talking about eight to 10 months of profitability a year for every year for decades where the down months are well contained relative to the up months. I've never seen it done in my life and I have known a lot of traders spanning the income brackets of 10 figures to lower.

(00:08:30):

Actually I know quite a few multi-billionaires, they've made their money from the market and they've never made their money consistently doing this. Option trading is volatility trading and therefore a naked put, sorry, a naked option. So a long call long put short call short put on its own is both a position speculation. So stock speculation, a stock direction speculation and a volatility speculation. The only way to hedge an option is with another option. The only way to hedge an option is with another option. When options were first introduced in the early 1970s, they didn't even have put options because a call and a put are the same thing with put call Perry. I want you to think about that.

(00:09:36):

We have everything we need to hedge an option with another option, and when we do that, we create an apparatus that allows us to be successful with multiple trade types in any environment at any time. This is how we become successful option traders and that's what I'm going to discuss. We're going to apply what makes a successful option trader, which is effort. And that effort means an openness to new information. It also means a basket of different trade types. And this is the last thing I'm going to say about what makes a successful option trader. We're going to get into education and trading. So here we go. What has made a successful trader for the last 15 years? Actual trade setups. Then talking about 2020 and 2021, trade type Number one, let's look at getting bullish ahead of earnings, but I want to profit on volatility twice.

(00:10:52):

One trade, I want three positions. I want to be bullish. I want to be short vol on one and profit from it and long ball on the other and profit from it. Well that means we're going to need at least two options in the trade since an option can only be hedged by another option. So first I'm going to give you a picture, do a little education and we'll move forward after this webinar in several months I will be doing a webinar on option speculation. So how to speculate with options. No one in that webinar we'll understand anything I'm talking about without the next 20 minutes of this webinar. You cannot speculate successfully if you don't have a mastery of volatility, you can't be good at it or be aware of it. You have to be top 1% and that top 1% starts right now. This is what an option looks like over seven days. The axis is the time value.

(00:11:57):

The horizontal axis is time to expiration. The time value reduces to zero as options approach expiry, but we knew that. We knew that what we need to get better at understanding is that the time value of an option implodes as it nears expiration. It is not linear, it's parabolic. Next slide. I'm going to have two bullet points which I'm just going to read. Wrote, they come straight from the OIC, the options industry Council, just so you know that I didn't make it up. Bullet number one, theta or time decay is not linear. The theoretical rate of decay will tend to increase as time to expiration decreases. Don't worry, I'm going to show you a picture which makes all the words go away. Thus the amount of decay indicated by theta tends to be gradual at first and it accelerates as expiration approaches. That is from the OIC, both of those from the O iic.

(00:12:57):

So I'm going to look at the same picture and show you that it's true. This is the same chart. What I've done is draw a vertical line halfway through expiration about three and a half days, give or take on the left hand side of that red bracket. We can see how little time value has evaporated in the first half, which means of course when we get to the second half, all the rest of the time value comes in rather than explain this over and over from here, forward together, we will call the something, we'll call it what I was taught it was called. It's called the theta paradigm. The theta paradigm tells us that time decay gets worse as time to expiration gets closer.

(00:13:55):

So to be consistently profitable, at the very least we need to know about the theta paradigm at the very least. But in reality we need to act on it. The market hands us an apparatus, a security that is a derivative of the price of another security as it has been solved with three Nobel prize has given us this tautology. And if we want to be successful rather than liking the idea of being successful, we'll have to act on it. So what are we going to do first? We're going to be long during the time periods of little theta decay and second, we're going to be short during the periods of large theta decay. Now with this in mind, we'll look at three actual traits. It turns out that for a short-term option, short-term option, that's 14 days or less, the theta paradigm is even greater if earnings happen before expiration. Hold on one second, sorry. Sorry about that.

(00:15:30):

So we already had this, remember this data paradigm picture, this is just a standard seven day option halfway through there's only this much time decay. Second half through there's this much time decay, but we get something else. If we use earnings, we have this. The difference or the amount of time decay is even less in the first half than in the normal theta paradigm. And if this picture is a little confusing, I have another one. Maybe this is a normal option and this is when there's options, sorry, earnings. Earnings have to come inside this expiration. So earnings would be right here.

([00:16:08](#)):

So we're going to be long during the times of little theta decay and we're going to be short during the times of large theta decay. So we're going to be long this 14 day option, which has earnings inside of it and we know time value will implode as we approach and we want to be short this option with seven days to expiration because we want to take advantage of this perla. So we will use the theta paradigm and then we will accentuate the theta paradigm with earnings. So we will get bullish two weeks before earnings and not only eliminate theta risk, but now use it as an asset. And how do we do that? We'll use a diagonal,

([00:17:01](#)):

We're going to sell a short dated option one week and buy a longer dated option at least two weeks and offset the strikes to get bullish. So selling the short data out of the money option looks like this. Here's two weeks of expiry. These are just strike prices. Same strike prices, right? One week, two week earnings is somewhere in here we're going to get short. This is say the stock is a hundred dollars. We're going to get short this one 20 strike stock's a hundred. This is an out of the money call and then we're going to get long a call to protect that. We're going to get long the hundred strike. So not only are we owning the expiration, which has earnings inside of it to even further reduce our theta decay. We're going to own calls that are at the money to protect calls that are out of the money because an option can only hedge an option.

([00:17:59](#)):

Can you slide?

([00:18:05](#)):

We're going to offset strikes to get bullish. So it's not just a calendar, it's a vertical. A vertical with a calendar is called a diagonal. Now for some people this vertical picture doesn't do the trick, so I'm just going to do the same thing. I just didn't do it horizontally. Maybe it'll work better in your brain. So earning earnings are here. We're going to get short a one week call right here. It's red, it's weak, and it expires here. We're going to get long this 50 delta call, which has two weeks to expiration. It expires after earnings. But we're going to close both right here. We're going to close both in a week we'll get almost, almost wasn't say we will minimize time decay here. We will maximize time decay here while getting bullish. So we'll be short during the periods of large data decay and we'll be long during the periods of little theta decay. So here it is. So first I'm going to give an example, an actual real world example.

([00:19:27](#)):

DocuSign was trading at 2 19 70 on December 3rd, 2020. So this is almost a month ago near the end of the year. Okay, sorry. It had an earnings date on 12 3 20 20. So 14 days before was 1119. DocuSign was trading at 2 19 70 on 1119. Okay, so here we are 14 days before earnings, 14 calendar days before earnings. So we got short the 2 27 50 calls that expired on November 27th. Expiry is before earnings and then to protect that, we're getting short this time, decaying implosion, we got long this the December 4th calls. So they expire after earnings and we're buying the 2, 2 22 and a half calls versus the 2 27 half calls, right? So we're long a vertical spread and long a calendar spread, which makes a diagonal.

([00:20:32](#)):

We shorted the two 20 sevens at three bucks, got long for 1227. So we've paid 9 27 for this trade. Our maximum risk is therefore 9 27 plus commissions. Of course we close when these short term options, these front month options expire. So this red would be the NOV 27, 2 27 half calls. This green is the December 4th, 2 22 50 calls. So here's what happened. We want to get bullish DocuSign before earnings on November 27th. The stock went from 2 19 70 up to 2 26 87. That means the short calls went to zero. They're 2 27 half calls. The stock price on expiration closed at 2 26 87. Those calls are worth zero. We've collected all $3. Our long calls actually went up because the stock went up. We have profited from the theta paradigm, have profited from a bullish run and have protected some of our profits by seeing less theta decay because earnings is inside this expiry. So the spread went to 13 point 30, that means we paid 9 27, we received 13 point 30, we made 43% in one week.

(00:22:09):

This is what DocuSign has looked like for all of 2020. If you did this diagonal spread 14 days before earnings, exactly what we just went through. The reason there's only three trades is not four. I'll show you they actually didn't have weeklies, but I'll show you. So let's talk about 2020. DocuSign was just an example to put numbers to, but nobody really cares about one company. So what happened in 2020, getting short this one week option, watching it implode, getting long this option which is protected by earnings and always selling before earnings. If we look at the NASDAQ 100 plus the 100 largest technology companies and put them in a portfolio, there is some overlap because some of the 100 largest technology companies are in fact in the NASDAQ 100. So it turns out I think it's 166 companies, that's my study group.

(00:23:10):

This pre earnings diagonal had a 60% win rate and an 11% average trade return. That means every week that this happened, every trade we were averaging 11% over a seven day period. And what would've happened if we only used one of the theta paradigm? So what would've happened if I said, yeah, yeah, yeah, I just want to buy the 14 day call ahead of earnings and I want to sell before earnings. I want to take the bullish run. I want to be protected with my theta, but I don't want to use the other part of that theta paradigm. The win was 51% and the average trade return was 10%. It turns out that the average trade is not statistically different. It turns out that the win rate is this trade in general. So just getting naked at a long call and then selling right before earnings has a statistically significantly lower win rate. It did in 2020 and it has for the last 15 years. The top strategy is a gift over the long run from the option market and it must be because of the way a asset is priced when it is derived from the security price of another one.

(00:24:33):

Does that mean that there is no room for naked long call buying ahead of earnings and just selling right before? No, of course there's room for it. Of course there's room for it. You have to know which ones. But if you couldn't know which one and you just walked away from this webinar and wanted to change your mindset, go with the top one. Okay, we have to ask ourselves what we are or are not willing to do with respect to effort to become a successful trader or investor. It might feel uncomfortable, but comfort is not what we're after. There's only one scorecard in finance. It's not like sports. You can lead the league and assist in the NBA and not be paid very much. You can sign a mega contract and just have a terrible year. It doesn't work like that in finance. In trading, there's one thing and one thing only. How much did you make? That's it. There's no crowd watching. There are no fans, there are no contracts, there are no guarantees. There's one and only one metric. Profit and loss. What are you willing to do to become a successful trader?

(00:25:58):

I'm going to go into the software now for a little bit to talk about some other companies. I will go through strategies which build on the theta paradigm, get away from earnings and focus on using this same market apparatus. So for now, I'm going to go to trade machine. For those of you that are not trade machine members, you do not need to be a trade machine member to benefit from the rest of this webinar. I just happen to use this tool. Of course I do. We made it, but you don't need it. But I will have a drink of water. Alright, and here we go. Let me log in before I show you my screen so nobody steals my credentials. All right, so trade machine members. We're going to deconstruct what works on trade machine a little bit more. So we will go to the ProScan tab, we'll look at the NASDAQ 100 and let's just focus right now. We'll be looking at others. Let's focus right now on the 14 day pre earnings diagonal. Let's just go ahead and choose DocuSign since it's an example that we discussed and we can look at some of the trades. I'm going to change the settings to be just 2020. Obviously longer back testing is worthy, but for right now I want to talk about 2020.

(00:27:57):

So I'm manually changing the entries to the full year of 2020. We're going to get an error message. It's actually not an error message, it's a message. It tells us that on February 27th the spread couldn't be opened because an option couldn't be found. That was less than the first leg expiration. There were no weekly options yet and DocuSign. So what trade machine is saying is a, Hey, just so you know, we skipped the February earnings session and that's why you're only going to see three trades. Okay, the back test ran fine, I just skipped the first one. Said this is not possible. I can't do this. So let's go ahead and click on the back test tile and let's go to that example. Exactly the example, do you remember it was November 19th. DocuSign was trading at 2 19 70, entered those D 4, 2, 2 5 calls and sold for the front month. The calls expiring on November 27th. We paid our 9 27 and that 9 27 ended up being worth 1330. That's where these numbers come from. You can always look, and this is a part of option education. What happened? The stock price went from here to here. What did the options do?

(00:29:24):

What is the strategy we're looking at? It is called the QATM diagonal special. Anytime you see QA on a custom strategy, it means it's ours, right? It means trade machine has built it for you, you automatically have it, okay? You have to run the scan to get it, but it will be there for you. And it's exactly the strategy. We talked about getting long and at the money call with 14 days to expiration and selling and out of the money option with seven days to expiration and of course using getting long 14 days before earnings. The rule is to close all of the legs with the front month options. So this says when these guys expire, just shut it down, shut it down. Alright, let's expand this a little bit. Let's look at five companies. I'm obviously looking at the momos because the momos are going to be a thing this year one way or the other. What was momentum last year is going to have some sort of momentum bullish or bearish this year. That's just a prognostication, but I feel pretty good about I.

(00:30:41):

Okay,

(00:30:43):

So this is Netflix, DocuSign, Tesla, CrowdStrike and Zoom. I couldn't think of any more Momo names. These are the ones, right? So we see 15 wins on two losses for this group. Now we've seen this. Let's compare this to a naked long call. We just click, let's put a stop on a limit and let's use a call. Okay? DocuSign went from a winner to a loser. Zoom's gains are smaller, but look at that. Netflix gains are just enormous. So being naked along that call for the right company is going to be better. If you feel like you can choose what that company is, then do that step outside of the sandbox. Also want to give a reminder that for trade machine members, we've upgraded you significantly. So you don't just have to look at five companies anymore. You can look it up to 20. So I'm just going to put 20 momos in here and actually while we're at it, let's do the diagonal first

(00:32:08):

If I can find it.

(00:32:13):

This is for 2020, okay, well lemme take the stops and limits out. So I'm going to show you something, let it finish. I'm just going to clip the win rate, wins, losses and average trade. So we don't have to remember these numbers. I'll move it to the side and I'll bring it back in a second. Let's put our stops and limits in and let's go ahead and use these same stocks in the same year, getting along a call and closing one day before earnings instead. So here we go. This top part. So what we just looked at, these are the diagonals. Here are the long calls, naked, long calls, win rates, higher average trade about the same, right? So yes, there are the monsters, the netflixes, but it also turns winners into losers. So it's really up to you which one you want to use, but I'm telling you one of them uses one tool, maybe two tools and the diagonal uses three. Pick and choose. But this is the options education. This is what volatility does and obviously since we're here and I got trade machine members on board, I'm just going to do a little bit of education on the app. Obviously we're on the back test tab, we were on the pro scan tab right

(00:33:51):

Here.

(00:33:56):

If we like these trades, we just click add alert,

(00:33:59):

Right?

(00:34:02):

Sorry, I'm going to move it over so my phone number doesn't show. Hold on one second. So I'm going to add an alert for all these companies. 14 days before earnings, there was a technical setting, the stock was above 50 day moving average. Put my email address. Oops,

(00:34:35):

Thanks.

(00:34:39):

You can put your phone number if you want to. I have a magical phone number. It's amazing. It's all fives. And then you can write this stuff a little note pre diagonal and you add it. And now I'm automatically going to get notified right when any of these companies are 14 days before earnings, I'm going to get an email,

(00:35:01):

Okay?

(00:35:03):

Alright. Now we've kind of beaten the pre earnings trades to death in all fairness. So I'm not going to talk about pre earnings trades anymore, but I am going to talk about trading. But what I'm going to do before then is mute my mic and take my sweatshirt off because my house just got really hot. Hold on one second.

(00:35:35):

Sorry about that. What else worked in 2020 that could work in 2021 beyond this pre earnings triple play? It turns out probably no surprise, turns out that buying the dip, however you define that, we define it in four different ways, but some version of buying the dip actually did quite well. Now that makes sense because we had the dip of all time March and April, but it turns out that even if you take out the march april period, it still worked. So I'm going to go to the pro scanner. I'm going to look at the

NASDAQ 100 again and this time I'm going to look at, this is going to be another diagonal, okay? I'm going to look at the Bollinger by the dip also, I hope you guys are enjoying our neighbor doing his front yard probably comes up nice and clear in my microphone. It's live. What can I do? Okay, let's sort this by wins or something. Here's Tesla. Let's do a three year tested Tesla.

(00:36:49):

Okay? Whatever this thing is and I'm about to reveal it, whatever this thing is. In the last three years, it didn't happen very often. Didn't happen very often, four times in three years. So that's about once every 10 months, but when it did, it was worthy. So before I show the strategy, let's just see the technicals. What are the technicals? Okay, I'm just going to zoom in on 2020 so we can take a look at the actual stock price. Lemme do this. So what this is when the stock price dips below a Bollinger band, I'll show you how wide the Bollinger band is. A second and a second when it dips below this Bollinger band and if we scroll down the RSI goes below 25, that's the trigger and that's what happened. Okay, let's go ahead and look at the technicals before we look at the actual option strategy. Here are the technicals. Oops, here are the technicals. It's sorry, I apologize. It's the Rs I goes below 30. It's when the 14 day RI goes below 30. The 14 day RI is the one that everyone calls RSI. So if you're wondering what is that people, it's just shorthand and it's when the stock price crosses down through the lower band of a two standard deviation Bollinger,

(00:38:05):

That's the trigger. What's the option? Strategy, it will not surprise you. It's a call calendar. Let's make sure that's true. Yeah, that's not right. It's this call calendar. Should have a QA in front of it. There we go. Alright, we'll see the same results. And here's the strategy.

(00:38:38):

So this time we're getting long and again at the money call, but this time it has 60 days to expiration. So much longer term play, it gives this room. But if you just own, as you know at the money option in a stock like Tesla, you have tremendous risk that goes well beyond just the stock price. It's called volatility risk. It's called theta, theta risk. That's obviously Vega, but it reveals itself in theta. So we have to offset that risk. We want to hedge an option with another option. We'll get short of 30 day option with a 20 delta. The difference in the deltas that's at the money and out of the money gives us a bullish play. The difference in the dates to expiration, give us our theta paradigm. I'm going to answer some questions later which says, should the difference in the strikes be greater than the price that's paid for the spread? I'll answer. If you don't understand that question, it's fine. It's much easier when there's numbers in front. I'm going to address that and the answer is for those who already are just waiting for the answer is you can, it makes sense, but it's not always the best trade. But yes, that is one way to protect yourself.

(00:40:02):

Now for trade machine members, sorry, part of this webinar does have to be directed trade machine members. If you go to the learn tab and you want to know more about the strategy and how it's done, not just over the last year but over the last 10 years, 15 years, how it compares to others, just type in Bollinger and this video is going to take you through that. And the next one we're going to show you, which is a macd momentum trade. Okay? You get this little video. Let's go back to the pro scan tab. We have several buy the dip type strategies. One is called buy the sell off. One is called Bollinger Buy the dip one is called buy the dip and one is called the fade. The dip technical for those of you that still aren't quite comfortable with the idea of using an option to hedge another option, I'm going to do a little bit more convincing. Let's look at the Dow 30 this time and let's actually use the buy the dip scan and we'll go with our good friend Apple. Alright, first I'm going to look at the technicals.

(00:41:17):

So the 20 day RSI is below 70. It's a longer term RSI. It just means the stock is not overbought. It's hard to buy the dip if the stock is overbought. The shortterm exponential living average, the 10 days stocks above the 10 days. So the stock is finding a little bit of momentum, but fundamentally the stock is in technical failure because the stock is just this day crossing up through the 200 day SMA, right? So the stock has been below the 200 day moving average. It's now crossed above the 10 day, it's gaining some short-term momentum and now it's finally peaking above that long-term line in the sand, right? Okay, and the strategy is very simple. Buy a call, buy an out of the money call. I'm going to change this now since I'm going to talk about 2020 holistically. I'm going to change this now again, back to 2020, just manually doing it. Okay, I think there's two trades. Alright, now I just want to do the same tickers I used before. I'll just add apple to it since we don't really just want to look at one stock. Okay, here we go. Okay, here's how buy the dip did three wins, one loss, let's add, we might as well add some megas like

(00:42:42):

Amazon, Microsoft and Google. How about that? Amazon, Microsoft. Okay, so you can see when you put in the big guys wasn't great. Still like the average return though. Give me that every week. Let's take a clip of how these stocks did as we did last time. This is a naked purchase of a call when technical conditions are met, shrink it up. Let's switch to the diagonal that we used in the Bollinger by the dip. Remember that was strategy we just looked at. So these are the same technicals, simply a different option strategy. Again, the diagonals have a higher win rate and a higher average return. It's personal taste. What you do when you trade options and there is no one single setup that therefore means you'll be profitable. I wish, I wish. But there are truths about the market.

(00:44:12):

If the option market had something like the rest of securities have, it would be called the fundamental theorem of option trading. We have a fundamental theorem of finance and the fundamental theorem of finance tells us that if a basket of securities has the same payout as a single security, that basket of securities and a single security must have the same price. It's also called no arbitrage pricing. Well if there was a fundamental theory of option trading, it would be that there is always a theta paradigm. That's it. So I like edge in my option training and if I have to play by the rules that are given to me, I want to find every single part of those rules that benefits me. Some of them are going to hurt me like a bid ask spread. For example, I used to always buy on the bid and sell on the offer.

(00:45:13):

I was a market maker. I had to get used to being on the other side. So this is an apparatus that works for us. Much like if you're a stock investor, we have an even more magical apparatus. It's this thing that goes up for out of every five years and on the years it goes up, it goes up more than the average year it goes down, let's call the stock market. Well this is what we have in the option market. It's a little bit more complex. It's not quite as absolute. We don't get win rates like that. It's not quite as easy, but the truths do exist.

(00:45:48):

I'm going to go back to the PowerPoint for a second and talk about all of 2020. Alright, so we have four buy the dip type trades. It's actually three buy the dips and one is sell the dip by sell the dip. I mean sell options against it. So we looked at buy the dip Bollinger together and we looked at buy the dip with a call. I want you to notice the average trade return was the best in these two types, but look at the win rate again, the diagonals take less risk and in the long run should drive a higher win rate. A higher win rate over the long run is what helps a trader reach long-term profitability. We don't want, well at least not in this webinar, we're not looking at the 80% win rates. We're not looking to sell pennies and pick 'em up in front of a freight trade.

(00:46:49):

I can show you 90% win rates all day long, but that 10% when you lose, you're bankrupt. So that's not what we're after. You don't want to squeeze that win rate to be too high. You're not taking enough risk or you're taking more risk than you think you are. But yet again, the diagonals outperforming the call. We have a buy the sell off didn't occur very much. Win rate was 64% high, the highest win rate, but the average trade was very small for trade machine members go to the learn tab and look up the buy the sell off. What's happening here is buy the sell off is a total utter disaster in the technicals. It's not just, oh, the stock goes through the bottom half of the bottom part of a Bollinger, it's oversold. I'm talking calamity right? RSI below 25, just total utter stock destruction.

(00:47:34):

It turns out while doing the strategy of buy the sell off would've won much more often than would've lost. It actually wasn't really worth it last year, but we can't really tell what's going to happen in 2021 and holistically speaking, a buy the sell off type of strategy, there's every reason to believe it should work. Again, we don't know that's trading, but we'll protect what we don't know by using a theta paradigm. So when we're wrong, we don't get our faces ripped off. So in total, these four together, average 17% for trade, it's about 800 trades. Obviously no one's doing all of these trades. I don't think the win rate is 61%. If you remember with the diagonals, sorry, the pre earnings diagonals, what was the win rate? 60%. These numbers aren't accidents, they're also not guaranteed. We have bullish momentum trades and we have two of them. One is our macd momentum and one is our three inside with RSI. I'll review them in a second, but why do I want to? Because it turns out in 2023 things worked pre earnings momentum, which has worked every single year, including every year of the great recession,

(00:48:49):

Buying the dip in different flavors. So a portfolio of trade types don't fall in love with one and not too surprising and not necessarily repeatable. When stocks found momentum, they just ripped. We'll look at macd momentum and three inside a little bit later what those strategies are, but they also make use of a diagonal and what was the win rate? Sixties. It's not an accident, it's not a sure thing, but it's not an accident. Okay, so before I get back into these particular strategies, I do want to tell trade machine members about what's coming with our new social media, our new Twitter,

(00:49:38):

Okay,

(00:49:41):

It is coming January 31st to some users, to some members, we have to start slowly to make sure things aren't leaking right. And I'm very, very conscious of the speed of the social medium. It matters to me that it's fast and at the beginning it won't be that fast. So we're going to invite some people, but it's coming soon and it might be to everyone January 31st. I'm just not sure, but someone's going to be using it soon. So what is it? Here's our snapshot. This is it. So this is literally, this is an actual snapshot of it other than the words new social medium. This is it.

(00:50:17):

If you're a CML Pro member, you'll have this. If your trade mission member, you'll have this should look pretty familiar to most people, alright is where you share a post, you'll see, oops, there'll be featured people. It works essentially the way Twitter does. It's just a little smarter. So for example, there's an edit button also there are some tools built in which make it not a dumpster fire. So it is a social medium open only to trade machine and stock trade machine members first CML Pro, you'll get it soon. Okay? First I got to work with the heavy users to make sure it works. Okay. You'll be able to share ideas of sentiment charts, back test links back test results just like you thought. We will also have soon after this a way to select trades back test that you like and to apply them in a paper trade and you will have your own paper trading scorecard that if you want you can make public, you don't have to. And through that we'll start finding people that are finding the best trades. And so through the social medium, by the power of a community, we will naturally be finding the trades that are succeeding, right? What's working in the last month, last two months. Here we go.

(00:51:48):

For people who want to, they can answer new member questions. You don't have to, but it would be lovely if you did. The support system is mainly going to be run by members for members. So if someone's spamming is members who are going to get a kick out in general, I think it's going to be awesome. But I want to tell you guys, I could be wrong, but it might not be awesome. Actually depends on you. I think it will be awesome because of you, but I'm willing to be wrong, okay? Isn't it? It is not a guaranteed part of a subscription

(00:52:24):

When you have trade machine. Now someone else signs up for trade machine, they're going to get it, but it doesn't mean you get to keep it forever and we don't charge for it per se. It is not a platform for your Herbalife account, okay? Please don't sell stuff in here. That's not what we're here for. We are here to become consistently profitable traders over the arc of a career. It is not a platform to discuss politics. Some political messages will be allowed if and only if they're t to the market. For example, when Joe Biden releases his infrastructure plan that could move the market, we should probably share that, but I don't care about your political beliefs as much as you don't care about mine.

(00:53:16):

I want you to think deeply about how interested you are and what I think about politics. That's how deeply I care about what you think about politics. So how about this? Let's not share it. It is not a platform to bully other peoples. I urge you to take note of this because there was one bully in this community that is bigger than all of you and you don't want to piss that bully off. It is not a platform to be an S. Also, it's not mandatory. You can use trade machine and you don't ever have to use this thing. It's going to be a tab and trade machine. You can never open it. Please, if you're successful trading and you just don't want to deal with anything else, go make money. The goal of trade machine was to help retail traders have access to tools that institutions have and to help you reach your financial goals. If that doesn't include being on a social medium, great. Just hit goal number one.

(00:54:19):

This is a privilege, which you do not have to exercise. You do not. You are under no requirement to participate in this whatsoever. It is not a burden, it is a privilege. So how do we get it when it's ready? It's not ready right now, so don't ask. Believe me, you'll know when it's ready. You'll have an automatic access when you sign into your account. There's no double sign in, okay? There's going to be a tab at the top of trade machine. It's called community or something. We'll try to give it some clever name. There are terms of use legal disclaimers and there will be a user's bill of rights. What you have as members of this community, what rights you have, the rights that we as capital market laboratories cannot interfere with rights that you cannot interfere with of another member.

(00:55:14):

Each piece of these, the terms of use, the legal disclaimers, which is just going to be very, very long and says, you can't sue us. You know what that is And the bill of rights, each one of them need to be individually accepted to participate. You got to in terms of use, blah, blah, blah. Agree, legal disclaimers, blah, blah, blah. Agree user's, bill of rights, blah, blah, blah. Agree. If you don't agree to all three, that's perfectly fine. You just don't get to participate. And what is our expected behavior? It's really simple. One bullet, common human decency, practice it.

(00:55:48):

How can you lose the privilege? Any violation of the terms of use or bill of rights like hostility or spam or continued sharing of non-financial related posts. Or you could face a community-based ban, which means if enough people in the community mark a message as inappropriate, there is no moderation. You're banned. You have to play by everyone else's rules and they get to decide if you're doing it and the same goes for them. And what happens if the privilege is lost? Really not that much. You just don't get to post. You have read only access and you can't post. Now there's a chance, a chance, I'm going to do this before I get back to trading. There's a chance that you would face a potential banner from all CML products for life. But I mean guys, come on. You'd have to be really, I mean don't ever do that. It would have to be so egregious and so hostile. I just don't believe that's the community we have, but it is hypothetically possible, so don't do that. Okay, I'm going to go through a conclusion then we'll go back to trading. And I have some questions not from this webinar, but questions which have been collected by support over the several months, which kept saying, they kept saying, Hey, we'll answer it, we'll answer, answer it now I'm going to answer. But first lemme do a conclusion.

(00:57:20):

The truth of the matter is that even in all the chaos of 2020, this year didn't actually look very different than prior years. The three trade types we looked at, which come out to around eight trades, they looked about the same every year. This theta paradigm, it's forever. It will never go away. It'll never go away even if you don't want it to be there. And there is a difference between wanting something and liking the idea of it. And that difference friends is effort. I believe that trade machine eases that effort for you. It doesn't mean that you have to agree with me. I believe that a successful trader looks at the arc of a year and then several years and roughly eight out of 10 months a year of profitability for every year, for decades. But it doesn't really matter what I think or believe. It matters what you believe and whatever you believe is perfectly reasonable to me. Just understand what you want from your trading in 2021 and beyond, is it To reimagine every trade, every time and hope that this year will be the same or better than last year. And then you'll do it again and again and again. Just keep re-imagining trades you see opportunities light up.

(00:58:59):

Or is it the perspective that comes from looking at the arc of a year or a decade or a career? If you answer that, you'll be just fine. And it does not require me or trade machine. I wish you a fabulous 2021. An ease to any pain that burdens you. You can get trade machine by going to trade machine.com. I'm going to go back inside the platform. I'll just here just so I can say I did it. Sorry, I have to type over the mic. It's probably incredibly loud. Hold this here for one second. I'm going to go back to trading trade machine.com. Trade machine.com. Trade machine.com. Trade machine.com. You know those radio commercials where they say get a lawyer, get your numbers. 5, 5, 5, 5, 5, 5. 1, 2, 3, 4. Get a lawyer. 5, 5, 5 5, 5, 5. Okay, that's what I'm doing. Trade machine.com. Trade machine.com, perhaps trade machine.com. Trade machine.com. Cool, we got it.

Jason Hitchings (01:00:05):

Yeah, this is Jason. I just wanted to ask a quick question on behalf of the attendees. There's a lot of people that were interested in the diagonal example that you gave that had a little confusion about how you chose the 50 delta and how you chose the 30 delta on the example. Would you mind just taking a minute to just talk about Delta and how you chose those strikes?

Ophir Gottlieb (01:00:30):

Sure. By the way guys, that was Jason Hitchings, our CTO, he built every single inch of trade machine. So you can also overwhelm him right now and give him a thanks in the q and a. So there were two questions there. The first one is how did I decide to program in here a 50 30 spread? I know we have to talk about what 50 and 30 mean, but that was from a rigorous back testing with in samples and out of samples to make sure we weren't over fitting in. That turned out to be roughly the best, roughly the best deltas, okay? I mean it might've been 51 29, it doesn't matter. I was using route numbers. Okay, now what is a delta? You keep saying delta. Tell me Delta. What's a delta? I think if I look here I'll find it. Okay, so I need to find what is Delta and what is delta and what does it mean? So all right, well we used to have a very cool article on Delta. I think I can find it here. What is Delta? So hey Jay, let's get this in Learn. So what is delta?

(01:01:40):

A? Delta measures the moneys of an option. So for example, an option that is deeply in the money. Let's say it's a hundred dollars stock and a $10 strike

(01:01:56):

Call, a $10 call strike, that would be like a 99 delta. So the delta goes between one and a hundred. Your brokerages are going to show it in decimals, but option contracts trade in a hundred. So you can just multiply it by a hundred. And they're just trying to be clever by doing that and by being clever, they're actually making a fundamental error. So let's just correct the fundamental error. Deltas for options are between one and a hundred. Between zero and one is fine too. And just ignore the decimal. The higher the delta, it maxes out at a hundred. The higher in the money, it's the more moneys there is right at the money. So if it's a hundred dollars stock, right at the money is a 50 delta, it turns out I don't want to go too far down the rabbit hole, but it turns out actually the 50 delta doesn't have to be at the money.

(01:02:47):

When there is an unusual volatility event, which also may have a right attached to it, a stock right to it. It doesn't actually have to be, but I'm saying that because I know I'm going to get a comment from 300 people out of the people who are here, 300 whatever, who are going to talk about that. I don't want to get the email. I understand that it's not always the 50 delta. I appreciate your concern. Okay, so at the money is basically the strike price where the stock is. So that's at the money an out of the money option, say a call option is going to have a delta below 50. So the furthest out of the money option you could conceive of it's a hundred dollars stock and there's a 10,000 strike call. That would be one delta. It'd be smaller for puts, it's the same thing, but you put a negative in front of it.

(01:03:38):

And that's because what the delta actually represents. It actually does mean something. It's the amount that the option will move for every $1 movement in the stock. And in that case you do divide it by a hundred. So what did that mean? It means if you have a 99 delta call and the stock price goes up $1, your option will go up 99 cents for a put. If you own a $99 put, if the stock goes down a dollar, your option will go up. 99 cents puts lean, bearish, long put is bearish. Okay? So that's what a delta is at the money is 50 in the money is anything above 50 out of the money is anything lower than 50? When you hear people say deeps a deep, a deep is code word for something that's very in the money. If you hear someone say deep out of the money that there's no such thing exists, they're confusing the terminology.

(01:04:44):

A deep is something that's in the money. So maybe you'll see me say on Twitter or in our new social media and say, Hey, I just bought deeps in just, I'm not going to say a stock because you guys are going to buy it. I just bought deeps in something. I'm saying I bought calls that are deep in the money, right? They're over here, they're very in the money. Okay, so you might hear a phrase called deeps. So that's what Delta is. Now, that was interesting and thanks for sharing it, that a delta shows how much a option moves for every $1 move in the stock price. But I don't really care about that. Can't you just give me the strike price? Can we just skip the terminology? You actually cannot, and here's why You cannot. A MD for example, went from $2 to $90 in the last 10 years. If we said, Hey, just buy the 50 strike call. There was no 50 strike call when the stock was $2 because the stock was $2.

(01:05:41):

And you say, oh, no, no, I started my back test when it was $2. So just buy the $2 call. Well, okay, the $2 strike call when the stock is 90 is very different than when it's a two. They say, no, no, no. What I meant is when the stock goes up 17 cents, move the strike price up 17 cents. Yeah, I know what you meant. That's called 50 delta. And if you use Delta, you can scale a back test to any period of time. And not only can you scale it to any period of time for one stock, you can scale it to any period of time over multiple stocks. So I can show you back tests and trade machine with 20 tickers with the same rule, 50 delta, 40 delta. And it means something wildly different to each company, yet it's totally consistent.

(01:06:26):

A delta is impacted not just by the moneys but by the implied volatility of an option. And if you hedge with a diagonal and you change the Deltas, you are automatically hedging your Vega, your volatility risk. So that's why we use Delta. That's why professional traders use Delta. And that's why we don't just say, Hey, I want to try the 17 strike. Well what does the 17 strike mean next month or when the stock splits, or in four years, what was the 17 delta in Fastly when it was a $12 stock late last year, early last year, and now it's a $90 stock. It doesn't make sense.

(01:07:07):

You have to move with the Delta. You can't just pick a strike. So that's what Delta is. You can go ahead and read this article, what is Delta? And just go with what I just said a little bit more slowly, kind of like digest it, go line by line until it works. There's something you should know about Delta. I'm going to tell you and it's going to confuse you, and then it's not going to confuse you. First, I'm going to confuse you and then I, I'm going to confuse you. Okay? The model that dictates how an option price moves predicts that the stock price itself, so I'm not talking about the option, I'm talking about the stock. The stock itself, the bouncing ball, it moves in something called a geometric brownian motion. It doesn't matter. It turns out that if you look at the distribution, the probability distribution function of a stock, it moves like something called the log normal.

(01:08:05):

And if you're wondering why it doesn't work like a normal, like a bell curve is because a stock can only go to zero, right? Can't go. So there can be no left tail or there is a left. It has to stop. So it actually follows something called a log normal. That log normal distribution is one that has skew. So it looks kind of fat on the left and then goes to the right. So there is a way with a log normal to say a stock can't go below zero. Okay, so why did I tell you about that? I told you about that. Because it turns out that if you use geometric brown in motion and assume a stock has a log normal probability density function, then you can use delta as a probability. So at the money option 50, delta has about a 50% chance of being in the money.

(01:08:51):

A 70 delta option has about a 70% chance of being in the money. So when you look at a put and you say, oh, I want to buy that, put, it's out of the money, and you finally start looking at that one column to the right, the delta, let's say it's a 30 delta, what the option market is telling you is, Hey, we're pricing it as though there's a 30% chance the stock goes here. And if you have a different idea, then you know that you're arguing against the option market and maybe you have edge delta is a probability with one exception. In order to back that out, we have to use the normal distribution instead of the log normal. In the short term, in a month, two months, three months, the log normal and the normal look very, very similar and it's close enough, it gets a little funkier when you start to use leaps. So you're looking at a two year option and you try to use the delta as a probability, it could get a little funky. I mean you actually can, you just can't use the number. It's actually very easy to do it. You just can't look at the Delta, oh 50 delta.

([01:09:55](#)):

You can think of Delta as a probability. The probability of that option is in the money. You can think of it of how much the option moves for every $1. The stock price moves, and you can think of it for trading machine as how we peg strike prices moving through time. So that's what Delta is. Oh, that was helpful. Alright, I'm going to get to trading in a sec, but I had some questions. Okay, here we go. Good evening. Good evening. I think this email was from six months ago. I'm not going to read the whole email, lemme just read it to myself so I can give you the question. Okay? This person does a lot of diagonals that we just said of pre earnings, okay, A question on the width of the strikes, okay, this is a really, really good question.

([01:10:45](#)):

Let me bring up a blank Excel spreadsheet, okay? This is the art of trading, okay? So we're going to do the thing. We're just going to pretend it's a hundred dollars stock. It's just a lot easier and I'll label everything. I won't go too fast. I know sometimes I go too fast and I basically, instead of helping, I'm hurting. So I'm going to go slowly and you'll bear with me. I hope you'll bear with me. If you don't, then you don't. Again, that's a stock price. Now, here's a bunch of strikes. This is X one. We'll do the pre-running diagonal, so we'll call it seven days. Your option montages probably look something like this, right? Okay, and here are the strikes, okay? I'll do sort of a condensed version of the option montage,

([01:11:39](#)):

Okay?

([01:11:40](#)):

Okay, and then there's a second X expiry. Okay? And I'm going to just list some deltas. Otherwise doesn't really make sense. Not going to list all the deltas. I'm pretty lazy. These numbers are not going to be actually correct because delta, you can't just make up delta. It has to do with implied volatility. And once I put one down, then the other ones follow, but whatever. Good enough. So this is totally wrong, but it's worthy of an example. Okay, good enough. So those are the deltas. Okay? So earnings are sometime within this expiration, right? What the person is asking is, hey, the backtester is saying to get long the at the monies, the 50 deltas, and to get short out of the monies, and let's say it was the 30 deltas, right? So to get long, the 30 delta get long, the 50 delta, okay? So it's a $20 difference between the strike prices. Here go the questions. What if this spread costs more than $20? So let's say that's delta, this is price. This is definitely not going to make sense. Let's say this costs those $2 and for whatever reason this costs $25. So if I'm going to buy this call spread, right? I'm going to buy

([01:13:22](#)):

The X expiry two call and sell the X expiry one call. So I'll pay $25 and I'll receive $2. That means I'm paying for the full spread $23, okay? I've just paid $23 for the spread and let's rock and roll. There's one problem. What if the stock before this expires? What if the stock goes up to one 50? What if it goes to one 30? What happens? Well, if the stock goes to one 30 at x expiry,

(01:14:11):

What happens? Well, these one twenties are now worth $10, right? It's a one $20 strike, 120 strike and the stock goes to one 30 at expiration, it's $10 in the money, it's worth $10, and these options are worth something more than they were, but we don't know. Actually I'll do something even it better. Let's say the stock goes to 200, so it just crushes everything. I don't know. It was takeover, which actually happened on a couple of, there was takeover rumors actually happened in Slack. So this one 20 strike is worth 80 and this 100 strike is worth a hundred. So this spread, even though we were right, even though we were right to get bullish, we've actually lost money because we're going to close the spread for $20 and we paid $23. This can only happen, this kind of uhoh things got a little too good. This can only happen if the price you pay for the spread is greater than the difference in the strikes. So you can avoid this risk if you so choose by making sure that the strike prices you choose, in particular, the front month one is high enough that the cost of the spread is less than the difference in the strikes.

(01:15:40):

That's a little bit less risky and the win rate will go down, but you can test that in trade machine, right? We can go to trade machine and try it. What am I doing here? Custom earnings, blah, blah, blah. Let's do this. Okay, I'm going to edit this and call it the 50 15. So instead of being short to 30 delta, I want to be something further out of the money. I don't want to pay more for the spread than the width and the strikes. Oops, seven day option. This is the same strategy. I'm just using a 15 delta instead of a 30 delta I.

(01:16:29):

In years like 2020, it does better. Over the long term, you're going to see your win rate go down. So it's not an incorrect move to make sure that you're adjusting your strike prices, particularly the short strike, such that the difference in the strikes is greater than the cost of the spread, but you will reduce your win rate. So it's personal taste, it does make sense you're not crazy, but it will reduce the win rate. It's a tautology that it will reduce the win rate because the stock will go through the high strike less often than it doesn't, and therefore it'll be a lower one. Okay?

(01:17:15):

Number two, I'm just going to read it to myself. I'll read all that. Okay, can I please discuss these pre earnings strategies when stocks are at all time highs or if the market is let's say at an all time high or an all time low? Okay, so my answer to that is in particular when markets are doing what the market's doing now is I know that I'm going to stop what I'm doing, whatever methodology I'm using, let's say these per earnings trades, maybe these momentum trades that I talked about, which I have to go back and talk about, I won't forget. I'm just going to keep doing it again and again and again. I have no problem repeating the same thing. I don't care, but I know that I'm going to stop when I have two losers in a row. Sometimes it's three. And what does that mean?

(01:18:08):

It means I'm just going to assume if the market's going up, this goes the same. If the market's going down, I'm going to assume if the market's going up, then it's going to keep going up. I don't care. I'm just going to hold my nose and keep getting along, hedged along, right? Diagonals, I'm just keep doing it, keep doing it, keep doing it, keep doing it, keep doing it, keep doing, oh, I hit a loss. Oh, I hit a second loss. Okay, something's changed. I'm going to recoil. As long as I keep that perspective, I don't actually care if the market's at all time highs or not. What I care about is am I still winning and have I hit my two losses in a row? So two things happen when that happens. First of all, you're not going to get out of a high too early a bull market too early, but what will happen is you will suffer two losses.

(01:18:48):

So this is a particular decision that I make, which does in fact tell me, taught logically, I'm going to end my trading streak with two losses in a row. It must be the case because that's my rule. I'll not stop until I hit two losses in a row. That doesn't work for everyone because some people don't like to have two losses in a row. You could change it and wait, do it until you have one loss in a row. I think that in general, traders that are unwilling to recognize losses, find themselves paralyzed and that might be okay, maybe you shouldn't trade options, that's okay there. There's no shame in saying I'm going to go make my money in the stock market because honestly, that game is rigged. The stock market, it goes up all the time and yes, it goes down, but then it goes up more than it went down.

(01:19:30):

So there's a reason to just do that, but that's how I deal with markets at all time highs. I just hold my nose with short-term trades. I hold my nose and do it and I hit my two losses in a row and I'm out. I used to do three losses in a row, but I changed. I got a little things changed a little bit for me in 2020, but I stuck with all of my fundamental trading rules. I'm just like everyone else, even though it seems like I'm fearless, I'm certainly not fearless and Covid shook me. I mean it was probably the best trading year of my life, but Covid showed me, okay, hold on. Another question. Okay, so it's a good question. People ask a lot. What about the bid ask spread? So in trade machine, of course you can deal with the bid ask spread here, right? You can change your execution fill type, and there's a movie like, well, execution fill type is kind of a mouthful. So what do you mean when you say that? So you can go here. Okay, so there's a movie, I'm not going to do the movie, I'm going to answer the question. I just want to show you that there's a resource too. So very wide options are very difficult to trade. Having said that,

(01:20:40):

I think I can say this pretty freely. Lemme just write it down. Never ever, ever, ever place a market,

(01:21:05):

Right? Never, ever, ever, ever place a market order. And I do have a thing that I say that I say, I never say never and always unless I'm saying never to saying never and always, which is a fancy way of saying don't use the word never. Okay? I'm using the word never. Don't place a market order. Use a limit. You can use a limit that's above the market and then you'll get filled at a better price, but don't use a market order. If you use a market order, the market makers, if there's not a lot of volume are going to rip your face off. There is a stock I cover called Curiosity Street ticker Curie, which releases a top pick. It went up 21% on the day. We released it as a topic pick and people said, well, what the hell is going on? You released it as a topic and how did people get this information so fast?

(01:21:54):

How'd they get it before C Pro members? And everyone wants to blame everyone else, but what happened? There's a point to this guys, it's about market orders, limit orders, and then how do you deal with, I'm going to show you how to deal with wide markets. The way I answer questions is to give real life examples. What happened was Curiosity Stream closed at $13 and 90 cents on Friday. We added it as a top pick on Sunday. There's obviously no market. Early market trading started at 4:26 AM so someone was placing some trades, I guess in dark pools, okay, and what did they do? Well, so when a stock closes, so let's say a stock is $13 and 90 cents, normally in the day, this is our bid and offer, or you guys call it an ask. If they're going to ask, it's usually something like that. If it's first stock, they're usually not wide, give or take, it's kind of normal market hours liquidity, boom, boom, boom.

(01:22:50):

You can buy and sell. You're always giving the market makers a little bit of edge. But when the market closes, this is when it's open. When the market closes right before it closes, it goes wide. It goes wide. Everybody kind of wants out, but market makers still have to make a market, so they just have to post.

So they'll go to like, okay, forget it, I'm $11 at 16, just whatever, I'm out. If someone wants to pay 16, I'm a seller, right? As a market maker, you're selling on the offer and if someone wants to sell it at 11, I'm a buyer, right? Okay. So that's what happens when markets go wide. This is why trade machine uses 15 minutes before the close to market the trades because we want tight markets. We don't want these markets. Here's what happened. Curiosity Stream did what every other stock does.

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Weekends coming, boom, markets go wide. So what happened to Curiosity Stream at 4:26 AM on Monday morning, a retail investor said, cool, I like this. I'm going to put a market order in. And what happened? Lo and behold, they paid $16. They paid $16, and what did the next person do? Someone looked at said, what the f, curiosity of 15%, I'm going to pay $16. They put a market order and they paid 1621, the, oh, come on. And then someone else said, whoa, what's going on? Curiosity. And all of a sudden the market started popping and why did the market move $3 or $2? Because a retail investor put a market order in. That's the only thing that happened. And then when that happened, someone else put it in and then it started an avalanche.

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Don't do that to yourself. I mean, why would you? With options, it's even more important because with an option, it can be a dollar option and you can pay two 50. So when markets are wide, let's say it's not because of the close, but because there's no liquidity, or if markets are wide simply because it's a risky stock and market makers want to keep it wide, what you do is you place a limit order. So let's say we have an option, it's a 50 delta option, it's exactly what we want, but it's a dollar at $3. I mean there's a very, very big difference between paying, actually I'm going to do this.

(01:25:20):

So the market's $1 at $3. The mid-market, which is the hypothetical value, it's not the hypothetical value, but it's good enough for now is two. So what I'm going to mark in yellow is actual prices, right? So this is a hypothetical. The $2 is hypothetical. So in trade machine we do some trades. They say, okay, the stop limit is 40%. So hypothetically, if you bought this call for $2, you would limit out at two 80, you'd make your 40%, you're cool. Hey, I made 40% a week, I'm good. Well, if you pay the offer, you're paying even more than your good price. So what you do is you use a limit order, and if a market is really, really wide, you walk it down, you're careful. And by the way, this is where put call parodies saves your ass ready. This is the call, okay? And let's make it worse because it gets worse. Alright? So hypothetically kind of eyeballing it, we'll just make the math easier. Hypothetically. Hypothetically, this call is worth $3, right? It's the mid-market, hypothetically, that's the call, but the put, okay, this is the, put the same thing here. I'll just do the same thing.

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Let's say this is an at the money option, just to make it easy, okay? But the puts tighter, the puts a buck 25 at a buck 75, same strike. Strike is, well, I'll just say add the money.

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Actually, how about this? I'll be consistent. The delta is 15 and you're trying to buy the call and you're trying to think like what's delete this? What's a good price? It's $3 a good price, guys, you have the answer to what a fair price is in the put use put call parity. If it's an at the money option and interest rates are zero and there's no dividend, the call is worth the put. A fair value on this call is dictated by the put market. If you put an order in to buy for $3, you'll get your fill and you'll think, ah, look at that. I got better than the market. No, you hosed yourself. It is the people that choose to put in the effort that are the ones that succeed. Don't guess, take a time out. Hold on a second. What's going on here? This is weird. How do I trade wide stocks or how do I trade wide options? I don't know well enough to do it.

What does the market tell me? Use the tools that are at your disposal because if you don't, you will lose if you give away edge and then try to make back that edge with good trading, it's basically impossible. It's basically impossible.

(01:28:25):

So if this was an out of the money option, so let's say it was 70 delta for the call, but that means it's 30 delta for the put and the put was it was pretty tight put out of money, put, okay, and let's say I'm going to call this a strike price. Now let's say the strike price is 50 and the stock is 100. So then let's make this an out of the money call. Let's make this or out of the money for, let's make this a $7 strike. Okay, that doesn't make any sense. So let's make it a $98 strike. Let's just say this company has strikes by dollar. Say, well, how much is the call worth? This is a crazy market. Is it worth $3? I don't know. The stock's at a hundred. This is a 98 strike. It's worth at least $2. So the call is equal to the put plus parity. So the call is equal to the put, which is we're going to call it 38 cents right here, and then it's equal to plus parody. Parody is the stock price minus the strike price. This call is worth two thirty eight. It's not worth $3.

(01:29:43):

It's put call parody. That's why you'll hear me say a call is a put. They're all the same thing. It just matters what direction the stock is. So how do you trade wide options? First look to the, if it's a wide call, look to the puts, how much are they worth? Then if they're both wide, then you have to walk it up. Or by the way, it's perfectly reasonable to just pass. I just want to say that if a market is wide on both sides and you just don't know, then you can just say, yeah, I can't trade this. Forget it. Live to trade. Again, it's not like we don't have enough trades in our lives, but if you wanted to, you wanted to and you wanted to be a buyer, you could bid a dollar.

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Sorry, let's say you couldn't do cul parity on this. This was also screwed. It was so wide that it didn't make any sense. So bid a dollar and see what happens. Usually what you're going to see is all of the market makers are going to follow your bid. They're all automated. So the NBBO is going to go from 50 cents at five 50 to a dollar at five 50. They're just all going to follow you magical. Here's the new market, here's the new market. Well, you're not going to pay the bid, so maybe it goes, I'll bid a buck 50 and you're going to see the market join you again.

(01:31:06):

Now they're going to be NBB is going to go buck 55. Hopefully by the second time you do it, the market makers see that there's a buyer, right? You're bidding and they say, oh, you want to buy from me? Oh, you don't have to pay five 50. I'm going to bring my offer down to three 50, and now you're converging on a price, right? People still want to be with you at one 50, probably not going to pay that. Market makers are coming back. We're saying this call is worth two thirty eight. Now the mid-market is two 50. You're converging. You start walking it up very slowly and that's when the markets get tighter. You can make the markets get tighter. You're not manipulating the market. Manipulating the market is illegal. You are negotiating with the market makers digitally. It's a legitimate order. You are willing to pay a dollar, you're willing to pay a buck 50, you're willing to pay a dollar 75, you're willing to pay $2. See what happens with the market. If the market isn't tightening, then again, probably not worth trading. But that's how you deal with a wide market. By the way, if you normally do a hundred calls or 50 calls or 10 calls, whatever it's you do, you probably don't want to put all of your size up. You can do something as simple as one.

(01:32:28):

So if you get a bad fill, you're like, well, alright, I'm not going to do this anymore and I just traded one bad contract, I'm cool. So if you want to live in the world of wide markets, which is perfectly reasonable not to, which is why I look at the Nasdaq 100 plus the largest 100 tech. If you want to, then you're going to have to learn to apply, put called parity. It's just arithmetic. There's nothing to it. Impose upon yourself the discipline that's required to be the best trader that you can be because every time you put a bid and an offer out there, you could be trading against me.

(01:33:08):

I want you to think about that. Would you want me to be on the other side of your trade or someone like me out there or trading too? And also we're going to collide at some point. Be as prepared as I am. Alright, I have a couple of questions. Okay, sorry guys, this is a long one. I'm going to read it to myself. I'm still here. I'm just, okay, so someone said, how do you do the thing where? So this is a part of my option speculation webinar, which has never been published, so I haven't done it yet, but I'm going to give a real example to speculate with options properly. In my opinion, it's not advice. I need to sell options to buy options, but I don't always just like selling. Let's say I want to speculate long. I don't always just selling a naked put like, okay, there we go. It's called a risk reversal. You sell a put to buy a call sometimes. So what I'll do sometimes is sell a put spread to buy a call. So I want to fund my call by selling a put spread so I don't pay as much for the call and I'm shaving off some of that, what they call extrinsic value time value, right? Shave it off. So here's an example I did in real time.

(01:34:31):

This was on November 12th, 2020. I bought the 20 22 20 calls in Jua and sold. So Jua was like, I don't know, $13. So there was still some money I can make just by selling these guys. I sold this put spread at like a buck 50. So I collected a dollar 50, risked $2 on the put spread. I used that buck 50 to buy the calls. I think these calls are now worth $40. So that's how you do it. I'm trying to look at another trade. Clever. I did it again here. So then I started selling the bankruptcy puts a month before I was selling the bankruptcy puts to buy calls. Someone said, giving me an example, here's an example, and by the way, they don't always turn into 10 baggers. I'm still holding this by the way. So I don't mean to say, look, you do this, you'll make a thousand percent every time.

(01:35:32):

No, someone ask for an example. That's an example. I did the same thing with Go-go. I mean this is how I make my double commas, right? That's how you make the double comment trades. That's also how you get your face ripped off by the way, okay, someone asks, I say on Twitter sometimes that I'm hedging 25 or 30 or 50% of my position. What does that actually mean? So it's actually very simple. Let's say I have a hundred thousand shares of stock of something a hundred thousand shares. If I use a put spread that covers 25,000 of those shares, I consider myself 25% hedged. That's what I mean. So I have 75% of my shares are just kind of naked long and 25% are now hedged. That's what I mean when I say I have hedged 25% of my position, I have hedged 30% of my position I'm buying puts or put spreads or I'm selling calls to buy put spreads for share amount. That would be the percentage that I'm talking about. So I have a hundred thousand shares, 25,000 shares, that's it. So I promised that I was going to go back and trade machine for a sec, so I don't want to do that.

(01:36:40):

I wanted to look at our momentum trades just because I don't think that, okay, I think you guys know this, but just these trades on the today tab. First of all, they're all worthy, but these were chosen on purpose. I didn't just like, it wasn't like, Hey Jay, pick 12 random things and put 'em on the today tab. I was like, no, it's these 12. So diagonal, diagonal, put spread diagonal. Four of the eight use one option to hedge. Another option is the put spread, sorry, this is the put spread, not this, sorry, sorry. Diagonal, diagonal, diagonal, diagonal put spread. So five of the 12, these three use the theta paradigm without using a diagonal. These are all here on purpose. Okay, so thanks. Fear, I want to talk about the Maceda momentum trades. So go to pro scanner NASDAQ 100. These are all never trade earning trades. They don't deal with earnings. We go to macd. This is a great one for Tesla. Tesla is an expensive stock, so that might impact you, but lemme just pick it up again, it's a diagonal, no surprise, this didn't work for a few years because Tesla didn't have weeklies. No problem. Remember this is trying to hop on something that's already bullish. So I'm just making sure the stock's not totally over bought. It's like below 40 the RSI, but I want the Mac D signal, the macd above the signal one. Okay? Okay,

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So when that happens, thanks. I feel like that's not right, whatever. This is the momentum trade. So let's see. This is what the strategy is. It's my normal 50 20 delta 60 30 day diagonal this trade. If I go back to the slideshow, I can show you how it did in 2020. Sorry, I got a lot of slides. I know it's annoying. I guess I couldn't mute myself. Yeah, okay, cool.

(01:39:06):

So this one and the three inside and up with RSI, these ones did particularly well last year. They've done particularly well for 15 years, but they haven't done this well, and that was because generally any kind of bullish momentum just got eaten alive by the market and they're just like higher. It's like it's still happening. So not everything I do is so tame. So the pre earnings trades are pretty tame. I'm using double theta paradigm or by the dips. I'm waiting to see a signal of something that's basically down to see it come back up. Sometimes I roll with it, sometimes I roll with it and these two trades are ones that I've rolled with. These aren't my actual trades by the way guys, this is just trade machine. I didn't actually do 206 trades or 300 trades, whatever. Nobody does that or maybe machines do. So I just wanted to point that out. That exists and that we can do it with Nasdaq two, the three inside, no,

(01:40:09):

I don't want to overdo Tesla. I actually don't trade Tesla. Well, I usually don't trade Tesla. This also uses the diagonal, right? Nothing on trade machine is an accident. Doesn't mean it's going to work. We only have the past. I can't tell you the future, but I'm using diagonals for a reason and it's because the market gives me an edge and I can choose to take it or choose to trade against it. If you trade against the edge, then you have negative edge. I don't want negative edge, I want positive edge. So that's what has and hasn't worked in 2020. The pre earnings trades and the buy the dip variety, those four, I can't tell you if they're going to work in 2021. I can tell you that they've worked in 2007 through 2020 every single year, even in the great financial crisis. So 2007 to 2009, I think NVIDIA's stock was down 70% before anybody knew what Nvidia was. In all fairness. Yeah, I got you. Oh yeah, totally. I think it's third of the options.

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Normal time. Sorry. Okay, so this was a terrible period. I couldn't squeeze it. The stock was down 22%, but I can actually squeeze it. The great financial crisis really became like, oh my God, I can't believe this is happening from September through the end of March. So this is a period where Nvidia stock, I want you guys to hear me now. Nvidia stock was down 72%, the stock was down 72% total and utter annihilation getting long a call before earnings, 14 days before earnings and then getting out. Yeah, that one's five out of six times and made 167%. So yes, even during a bear market it can be the case and has been the case that pre earnings momentum is a thing.

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This is your real life example. So I think I have every reason to believe this will continue to work. I layer it with other strategies like buy the dips like some speculations which actually aren't on trade machines, speculations that I'll talk about in a few months, and this is how I use trade machine as at least a portion of my facility that helps me become a successful trader. There is no guarantee. There's no guarantee that when you drive before Covid, people used to drive places that when you drive to the bank, we don't have banks anymore. When you drove to the grocery store, you have a way that you drive to the grocery store, you go out, you turn left, and then you go two rights and then will go from mine and turn left and why do you take that trip to the grocery store that way when you go left, right, right, left.

(01:43:40):

Because every other time you've done it, that's been the fastest way. I don't know. There's less, there's fewer lights or fewer stop signs or speed limits faster or I don't know, there's no cops, whatever. Or you end up on the backside of the store and you get better parking. But guys, that's just a back test. It doesn't have to be that when you go to the grocery store next time, that going left, right, right, left is going to get you there in time. No, the road could be closed. There could be an accident. You could get a speeding ticket. They could put in a new light. It's just very unlikely, but it is possible. It's possible that what you've used for a long time in a back test doesn't work the next time. Of course it is, but life is a back test. How do you know what you're going to eat for dinner? Because last time you ate it, you liked it or you're on a diet and last time you ate it, you lost weight. It doesn't mean that this time you will like it or that this time after you eat it, you won't have Doritos.

(01:44:35):

Life is a back test, all of it. Why would financial markets be any different? We use the past as an apparatus to try to guide the future. How are we going to get to the grocery store? What are we going to eat for dinner? When is there less traffic? What channel is the game on? You didn't want G, didn't check your phone. You're like, ah, shit, is it on CBS? They're like, right. It's a back test. You try, it's an A FFC game. It's probably on CBS, like, oh, nope, it's an Interleague game. It's on Fox, so that's all trade machine is. It's a very sophisticated, powerful, rigorously implemented. It's kind of like the human brain. When we go to the grocery store, these are the things that I think will work. These are the things that I'm going to put my money on working and if they don't work, that's okay. I'll keep doing it and adjust as I need to. But in general, eight out of 10 months a year I'm profitable and my down month, my worst down month is smaller than at least my best two up months.

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That's it. That's what this is. This is a repeated game or we try to use that repetition to our advantage and if it's not working for you, try something else. I'm not here to tell you that this is somehow your savior. I'm here to tell you that this has been my savior. That's my backtest. That's it for tonight. For those of you who are not trade machine members, if you go to trade machine.com, trade machine.com, it looks something like this and you go here and you buy it. Also, if you don't like it in the first 30 days, we'll just give you your money back, but you have to tell us, we can't read your mind, right? You say like, Hey, I don't like it anymore. I want money back. Okay? We will say, okay, well sorry you didn't like it. We'll probably ask you for feedback.

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We don't get a lot of cancels and then we'll give you your money back, but we do charge a credit card. Just so you know, none of these people are in our company. It's just a cool picture. Okay, so this is trade machine. We be coming out with our social medium. That'll be another tab right here, say like community. We'll give it some name that's clever and it will open up what I showed you. It'll open up into that social medium thing. I'm going to give you guys a headache. It's cool. You know what it looks like and then you'll automatically be logged in and then you can free flow. A message will all abide by the rules. You can absolutely share charts or trades from another service. Of course you can. Of course you can, but what you can't do is sell your own service, which doesn't work like that.

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But if you say, Hey, this is an awesome, this thing has this great order flow thing, you guys should check it out or I use it, and you should share a screenshot as long as that's within their terms of use, of course. Hey, you can do that. We're not here to be punitive. We want this to work. We're trying to release everyone from the hostility that is in Twitter and to focus the community so that we don't have to protect what we say. I can't say everything I want to say on Twitter. It's meant for members only membership does have its privileges. That's what this is meant for. To make relationships, at least trading relationships, you're going to meet people even virtually. Well, you know what I'd like how this person trades or this person trades very differently than I do, and I kind of want to add that too.

(01:48:08):

I want to try. I'm taste it. It's like taking your first taste of a new fruit. I don't know. Looks bitter, looks prickly. I don't know. You take it by. That's pretty sweet. As long as you like sweet. That's the goal that's coming soon. It's exclusive to trade machine and stock trade machine members. CML Pro members will get it too, but you will have your own tab so no one, including trade machine members will be able to see top picks. We will continue to protect that asset and we will continue to be punitive against those who do not protect that in this. I hope to create a community of traders to help people make more money so that they can do whatever it is that you want to do with your money. None of my business give it to charity, buy a house, pay off school debt, get a watch, whatever. Okay, so I thank you again for your time. I hope that you don't feel that I've been insensitive by not talking about covid and things like that. I'm just trying not to overwhelm the situation over and over and just focus on a subject. Hope you guys have a fabulous night. I hope you have a fabulous rest of the week and we will speak soon in our social media, which will be for members only. Thank you very much guys. Have a good night.