The Big Bang Theory

[00:00:00] How are you doing friends? Got a question. What is more important to people in today's world. Is it the nature of the origin of the universe or the answers that lie out there beyond, or is it a popular sitcom show that is now canceled, but in syndication around the globe, you get it?

[00:00:25] You're right. It's the sitcom. The name of this episode number 22 of the 0DTE podcast is the Big Bang Theory is Volatility Back, has it returned and it looks like it has, this is a welcome site. I'll tell ya. When volatility is low, it makes analysis of the market extremely difficult. And there are a number of reasons.

[00:00:55] First of all, really you need to trade less. And that's because the signals aren't as sharp. They're not as strong. They're not as clear volatility is down. Liquidity is down. Volume is down. Everything is down now while some people think that there is actually more, more security, more predictability in a market that doesn't move much.

[00:01:21] That couldn't be further from the truth. It is far more difficult to pick a direction. It is much easier when the market has momentum. And it's really got some strength behind it. It's moving up, it's moving down now. It's really in the short term, by the way, this is not something that you can extend out to a long period of time.

[00:01:42] Between 17 and 34, the VIX has a kind of a sweet spot. We call that the sweet volatility regime. That's what I just made that up by the way.

[00:01:52] But that's what I'm going to call it from now on the sweet volatility regime. It's a volatility regime where you get the, what I consider the optimal opportunities and. Both in ease of analysis of the market and the amount of premium that you're afforded by that much volatility. Once you get beyond that are higher things, start getting a little chaotic

[00:02:17] Below 17. I think it's even worse because things are anemic. It is difficult to grab a hold of anything. If you're familiar with. Signal to noise ratio. And you could probably, even if you aren't, even if you're not someone into electronics or into radio or whatever, you could probably understand that. Trying to grab a signal with a radio or some other device really depends on how clear that signal is and how much or how little interference there is around it.

[00:02:50] The interference is referred to as noise and the signal is. the thing that you're trying to capture like a radio broadcast or something. In this [00:03:00] case, it's the market telling us what it's doing. And when a signal has very high amplitude, it's like this, it's very clear relative to the noise.

[00:03:09] Maybe the noise is only this big, but the signal is this big. It's very easy to discern that it's like that in anything in the world. If you're a, for instance, out in peering across a field, and there are absolutely beautiful, clear conditions. You can see things for miles if fog sets in and that's the noise, or if there's a bunch of people running back and forth, you can't focus on something further down across that field.

[00:03:38] That's the noise. And so, when volatility gets very low, the signal gets low. Now the noise in the background, it doesn't even have to change. It can be the same level of noise, but when the signal comes down to the level of the noise, it becomes very difficult. Hope. This is making sense, right? Noise, the noise to say ratio is very important.

[00:04:02] And when volatility gets down there, The noise in the market. And there is a lot of just random activity, just a lot of noise that is happening, really obfuscates the signal, and it's makes it very difficult. And some people will look at something. And second, guess what you're doing and look at I dunno, a indicator or a condition or a structure or whatever, and say it was obvious to me Ernie that it was going to go down or it's obvious to me Ernie that it was gonna go up.

[00:04:31] And I must nod my head to that person and say, great, all right, now, how often can you do that? Can you do that? One out of three times, one out of five, one out of 10, one out of a hundred, which is, can you do it nine out of 10? When you start getting to the point where you can do a two out of three times, then you have something.

[00:04:54] If you can't do it, One out of 10 then what do you have? You really have nothing. [00:05:00] The reason why I brought up that point was that there is a comment in our discord that I wanted to read. I'm not going to mention the name of the person it's irrelevant.

[00:05:10] And it was right to this point. And there's a few things that I wanted to talk about. It says just a question and I believe this is a new member, a a trial. By the way. Today's trade was it was a loser it's about as clear as I can get. I thought that the market would go up and it did overnight.

[00:05:28] And then when the market opened, it went straight down. And so, it we went from profitability to nothing. Fortunately, we put on asymmetric trades. And so, the loss is very small.

[00:05:39] Anyways, back to this question is just a question.

[00:05:41] *Ernie, in my opinion, volume profile indicated that price would pretty much follow the path that it took today, which was down.*

[00:05:48] Now first of all, I want to say something just so you understand about volume profile does not predict anything. It does not predict the. Price is going or when it's going to [00:06:00] go or anything like that, it is nothing more than a static structure that needs something to interact with it in order to in order to then give it some predictability by itself. It's impossible to predict where price is going to look or go. When you're looking at volume profile. So just for that, that first point. So let me continue.

[00:06:23] *In my opinion, volume profile indicated that price would pretty much follow the path that it took today, which was down foreign markets were up overnight. And I understand that our markets follow them a percentage of the time, but we were at record highs.*

[00:06:36] All right. So, as he said, we were in actual profit profitability overnight in what's called the Globex session the European session, Europe opens up before we do, when you're coming off of a Sunday on a Monday, and those markets were up now, we made our call before the European markets were up, actually when the Asian markets were open, and I guess the Asian markets were up as well. So, all good. But I'm not sure what that has to do with the market going down.

[00:07:07] Typically. We go with the trend. So, if price is moving in a particular direction, especially over several consecutive days, then you would, oh, you would think that it's going to keep on going in that direction unless there's some kind of a blockage or.

[00:07:25] Force getting in the way or a binary event, that's going to prevent it from going there. Okay. So, I'll continue.

[00:07:33] *I understand that our markets follow them a percentage of the time. But we're at record highs*

[00:07:38] Now, again, record highs. Does that mean that we should fade a high now trying to be defensive here? I'm just trying to point out some things that are just facts in the market. When markets are at record highs, what is the better bet? Is it to fade that market or is it to go with the market on a record high? No, a lot of people are in this contrarian camp and they want to fade everything that, that means take the contrarian position and assume that markets are overbought and that they need to turn around and maybe get a breather.

[00:08:14] Just take a rest, do a dip and then keep on going. But the fact is that far more times, the market moves in the upward direction when you hit all-time highs. So, there's this point number three, then he says a. I don't know if it's a he or she, by the way.

[00:08:33] *I think everyone knew that the macro-environment news for today was going to be close.*

[00:08:38] I now, I don't know who, who knows that

[00:08:41] *...which by my mind makes it neutral.*

[00:08:44] So I think what he's referring to a, he or she is referring to that we had the PMI and the ISM numbers, and they were mixed. One was up, one was down, one was bad. One was good. I guess you could say you could turn those and look at them together and say it was mixed.

[00:09:00] Therefore it was neutral, but no one knew what those numbers are going to be prior to them coming out. In fact, the PMI and the ism have been steadily going up indicating that our markets are heating up or maybe or there is more activity or there's more. Stimulus coming into the market, giving you this sort of false hope, but you don't know when that's going to stop.

[00:09:25] And you certainly don't know what that reading those economic reports going to be prior to it coming out. Now, if you're going to take the whole kind of trend or momentum

idea and looked at the ism and the PMI, they have been going steadily up over the last six, seven months. So why would now be the time where you consider it neutral or going down or be something different that would affect the market?

[00:09:51] So that's the that's the next point?

[00:09:53] *When you called the alert on this trade, the futures market was already up close to 20 points and the expected move was somewhere around that*

[00:10:02] now, because it was already up 20 points. And if the expected move was 20 points, are you saying then that, oh, that means then that the expected move has shot it's wad, right?

[00:10:14] That's all it's got in. It did when 20 points, no, that expected move is from the time at that time, that current time, that present time that you look at the expected move, there is a 20 plus or minus direction that the market can go to. Once it moves up 20 points. Then you take the expected move from that point as well, while it was still 20 points at that point, meaning that it could go up another 20 points or come down another 20 points.

[00:10:41] So when you move the expected move, that doesn't mean that you've used up all the gas. It simply means that the expected move, was a good predictor of that move. But now that doesn't mean that it's all over. It could keep on going up. We could keep on going down.

[00:10:56] It could have gone up another 20 points or down another 20 points. You can't look at expected move that way. And I'm doing this because this person is asking, what am I missing? I'm trying to learn from this. So, this is why I'm bringing all this up. And. All right.

[00:11:13] The trade was requiring another 20-to-30-point move. I want to learn to follow your system. And maybe this is a timing thing, but I have not been able to enjoy the previous success. And I'm wondering, what am I missing? I think I just explained what you're missing. And therefore, I talked about I'm going to get to the big bang here in a second.

[00:11:30] All right. And why I talked about volatile. When you have very low volatility or shrinking volatility combined with very low volume and liquidity that produces a rather. Market uncertain, frothy, if you've ever been to the beach and you your, the waves are coming in and they get all frothy at first, the waves.

[00:11:54] If they're not frothy, they lift up and bring you down. But once they get into that frothy, chaotic moment, you just sink, right? In frothy environments really don't know what's going to happen. You could sink, you could rise. You don't know it's going to be chaotic. I guess another analogy to this would be a water spigot on your house.

[00:12:13] Now, some of you may be familiar with that, and you may have noticed that when you turn on that water spigot, when you turn it on at first, at very low volume, it kind of sputters, it's chaotic. And then as you turn it, that stream starts coming out nice and smooth at some point, and it will stay nice and smooth as you increase the volume until you

get to a point where you turn it so high, that it is just flat out open, and then it starts sputtering again.

[00:12:40] That's again. That is a perfect analogy for volatility. Low volatility is chaotic and spidering. Then there's a sweet spot for us. That's between 17 and 34. And then once you get beyond that, it starts getting chaotic again. So, we've been in this kind of low volatility situation. Our win rate has gone down dramatically.

[00:13:03] And but it's not really a problem. Our wind rate now has gone down to about 50%. So, we win about 50% of our trades. We lose about 50% of our trades and this has been over the past couple of weeks. And that is because of that signal to noise ratio, that frothiness and all the things that go along with low volatility, anemic environments.

[00:13:27] However, because we're doing asymmetric trades. We can still win less than 50% of the time and still be wildly successful, which we have been. In fact, last week we won two out of three a week before that we won one it one out of three. And we're way up because the one where we won one out of three, it was turn something like 500 or 600%, or was that the 1100% trade?

[00:13:51] I can't remember on the risk that we put on the other two is, just that one X risk. Here we have 11 X return. So, you can see, do, just do the math. That's one out of three and still wildly successful week. Last week we had smaller wins, but they were still in the 200 to 500% range. And so, you're winning five, two times or five times the risk.

[00:14:17] And then the one trade where you lose is one times the risk, again, a wildly successful week. So, we can average around 50% and still do. Fantastic. So that's not the problem. Sometimes you might go into a week, and you win, and you lose all three. Sometimes you go in all three, when volatility is in that sweet spot, we were in a I don't know, maybe a record or something.

[00:14:41] I don't know. Dozens in a row or only lost like a few over 35 trades. And that's when volatility was elevated. And it's because everything that I described before volatility is so much easier to predict when or movement of the markets is easier to predict in the short [00:15:00] term when volatility is relatively high or in that suite.

[00:15:06] All right. So now I'm going to get to the big bang after I've gone all in. I hope that answers the question of the person doing the trial and how I look at the markets and all those points. So, the name of this episode is the big bang, and the big bang theory is volatility back. And so, what happened today now?

[00:15:31] First of all, what is the big thing? If you've taken any kind of science course or you've listened to any science lecture or you've read about the big bang or the different theories for the creation of the universe. I think the big bang for a lot of people has the most gravitas. The it's the most popular theory about how our universe came to being.

[00:15:51] And that is in this one imperceptible moment when there was nothing from that begat, everything. A big bang. It just went from nothing, a singularity to everything. And

then it's been constantly expanding since then. And so, there's this theory that when you have zero potential, you also at the simultaneously have infinite potential.

[00:16:17] And now of course, we're not at those extremes in what I'm going to talk about in the market. But it's like that. So, this morning price came down from elevated levels from the European open and then the market opened, and price dropped down to a point. And then everything just went silent on the S&P we weren't moving more than within a four-point range, which is virtually nothing.

[00:16:46] That's virtual silence, and it stayed like that for a while. And I said, this reminds me of the big bang theory. I said, when you have a complete absence of volatility and volume and liquidity and a range that is almost imperceptible now, four points out of a 4,000-point index or a 4,400-point index.

[00:17:08] So that's four divided by 4,400.

[00:17:12] So that's less than 0.1%. All right. So, the market was moving less than 0.1%.

[00:17:22] So I said, look, it looks like we're going to experience what I call the big bang either. We're going to move violently up or violently down. I don't know which, because it's chaotic. You really don't know. I would venture to guess that it was up only because that has been our momentum that way. And like other, you could take markets and you can sometimes think of them.

[00:17:44] These physical entities and maybe they follow the same kind of laws of physics or fluid dynamics, as a Newton might say that once an object is set in motion, it stays in, remains in motion until some opposing force acts upon it. So, the market was moving in one [00:18:00] direction. So maybe it was going that, but yeah.

[00:18:02] During that small period of time, because it was moving down. That was the direction who the hell knows. No one really knows. So, you, in these times when volatility is like this, and you don't have that good signal to noise ratio, you're really just guessing. So, this is how we combat that there are two ways.

[00:18:21] One is that we trade less or trade fewer times when. We are encountered when we have that really poor signal to noise ratio. And we can't really decide which way the market's going to go. Maybe there are too many economic conflicting economic reports today. Bad is good and good is bad. And maybe tomorrow was good as good and bad is bad.

[00:18:45] You've probably heard me talking about that in previous episodes. It's a peculiar. Thing that we have or situation that we have in the market that the fed has set up for us where any kind of bad report is actually good, because that means the fed may continue providing they're very accommodative, monetary policy, and everyone loves free money.

[00:19:08] So bad is good. But today we had two reports. One was good. One was bad. So, what is it? Is it good or is it, I don't know? I really don't know. So, getting back to how we treat markets like this and these low volatility markets. We trade fewer times and when we

do put on trades, they are not as far out of the money or directional and the spreads that we give them a much narrow.

[00:19:41] That keeps our cost way down and helps us maintain a kind of asymmetry that we're looking for now when volatility is sweet. And in that prime range that I was talking about, we can put on much wider spreads, which afford us much more premium, much more leverage, much more. I don't know. I, how you put it just more meat on the bone.

[00:20:06] And so we can trade more often. We can trade with bigger spreads, and we can be more generous with our capital because our winds are bigger and they're more predictable now. I am glad that the market went down today because to me, that puts us back into that sweet zone, just barely, but it does put us back in there where now I think the VIX now is up around what is it?

[00:20:35] Around 19, let's take a look. Yeah, we're the VIX, the volatility S and P index is at a 19.38. Right now, we started the day. 17.9. So, we're up almost a point and a half. And that was elevated from Friday because we had a little bit of roughness during the day on Friday. [00:21:00] And just before that, we were down in the low seventeens and before that down around 15, and that was just a horror show.

[00:21:08] When you get down there, it's very difficult to trade during those times. So, people that are coming on the trial right now, I think you're getting a better lesson than those people that came on during times where everything was great. Some may argue that point, where would you rather come in?

[00:21:25] Would you rather come in during the time when everything is sweet, and honey is flowing, and you feel like you can't do any wrong or would you rather come into the time where you have to take particular care in all your trades and try to really work that out? Or go that extra distance to get the type of trades that you want.

[00:21:46] Now, I want to make it very clear that even though we've, and I said this a little early, even though we have to drop down from say an 85 or a 90% win rate down to a 50% win rate and no way does that not make us an ineffective strategy as a matter of fact, Our strategy now in this state with the asymmetric positions that we put on with the sizing, positioning everything about it, I still believe is orders of magnitude than any other day trading strategy or any kind of swing trading strategy out there.

[00:22:25] We make more efficient use of our capital in our worst state, by gobs orders of magnitude than any of these other strategies. And then when volatility is more in our favor, like it's getting now I expect even better performance. So that's where we're at. Let's say we have a few questions. Lance says made 60% placing a butterfly trade with 20 wings using your principles or any.

[00:22:54] Thank you. That's great. Awesome. Ken says, I can't think of any date day [00:23:00] where a trader wouldn't be willing to risk a hundred dollars for a chance of making five, five times the return. Sometimes as much as 10 or 20 times the return, but those are those nice volatility Laden regimes that we're in.

[00:23:14] Now the common if, and I am. Plus money in these bad times. I can't wait for the normal much fewer great times. So yeah, that's the point, we've been doing relatively poorly compared to where we were say a month ago. We're doing fantastic. So, I hate to sound glum, and we had a trade the other day where we only made 100%.

[00:23:40] Most people made 70 or 80%. Most traders would give their right arm and the left leg to make 70 or 80%. That would be a very awkward trader by the way. But that was our bad day. We all felt like dejected in let down and, oh, couldn't you give us something a little bit more Mr. Market, but yeah, that's where we were then.

[00:24:08] And today, we took a little bit of a risk. I think our trade was what did we take?

[00:24:12] What was the size of our trade? I'll tell you in a second. $75, we risked seventy-five dollars. And that was to potentially make about I think about $400 or so, something like that. And that was a good trade. It was a good position to be in, but. Actually, in the early parts of the morning, if you were up that early, you could have taken some profit.

[00:24:39] And we were talking about how we were going to manage our profit in the morning. Should the market continue to move up for us? Unfortunately, at some point it just decided to just. And which, for us, that's not a huge deal when it dumps like that, we step back, hey, can we make something out of this?

[00:24:57] Will there be another trade? Maybe we just wait around and it will turn around. Sometimes it does. And in fact, I think the market is the market turning around? No, it's not. It's not, it's just keeping on going down. I am very happy to see the market down like this.

[00:25:16] Cause volatility is going up 19.54 now. Hey look, if we can break up into the 20 range, man, it's going to be sweet times again. The honey will be flowing.

[00:25:27] Let's see here. The main thing I find here is it's much easier to control my greed, a major benefit for me. Yeah. And that's because we don't have, we don't have this huge bear or monkey on our back. I was going to say a bear, but that doesn't, there's no analogy there is there. Or anyways, we don't have the monkey on our back because we don't have, we're not taking huge amounts of risk.

[00:25:56] We take small risks for very large potential gains. We don't even must pin our trades to make money. We can just be somewhere in the ballpark. And you're not sitting there. Sweating it out or trying to figure out whether you're losing out suffering from FOMO.

[00:26:14] Let's see. Another comment I made the same 60% for these last two months, not 60% of trades, but 60 cents of margin. And that's damn good. Making 60% on your own. Now I would say that's actually net and that's average over the last, month and a half or so prior to that, we were doing much better way better.

[00:26:35] And that's when volatility, which by the way, I should be celebrating, cause volatility now is coming back. Here's another question.

[00:26:42] *Are there other strategies, one could consider as a supplement to 0-DTE?*

[00:26:47] When I think of them, I will let you know, our basic strategy. With 0-DTE or zero days to expiration on the S&P futures on the S&P on the last day of expiration is to develop a bias, a directional and magnitude and no bias, which way is the market going?

[00:27:07] And how fast is it going? Look, the market structure using volume profiles so that we can determine if the market goes that way and traverses. That profile, that market structure, how is it likely to behave and then put on an asymmetric trade somewhere on that profile that will give us the best combination of risk to reward and probability of profiting.

[00:27:34] So I found that the butterfly is really the best trade to do that. Some people might argue, hey, you could probably do the same thing. With a vertical spread and you probably could do something similar, but what you're going to miss on the vertical spread is that there's only one short contract for one long contract.

[00:27:52] When you're using a butterfly in that direction, you have one long contract with two short contracts, which are con, which are the short contracts are containing the premium, which is the potential gain. And so that's why we use the butterfly and the butterfly because you have another long contract on the other side.

[00:28:12] Helping you manage the risk overall. So, there are probably other trades that you could use that require a lot more or account margin. Like a ratio spread might do something very similar to the butterfly and it might be a little bit easier to manage and would be something that might give you unlimited upside, but it would also.

[00:28:38] Perhaps give you significantly more downside too. So, we can look at that. So a ratio spread might be one of them. There is a strategy called the Jade Lizard. I know that's just a crazy name, like iron Condors and butterflies and all these other weird names. But it's another one of those strategies that like our ratio spread that I think. Might be able to be applied to that. And we'll take a look at that as well.

[00:29:05] What's the official close for ES futures? For the futures, they actually close at five, 5:00 PM. And there is a period where they are blacked out between 4:15 and4:30, but then they reopened. Up until 5:00 PM and then they black out for an hour until six o'clock and then 6:00 PM starts the new session for the following day.

[00:29:32] Now options on futures. They close and expire at the exact same time that options on stocks do. And that's at 4:00 PM.

[00:29:41] What did we learn today? We learned that analysis is quite a bit more complex than what we May 1st know that markets tend to go or move in much the same way that you would have a model of fluid dynamics or. Just objects in motion. They tend to go in the same direction until some opposing force or event pushes them another way.

[00:30:08] Or if there is virtually no event, no volatility, no anything. In other words, it's a complete absence of anything. And then you have that Big Bang effect and then it can go in any direction. And that's what happened to us today. Yeah, that's. That is what happened today. The Big Bang.

[00:30:30] And now the cool part about that is we now have all this wonderful volatility.

[00:30:36]. And volatility continues to rise. When I first mentioned it, it was at 19.38, then 19.5. Now it's at 19.88. So, this is all good. Get up into the twenties, man.

[00:30:49] Come on. You can do it. All right. That's about all I have for you. Hopefully this was informative for you. If you please go and subscribe to this YouTube channel subscribe to the podcast and please give us a great review in that podcast would really help I'd love that I would be very appreciative.

[00:31:10] And if you'd like to try out our system, where a system of trading our strategy. For trading the last day of exploration of the S&P, then you can go to 0-dte.com/try, and you can try it up to four weeks. If you decide to come on, then I will rebate the cost of that four weeks for you off the price of the subscription.

[00:31:35] It's a great deal. We are primarily an educational mentoring and coaching force where you learn the strategy and you'll learn it inside and out. And then we have alerts that demonstrate that strategy.

[00:31:49] So, we've got a lot to offer and at a great price. All right. Thank you very much. It's a good start to the week. Let's keep it going. All of you take care. That's the end.