0-DTE TRADER'S MANUAL

Strategy, Methods & Process

ABSTRACT

The 0-DTE Trading Manual provides a comprehensive guide to two strategies - Zero Days Classic Fly and Zero Days Batman - that use OTM butterfly options for market-neutral trading. The manual includes daily and weekly processes, strategy selection, journaling, and review practices for consistent and low-risk profits.

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[Course title]

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Introduction

Welcome to the Zero Days Options Trading Manual, where you will learn two powerful options trading strategies – the Zero Days Classic Fly and the Zero Days Batman. You will also learn the 0-DTE professional trader's process from end to end.

This manual has been designed to be both a strategic guide and technical reference to help you gain a deep understanding of our strategies, methods, and processes, as well as a deep understanding of options trading.

The mission of 0-DTE and Coach Ernie is to show you how to become an independent, consistently profitable, professional-level trader.

Setting Your Expectations Correctly

Should you expect that after reading this manual, you will be transformed into an independent, consistently profitable, professional-level trader? Not! However, if you internalize the process, practice the fundamentals, and commit to making this part of you, the odds of achieving these goals are incredibly high.

Achieving these goals is not an end game but a path or way. The achievement that will determine your future success is your ability to stay on that path and continuously improve.

There are undoubtedly many questions in your head that all lead to the changes you must make to make all this a reality. Let's face it. You are going against the odds when committing to becoming a professional-level trader.

Ninety-eight percent of all traders fail. However, most of them have yet to learn why, well, then, why is the key. They fail because they have never been introduced to the right process, strategies, and methods, and they never had a coach to help them stay accountable to that process.

How long will it take? That depends on your commitment level, ability to approach this with an open mind, and ability to be coachable. For most people, the timeframe is six to eighteen months. But that is only the point at which you have discovered how to stay on the path and continuously improve. Your goals will be achievable from then on, but they will likely differ from what you imagined when you started.

This is Your Edge:

Options trading can be a complex and overwhelming topic for many traders, but these strategies have been designed to simplify the process and provide a roadmap for success. There are three key edges that you can achieve with these strategies:

1. Asymmetric Returns: Both the Classic Fly and Batman strategies help keep drawdowns small and returns stable, which reduces the stress and uncertainty of trading. This can help traders stay disciplined and focused on their goals.

2. Collecting Premium on 0DTE: Both strategies take advantage of the exponential decay of options premium, allowing traders to collect a significant amount of premium quickly.

3. Agile Continuous Improvement Process: By tracking your trades and conducting a daily and weekly retrospective, you will continually improve your execution and fine-tune your strategies. This will lead to better results and a more confident approach to trading.

By mastering these strategies, you will have a solid foundation for options trading success and the tools to generate consistent profits in the market.

Overview of the 0-DTE Option Strategy of Choice

Trading Options on the last day of expiration (0DTE) have become increasingly popular among retail traders, institutions, and fund managers. The 0DTE event offers a unique opportunity to collect options premium quickly while minimizing risk. And there are several ways to do that.

The strategy we prefer at Zero Days to Expiration is the OTM symmetric butterfly. The OTM butterfly strategy has defined risk, provides the asymmetric returns we are looking for, is exceptionally good at collecting premium, has incredible flexibility, and is excellent at taking advantage of market volatility.

An OTM symmetric butterfly is created with two vertical spreads of the same width and type (either calls or puts); one of the spreads is long, and the other is short. Both spreads share the same short strike. The options used in the butterfly have the same expiration date and the same underlying asset. This strategy is called OTM because the options sold are out of the money, meaning they have a lower likelihood of being exercised.

Which Underlying Asset to Use

The underlying assets we use are derivatives of the S&P 500, which include options on the SPX index and micro index, also options on the E-mini S&P futures. All three have weekly options that expire five days a week, Monday through Friday. The options on these are European style, which means there is no early assignment, unlike options on the SPY that have American style.

This is specifically why we don't use options on SPY because early assignment means there's a high likelihood that if the strategy is near the money, you could get an early assignment and then upset the strategy making it difficult or impossible to take advantage of the 0DTE event

Feature	/ES	XSP	SPX
Underlying Asset	E-mini S&P futures	S&P Index	S&P Index
Trading Venue	CME	CBOE	CBOE
Style	European	European	European
Settlement	Physical	Cash	Cash
Lquidity	Medium-High	Low-Medium	High
Commissions	High	Low	Low
PDT Rule	No	Yes	Yes
Trading Hours EDT	6 PM to 5 PM	9:30 AM to 4 PM*	9:30 AM to 4 PM*

Differences and Considerations of Asset Types

As a retail options trader, you have several options when it comes to derivatives based on the S&P 500 Index. Let's explore the similarities and differences between options on the SPX, XSP, and e-mini S&P futures and highlight the key things you need to be aware of when trading these derivatives.

One of the key similarities between these three options derivatives is that they are all weekly options and have expirations all five days of the week with a European-style expiration.

Now, let's look at the differences between these options derivatives. Options on the SPX and XSP are cash-settled, meaning they settle in cash based on the difference between the strike price and the value of the S&P 500 Index at expiration. With most brokers, the commissions and fees for options on the SPX and XSP are usually equivalent to the costs associated with stock options and are relatively low.

Options on the XSP and SPX are subject to the pattern day trader rule, which requires traders who frequently trade in these instruments to have a minimum of $25,000 in their brokerage account. And traders need to know there are morning expirations at the end of each month for SPX and XSP options.

Options on the e-mini S&P futures are based on the e-mini S&P 500 futures contract, a smaller, electronically traded version of the standard S&P 500 futures contract. E-mini S&P futures options are physically settled. With most brokers, the commissions and fees for the e-mini S&P futures options are typically six times the cost of the other two options derivatives. However, options on the e-mini S&P futures are not subject to the pattern day trader rule, making them a good choice for traders who do not have the $25,000 minimum balance required for trading options on the XSP and SPX.

Traders need to be aware that the underlying e-mini S&P futures have quarterly expirations, which should be tracked by the trader, especially near the delivery date and rollover activity that occurs. Additionally, the underlying price of the futures contract at the beginning of its quarterly contract, after the rollover, is usually priced at a significant premium to the SPX. As the quarter nears expiration, that price differential closes to parity.

In conclusion, all three options derivatives have unique advantages and disadvantages, and the right option type depends on your individual needs and circumstances. If you're looking to trade with a low-cost option, options on the XSP and SPX may be the better choice for you. On the other hand, if you're looking for an option that is not subject to the pattern day trader rule, options on the e-mini S&P futures may be a better fit.

Regardless of which option type, be sure to research and consider the essential things traders need to be aware of. Keeping these critical considerations in mind helps ensure that you make informed decisions and achieve success as a 0-DTE trader.

Explanation of the Strategies

In this manual, you will learn about two specific options trades that use an OTM butterfly options strategy:

1. Zero Days Classic Fly
2. Zero Days Batman

You will also learn how to implement a profit-taking framework and daily and weekly processes for managing these strategies. The process is agile, which means it is broken down into small iterations, with frequent reviews, to ensure tight controls and continuous improvement.

The Zero Days Classic Fly is a directional strategy that uses a single out-of-the-money (OTM) butterfly. The goal is to open the position with a debit at least one-tenth the width of the fly. This will result in a position with a 1:9 risk-to-reward ratio. The position is opened in the morning session when implied volatility is high to maximize the risk-to-reward ratio.

Risk management is simple. Generally, we allow the strategy to go to 100% loss. Profit management is based on a two-dimensional framework. The first dimension is the time of day, and the second dimension is the proximity of the price to the butterfly break-even points.

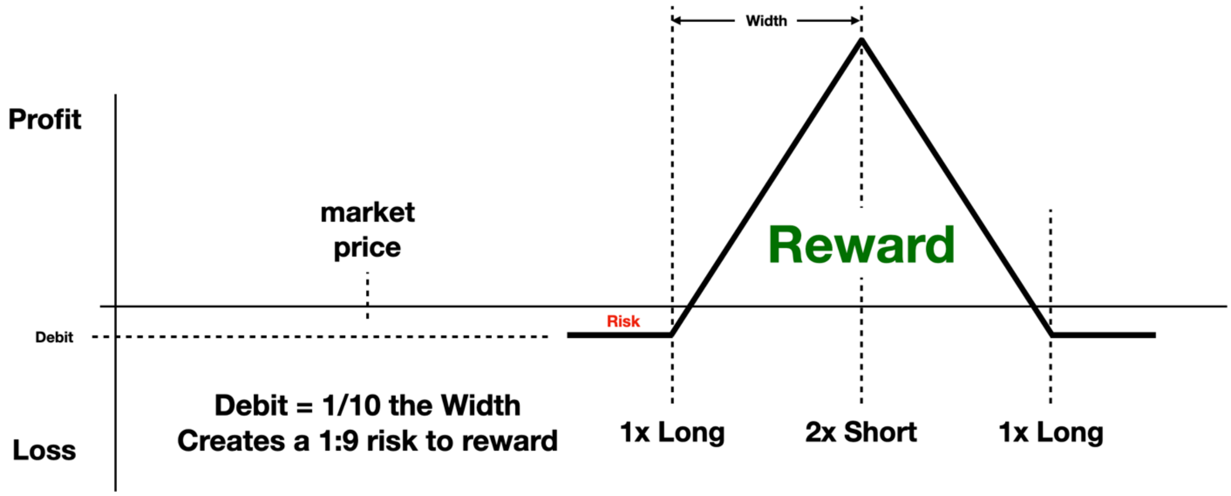


Figure 1 Classic Butterfly, symmetric out of the money (OTM)

The Zero Days Batman strategy builds upon the Classic Fly. It is a market-neutral strategy that uses two OTM butterflies – a long put butterfly below the current market and a long call butterfly above the current market. It is also opened in the early part of the morning session.

The profit management for this strategy is the same as the Classic Fly, but the risk management is a bit different. If the trade remains an unrealized loss, we close the trade when it exceeds 50% unrealized loss.

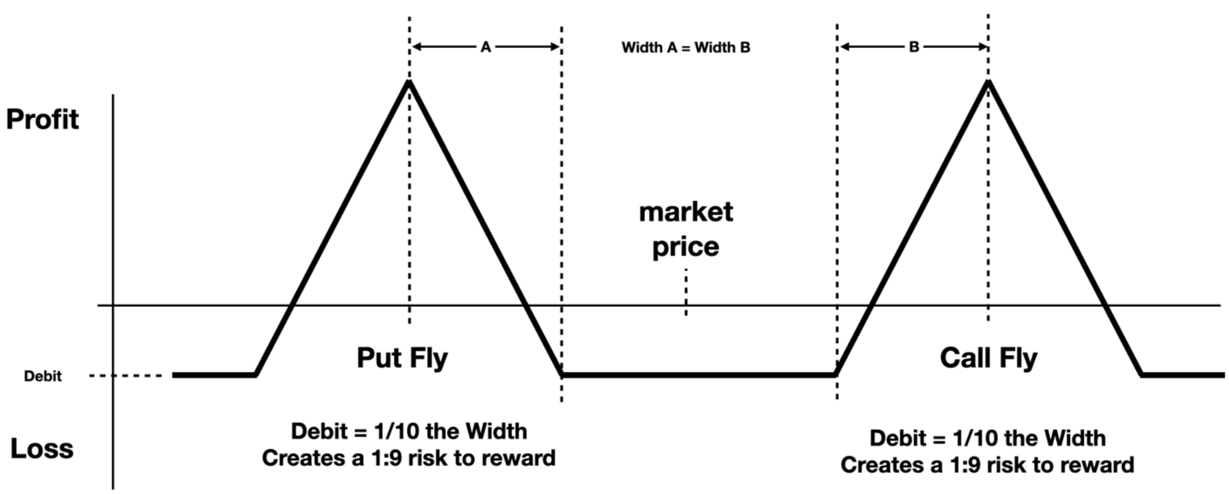


Figure 2 Batman strategy

Both strategies use a 2-dimensional profit management framework (time and distance). The first dimension consists of three time periods throughout the trading session – opening, afternoon, and closing.

The position is checked periodically, and the trader decides how to manage the trade based on the price proximity to the butterfly's break-even points. The trades should be recorded in a journal and evaluated at the end of each day and week through the daily and weekly processes outlined in this manual.

Principles and Philosophy

As part of the 0-DTE service, your goal is to become a consistently profitable, independent, professional-level options day trader. It would be best if you committed to a particular way of thinking and acting to achieve this goal.

0-DTE Trader's Manifesto

- Agility: Developing a process based on agile principles that embrace rapid iteration, continuous improvement, and the ability to adapt quickly to changing market conditions.
- Antifragility: Building resilience and adaptability, embracing volatility and uncertainty, and taking advantage of unexpected market events.
- Mental Strength: Cultivating mental strength and healthy habits, managing emotions, maintaining a clear, objective mindset, and establishing healthy habits and routines that support focus and energy levels.
- Discipline: Maintaining a disciplined approach to trading, adhering to strategies, maintaining a long-term perspective, and avoiding being swayed by short-term fluctuations or emotional reactions.
- Attention to Detail: Paying close attention to the details, analyzing data, staying informed about market conditions, conducting thorough research, maintaining accurate records, and being diligent in risk management practices.
- Zen Circle: Embracing the principles of the Zen Circle, cultivating impermanence, mindfulness, detachment, discipline, and ethical behavior, reducing emotional reactivity, and increasing resilience in the face of market fluctuations.

Classic Fly Strategy

The Zero Days Classic OTM Butterfly is an options trading strategy that involves creating two vertical spreads, one long and one short, using either calls or puts with the same short strike price. The strategy's objective is to place it far enough out-of-the-money (OTM) so that the debit of the strategy to one-tenth of the width. This allows the trader to place the order based on the market's pricing of the options.

By implementing this strategy, the goal is to achieve a defined risk that is small relative to the potential profit, leading to low drawdowns and manageable volatility with the equity curve.

The goal of the strategy is to maximize profit by taking advantage of market volatility through a well-defined process. This strategy involves opening a position after the market opens in the morning. Choose a butterfly width ranging from 20 to 35, depending on your tolerance and capacity for risk.

The 10% Debit Rule

The preferred setup for a single OTM butterfly options trade with the SPX on the 0DTE event is to make the debit one-tenth of the width of the fly. This is known as the "10% debit rule" and is commonly used by options traders to manage risk.

With a standard width of $30 for an 0DTE OTM butterfly with the SPX, the debit would be $3 using the "10% debit rule." This would result in a maximum reward of $27, which is the width minus the debit. The risk-to-reward ratio in this scenario would be 1:9, making the trade attractive for those seeking high potential returns with limited risk.

It is important to note that the 10% debit rule is a general guideline and may not be suitable for all traders or market conditions. Traders should consider risk tolerance, trading goals, and market conditions before implementing any position-sizing strategy.

The trade is monitored frequently during the trading session, using a well-defined framework, focusing on maximizing profit and adjusting the trailing stop as necessary. The success of the trade is evaluated daily through journal entries and a weekly review, with the best trades being documented in a playbook for future reference.

Strategy Details

I. Entry Criteria

- Time of entry (after the market opens)
- Width of butterfly (20-35)

- Maximum position size (no more than 1% of trading capital)

II. Profit Management

- Checking position every 15-30 minutes
- Divide price proximity into three categories
    - Outside real-time P&L break even
    - Between real-time P&L and breakeven at expiration
    - Between butterfly break evens (profit tent)
- Track data in the journal (period, proximity of price)

III. Risk Management

- 100% loss if the price remains unrealized loss

Batman Strategy

The Zero Days Batman strategy is an options trading strategy that involves using two OTM butterflies, one long put and one long call, to achieve market neutrality. This strategy builds upon the principles of the Zero Days Classic Fly but with a different risk management approach.

The Zero Days Batman is designed to reduce the risk of a single butterfly trade by entering two simultaneous trades that both have the potential to profit. The strategy profits from collecting the premium on both the put and call butterflies, which decreases the overall risk of the trade.

If the price of the underlying security moves in an unfavorable direction, the strategy reduces the potential loss by closing the trade if the unrealized loss exceeds 50%.

Overall, the Zero Days Batman strategy is designed for traders looking to reduce their overall risk and still achieve attractive returns in a market-neutral fashion. By following the principles outlined in this manual, traders can take advantage of this powerful strategy and achieve their trading goals.

Strategy Details

The Zero Days Batman strategy is a market-neutral strategy based on the Zero Days Classic Fly strategy. The Batman strategy uses two OTM (Out-of-the-Money) butterfly options positions to achieve asymmetric returns and maximize profits.

Strategy Set-Up

The setup of the Batman strategy is the same as the Classic Fly strategy. A long-put butterfly is placed below the current market, and a long-call butterfly is above the current market. The parameters of the butterflies are the same as the Classic Fly.

Profit Management

The profit management of the Batman strategy is the same as the Classic Fly strategy. The trader checks on the position every 30 minutes during the trading session and develops an essential strategy for each of the three-time segments (morning, early afternoon, and late afternoon).

Profit Management Framework

The 0-DTE profit management framework is a structured approach to managing the profitability of options trades. The best way to describe it is a two-dimensional framework, the first dimension is time, and the second is location.

The time dimension involves segmenting the trading day into three parts:

1. Opening session – Between the Open and Noon
2. Mid-day session – Between Noon and 2:30 PM
3. Closing session – Between 2:30 PM and the Close

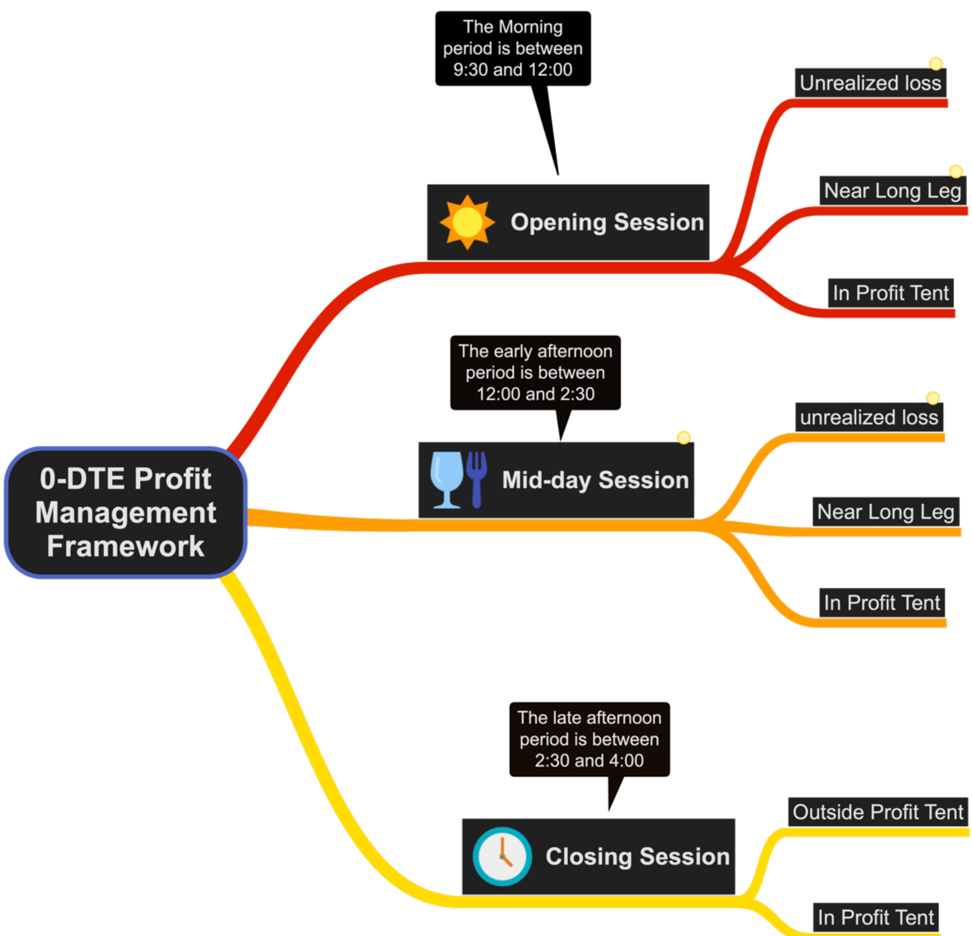


Figure 3 Profit management framework

The second dimension is the location relative to the Butterfly. Specifically, the trader evaluates the price position relative to the butterfly break-even points. We refer to the areas between the break-even points as zones. So at any time during the day, the position exists within a specific time and zone. Each of these dimensions will have unique characteristics that the trader can evaluate and determine whether to hold or close the position.

The three location zones are defined as follows:

1. Zone 1 – Between P&L Break even and loss
2. Zone 2 – Between P&L Break Even and Fly Break Even
3. Zone 3 – Between the left & right Fly Break Evens

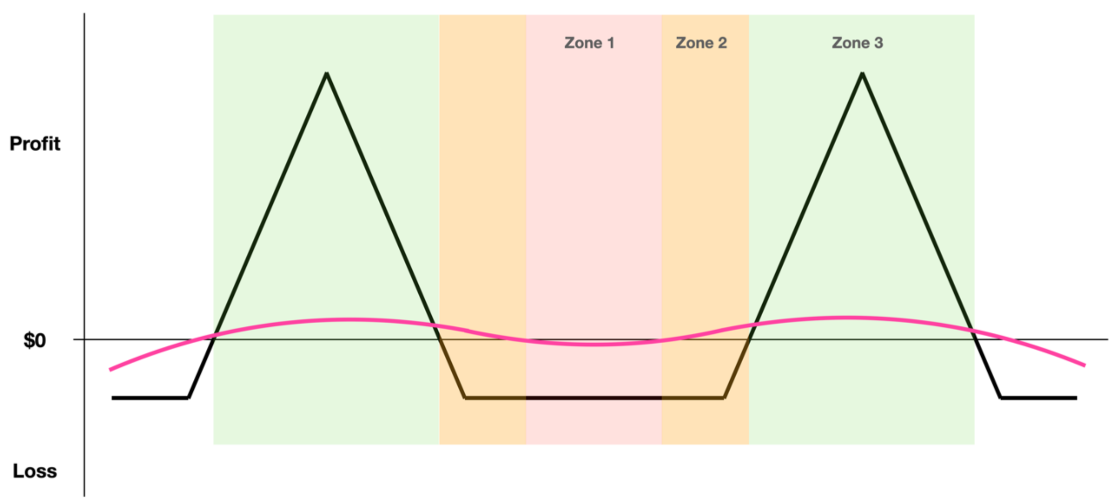


Figure 4 Profit management zones.

The framework emphasizes the importance of being proactive and flexible in managing positions, allowing traders to react to market conditions and capitalize on potential profits. Following this framework, traders can maintain a low-risk, high-reward approach to options trading and consistently achieve asymmetric returns.

Risk Management

The risk management of the Batman strategy is different from the Classic Fly strategy. In the case of an unrealized loss, the trader closes the entire position if the loss becomes more significant than 50% of the debit.

This condition occurs about 35% of the time when the price remains in Zone 1 (see Figure 1) for an extended period. This is typically between late in the Opening Session to early in the Afternoon Session and approximately between 11:30 AM to 1 PM.

Implied Volatility Timing

The butterfly is known to be a “vega negative” strategy. This means the strategy gains value, the P&L curve rises, and the volatility drops. And reciprocally, when volatility increases, the value and P&L fall. So, what does this mean in the real world? How does this help us open a position and close for profit?

Conclusion

The Zero Days Batman strategy provides a market-neutral approach to options trading. The strategy uses two OTM butterfly option positions to achieve asymmetric returns and maximize profits. The system is designed to be a more conservative approach to options trading and provides a way to manage risk in the event of an unrealized loss.

Strategy Selection

This chapter will discuss the differences between the Zero Days Classic Fly and the Zero Days Batman strategies and when to use one over the other. Both systems are designed to help traders achieve consistent profits in the options market, but each has unique advantages and disadvantages.

Classic Fly Strategy

The Classic Fly is a directional strategy that captures the premium on a zero-day time to-expiration (0DTE) options trade. It is a semi-passive strategy, which means that traders will let their positions go to a 100% loss if the price remains unrealized but actively manage profit-taking. This strategy aims to maximize profits through collecting premiums, best used in a stable trending market. Bullish trending, accommodative-induced markets like those from the 2020 pandemic lows to the end of 2021 are the perfect markets for this strategy.

Batman Strategy

The Batman strategy is a market-neutral strategy that uses two OTM butterfly options with the same parameters as the Classic Fly strategy. However, it differs in its risk management approach. With the Batman strategy, traders will close the trade if the unrealized loss exceeds 50%. This strategy is designed to capture profits in a volatile market where prices direction and magnitude are difficult to forecast, which in the absence of accommodative monetary policy, is most of the time.

Choosing Between Strategies

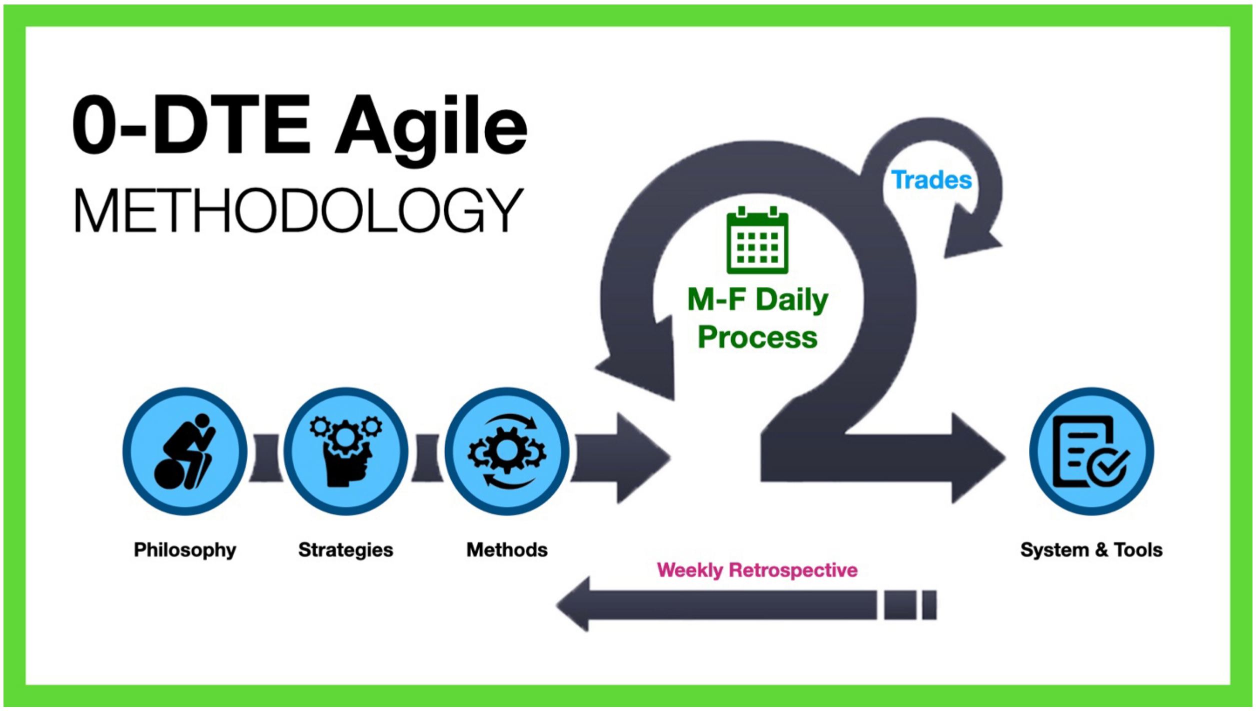
Traders must consider the current market conditions when deciding which strategy to use. If the market is stable and prices are not likely to make sudden significant moves, the Classic Fly strategy may be the better choice. On the other hand, if the market is volatile and prices are more likely to make sudden significant moves, the Batman strategy may be the better choice.

Ultimately, the choice between strategies will depend on each trader's risk tolerance, trading style, and current market conditions. Traders should always review the market conditions before entering a trade and choose the best strategy suited to their needs.

In conclusion, the Zero Days Classic Fly and the Zero Days Batman strategies are potent tools for traders who want to achieve consistent profits in the options market. By carefully considering the current market conditions and risk tolerance, traders can choose the best strategy for their individual needs.

The Daily Process

The daily process is a critical component of the Zero Days Classic Fly and Zero Days Batman strategies. This chapter provides a step-by-step guide to executing a successful trade using these strategies. To be effective, the daily process must be followed consistently and rigorously.



Step 1: Pre-Market Preparation

Before the market opens, review the daily market conditions and any relevant news events that may impact the market. Decide on the strategy you will use for the day: the Zero Days Classic Fly or the Zero Days Batman.

This document will focus on the Batman strategy, as it is the preferred strategy for most market conditions we have encountered. A specific Classic Fly strategy will be added to this document as an addendum at a future date. Let's assume that all content presented here is in the context of opening and managing a Batman.

Step 2: Entering the Trade

After the market opens, you will stage put-and-call butterflies below and above the current price. The strikes for each butterfly are set such that the debit is one-tenth the width of the butterfly. The width of the flies will depend on the trader's risk tolerance; for this example, let's assume the width of each fly is 30 wide or six strikes. So, the target debit for each butterfly will be $3, or one-tenth the width. Try to stay within this cost. Going over by 5-15 cents is acceptable if you can make up for it by entering a lower price for the other butterfly.

Once the butterflies are staged, we will attempt to enter the market with the standard Batman criteria. If the market does not accept an order, we will perform a Cancel/Replace and adjust the strikes and the debit to increase the chances of being accepted, making every attempt not to exceed one-tenth of the width. This process is repeated as necessary until the position is opened.

Step 3: Monitoring the Trade

After both butterflies are in the market, we will engage the 0-DTE profit management framework, including risk management. Let’s be clear that the focus here is on managing profit, as the risk is relatively small compared to the potential gain.

Check the status of the trade every 30 minutes during the trading session. Record the period and proximity of the price in a journal. Determine the optimal trailing stop based on the position's proximity to the butterfly's break evens.

Step 4: Exit the Trade

At the end of the trading day, exit the trade according to the selected strategy. For the Zero Days Classic Fly, this means letting the trade go to 100% loss if it remains an unrealized loss. For the Zero Days Batman, exit the trade if the unrealized loss exceeds 50%.

Step 5: Review the Trade

After exiting the trade, complete the journal entries and write a short narrative describing the day and ranking the trades on three criteria (market condition, trade execution, and the trader's mental state) on a simple ABC scale.

Conclusion

The daily process is the foundation of successful trading with the Zero Days Classic Fly and Zero Days Batman strategies. Following the steps outlined in this chapter, traders can consistently achieve asymmetric returns, collect the premium on the 0DTE, and improve their skills over time.

The Weekly Retrospective

The Retrospective is a critical component of the weekly process and is designed to provide traders with a structured approach to evaluate their performance and identify areas for improvement. This chapter will explain the purpose of the Retrospective, the steps involved, and provide tips for making the most of this opportunity to enhance your trading.

Step 1: Review the Journal Entries

The first step in the Retrospective process is reviewing the past week’s journal entries. This review should include an assessment of the market conditions, trade execution, the trader's mental state for each trade, and an evaluation of how well these factors were managed.

Step 2: Identity Trends and Patterns

After reviewing the journal entries, traders should identify trends and patterns in their performance. This can include areas of strength and areas that need improvement. For example, a trader may determine that they are solid in managing their mental state during a trade but must focus on improving their trade execution.

Step 3: Develop Action Plans

Once trends and patterns have been identified, traders should develop action plans to address areas for improvement. These action plans should be specific, measurable, and actionable and should focus on taking steps to enhance their performance in the future.

Step 4: Reflect on the Process

At the end of the Retrospective, traders should take time to reflect on the process. This can include considering the lessons learned from the week, the steps taken to improve, and the steps still needed to reach the desired level of performance.

Tips for Making the Most of the Retrospective:

Be honest with yourself: The Retrospective is an opportunity, to be honest about your performance and identify areas for improvement.

Be open to feedback: Encourage others to provide constructive feedback and be open to hearing it. This can help you identify areas for improvement and enhance your performance.

Focus on continuous improvement: The Retrospective should be viewed as a tool for continuous improvement, not as a source of criticism. Embrace the opportunity to learn and grow as a trader.

Celebrate success: Remember to celebrate your successes and acknowledge your progress, which will help keep you motivated and focused on your goals.

Conclusion:

The Retrospective is an integral part of the weekly process, and it allows traders to evaluate their performance, identify areas for improvement, and take steps to enhance their performance. By approaching the Retrospective with an open mind, a commitment to continuous improvement, and a focus on success, traders can achieve their full potential as traders.

Position Sizing Strategy

Trading options on the 0DTE requires a carefully considered approach to position sizing to ensure consistent success. A combination of fixed fractional and risk-based position sizing is an effective way to maximize scalability while maintaining stability in equity growth.

Introduction

The size of each trade can significantly impact the overall success of a trading strategy. Position sizing refers to determining how much capital to allocate to each transaction. When trading options, it is essential to consider each trade's potential risk and reward and adjust the position size accordingly.

Asymmetric risk-to-reward strategies, such as an OTM butterfly on the 0DTE event, offer the potential for significant profits with limited risk. However, it is crucial to implement a position sizing strategy compatible with this strategy to maximize returns while mitigating risk.

This article describes a position sizing strategy designed to be used with an asymmetric risk-to-reward strategy to maximize scalability while maintaining stability in equity growth.

The Fixed Fractional Component

Fixed fractional position sizing involves allocating a set percentage of capital to each trade. This approach ensures consistent portfolio risk, as the same amount of money is at risk for each transaction, regardless of the potential reward.

For example, traders might allocate 1.5% of their capital to each trade. If the trader has $100,000 in trading capital, this will result in a $1,500 position size for each trade. Using fixed fractional position sizing, the trader can ensure that their portfolio risk remains constant, even as their capital grows or decreases.

The Risk-Based Component

Risk-based position sizing involves determining the position size based on the potential loss from each trade. This approach helps to mitigate risk and reduce drawdowns by ensuring that the position size is appropriate for the level of risk involved.

For example, a trader might set a maximum loss threshold of $300 for each trade. The position size would then be determined based on the trade distance from the current price to ensure that the maximum potential loss is equal to or less than the $300 threshold.

The combination of Fixed Fractional and Risk-Based Position Sizing

By combining fixed fractional and risk-based position sizing, a trader can benefit from the strengths of both approaches. Fixed fractional position sizing ensures consistent portfolio risk, while risk-based position sizing helps to mitigate risk and reduce drawdowns.

For example, traders might allocate 1.5% of their capital to each trade, as with fixed fractional position sizing. However, they might also set a maximum loss threshold of $300, as with risk-based position sizing. The position size would then be determined based on the 1.5% capital allocation and the $300 loss threshold, ensuring that the trade is consistent with the overall portfolio risk and appropriately sized based on the level of risk involved.

Detection and Response to Longer-than-Normal Drawdowns

Longer-than-normal drawdowns can indicate poor market conditions or an ineffective trading strategy. To mitigate the impact of these drawdowns on equity growth, it is essential to detect them and respond appropriately.

One effective response to longer-than-normal drawdowns is to reduce position size until the poor performance streak has ended. This helps to mitigate risk and preserve capital, reducing the impact of the drawdown on equity growth.

Once the poor performance streak has ended, a trader can reengage with their position sizing strategy, gradually increasing their position size as market conditions improve. This helps to balance risk management with maximizing returns.

Minimum Account Size

Let's start with a minimally sized account. The smallest practical account size will depend on the underlying asset type. Our choices include, in order of required margin, the Micro S&P Index (XSP), the E-mini S&P futures (ES), and the full-sized S&P Index (SPX).

1. XSP: $2,000 USD
2. ES: $3,000 USD
3. SPX: $5,000 USD

These account sizes assume you will uphold the Pattern Day Trader rule, explained below.

Pattern Day Trader Rule

If you choose to trade the XSP or SPX, you will be subject to the Pattern Day Trader (PDT) rule, which restricts you to 3 round-trip day trades within a 5-day rolling window when your account size is under $25,000. We have a strategy that effectively gets around the PDT restriction using a box trade technique, which we call the “PDT Hack.” which will be described in another section. If you are classified as a pattern day trader, you must always maintain a minimum account balance of $25,000 or more in your margin account, or you will be restricted from day trading.

The Pattern Day Trader (PDT) Rule is a regulation established by the U.S. Securities and Exchange Commission (SEC) that applies to individuals who engage in day trading. And that would certainly apply to 0-DTE options traders.

Conclusion

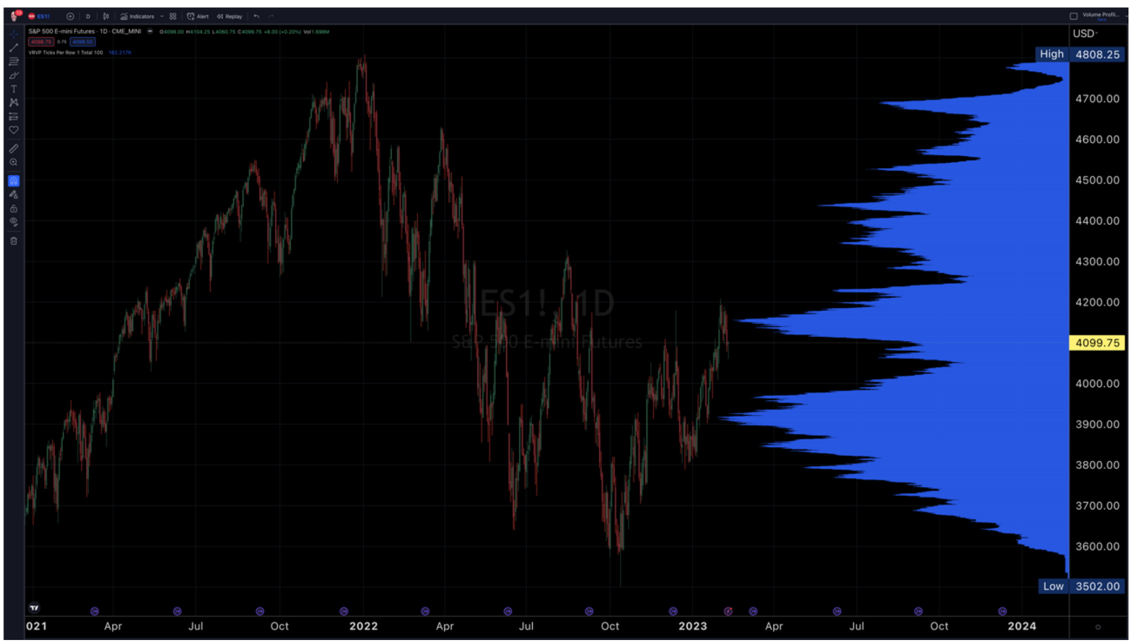
A comprehensive approach to position sizing is essential for successful options trading on the 0DTE event. By combining fixed fractional and risk-based position sizing, a trader can maximize scalability while maintaining stability in equity growth. The detection and response to longer-than-normal drawdowns are also important, helping to mitigate risk and preserve capital.

It is essential to regularly review and adjust the position sizing strategy as market conditions change and to backtest it before implementation to ensure its effectiveness. With the right position sizing strategy in place, traders can maximize their chances of consistent success in the options market.

Volume Profile

A volume profile is a visual representation of trading activity at different price levels over a specified period. Traders can use long-term volume profiles to analyze future price movements by identifying market structures such as volume and low-volume nodes. These structures can provide information about support and resistance levels and help traders make informed decisions in the market.

At 0-DTE, our preferred Volume Profile tool is within the charting application called TradingView. You can only use the tool if you have a subscription to TradingView. We recommend it very highly and discourage the tool from other trading platforms, such as Think or Swim, because they produce inferior results.



Introduction to Volume Profile Analysis for Trading

As traders, it's crucial to understand the market and make informed decisions when buying or selling securities. A volume profile is one tool traders can use to gain insights into market behavior. We'll explore how a long-term volume profile can analyze current price movements by discovering the market structure and memory.

What is a Volume Profile?

A volume profile is a visual representation of the amount of trading activity at different price levels over a specified period. The profile is constructed by plotting the volume of trades at each price level, with the horizontal axis representing price and the vertical axis representing volume. By using volume profiles, traders can gain insight into the behavior of market participants and make predictions about future price movements.

Market Memory and Market Structure

Benoit Mandelbrot, a mathematician and economist described the concept of market memory as the idea that market behavior tends to repeat itself over time. In the context of volume profiles, this means that specific structures in the market can be identified by analyzing long-term volume profiles. These structures represent areas of difference in market liquidity and are crucial to understanding future price movements.

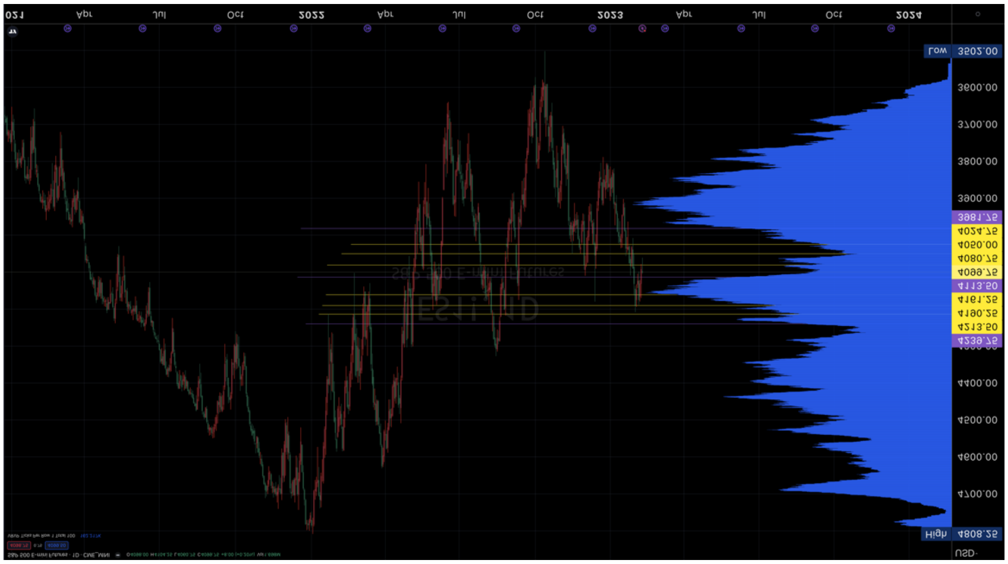
Volume Nodes and Volume Wells

When analyzing volume profiles, traders should look for two essential features: volume nodes and volume wells. Volume nodes are contiguous price levels that have accumulated significantly more than other levels. These areas represent a concentration of volume over a range of prices and can provide information about market structure.

Volume wells are areas between volume nodes with curiously low volume levels. Within these low-volume nodes, traders should look for distinct price levels with extremely low volume levels, called Low Volume Levels (LVLs).

Using Market Structure to Analyze Future Price Movements

To uncover market structure, traders can draw lines at levels representing abrupt changes in volume, such as the edges of volume nodes and LVLs. By plotting these levels on a long-term chart, traders can visualize the market structure or memory that has developed over time. This information can help traders predict future price movements and build trading strategies based on market structure.



When price encounters one of these lines, either the edges of volume nodes or LVLs, it often finds support or resistance. When the price exits a long-term node and enters a low-volume node, it transitions from an area of high liquidity to a place of low liquidity. This transition can accelerate price movement as the price seeks out new levels of liquidity or value. If the price encounters an LVL before reaching another volume node, it may pause temporarily or get rejected and return to the volume node.

Recommended Volume Profile Tool

TradingView is a popular charting platform that features a comprehensive volume profile tool. It allows traders to analyze volume data and market structure on various charts and timeframes. In addition to volume profile, TradingView offers a wide range of technical analysis tools and indicators and the ability to share and view charts and ideas with other traders.

Conclusion

By understanding the concept of market memory and using long-term volume profiles to uncover market structure, traders can gain valuable insights into the behavior of market participants and make predictions about future price movements. When combined with other technical analysis tools, volume profiles can be a powerful tool for traders looking to make informed decisions in the market.

Trader’s Mindset

I couldn’t decide whether to put this section before the strategy and process chapters. It should be the first consideration and is, without a doubt, the most crucial thing in trading. With the correct mindset, everything is possible.

As a trader, your mindset plays a critical role in your success. How you think about the markets, your trading, and yourself can significantly impact your results. This chapter will explore some essential elements of a successful options trader's mindset and how you can develop these skills.

Emotional Control

One of the biggest challenges that traders face is managing their emotions. Fear, greed, and other emotions can significantly impact your trading results. To be a successful options trader, you need to develop the ability to control your emotions and maintain a calm and focused demeanor, even in the face of market volatility.

One of the best ways to develop emotional control is to understand emotions' role in trading. Fear, for example, can lead you to make impulsive decisions that are not in line with your trading plan. By recognizing these emotions and taking steps to manage them, you can reduce their impact on your trading results.

Mental Preparation

In addition to emotional control, mental preparation is critical to your success as an options trader. You must set realistic expectations, develop a positive mindset, and have a clear trading plan. This will help you stay focused and make more informed decisions, even in market volatility.

One of the best ways to prepare yourself mentally is to take the time to understand your tendencies, strengths, and weaknesses. This will help you develop a more effective trading plan and take steps to address areas of vulnerability.

Self-Awareness

Self-awareness is another critical aspect of a successful options trader's mindset. You need to understand your tendencies, strengths, and weaknesses to make informed decisions and stay on track with your trading plan.

One of the best ways to develop self-awareness is to keep a journal of your trades and reflect on what you did well and what you could have done better. This will help you identify areas of strength and weakness and take steps to address these areas over time.

Positive Reinforcement

A positive mindset is critical to your success as an options trader. You must cultivate a positive outlook and focus on what you are doing well, even in market volatility.

One of the best ways to reinforce positive thinking is to celebrate small wins. This can be as simple as acknowledging a good trade or reflecting on your progress. By focusing on the positive aspects of your trading, you can build a more positive mindset and increase your chances of success.

Mindfulness

Mindfulness is another critical aspect of a successful options trader's mindset. You can develop a calm and focused state of mind by incorporating mindfulness practices into your daily routine, such as meditation and deep breathing.

By quieting your mind and focusing on the present moment, you can reduce stress, improve your decision-making skills, and increase your chances of success as an options trader.

In conclusion, the mindset of a successful options trader is critical to your success. By developing skills such as emotional control, mental preparation, self-awareness, positive reinforcement, and mindfulness, you can improve your trading results and achieve your goals as a trader.

The Zen Circle

The Zero Days to Expiration logo is a fancy circle surrounding the letters “dte,” which stands for “Days to Expiration,” and the circle represents the “0” or zero. The hand-drawn circle is a Zen Circle, also known as Enso. This is a symbol commonly used in Zen Buddhism. It is a hand-drawn circle, usually in one continuous brush stroke, and symbolizes various aspects of Zen philosophy and practice.

The Zen Circle symbolizes the concepts of impermanence, wholeness, presence, and emptiness, which are integral to Zen Buddhism. In the context of an agile, continuous improvement traders process, these principles can be applied as follows:

4. **Impermanence**: The ever-changing nature of the markets means that traders must be open to adapting their strategies and processes as needed. By embracing impermanence, traders can stay ahead of the curve and continually improve their performance.

5. **Wholeness**: Just as the circular shape of the Zen Circle represents wholeness and interconnectedness, traders must work together as a cohesive unit to achieve their goals. By fostering a sense of wholeness and collaboration, traders can avoid gaps and inefficiencies in their processes.

6. **Presence**: In the fast-paced world of trading, traders must be fully present and mindful of the moment. This requires paying close attention to market conditions and making quick, informed decisions.

7. **Emptiness**: Approaching each trade with a clear mind and free from preconceptions is critical to success in trading. By embracing the emptiness, traders can remain open to new ideas and approaches and avoid getting stuck in set patterns or routines.

The principles of the Zen Circle can help traders achieve their goals and improve their performance through an agile, continuous improvement process. By embracing impermanence, wholeness, presence, and emptiness, traders can stay ahead of the curve, work effectively as a team, make informed decisions, and continually improve their performance.

Traders Mindset Exercises

Here are some exercises that traders can practice to help develop the common themes of a successful trader's mindset:

Emotional Control

a. Mindfulness meditation: Practicing mindfulness meditation can help traders reduce stress and improve their emotional regulation. Start with a few minutes of meditation each day and gradually increase the time as you become more comfortable with the practice.

b. Deep breathing: It can help traders calm their minds and reduce stress. Practice taking slow, deep breaths whenever you feel stressed or overwhelmed.

c. Affirmations can help traders develop a more positive mindset and reduce negative self-talk. Write down positive affirmations that resonate with you and repeat them to yourself regularly throughout the day.

Mental Preparation

a. Creating a clear and detailed trading plan can help traders stay focused and make informed decisions. Take the time to outline your goals, strategies, and risk management approach, and review your plan regularly to ensure that you are on track.

b. Journaling can help traders reflect on their trades and identify areas of strength and weakness. Keep a record of your trades, including what you did well and what you could have done better, and review your journal regularly to identify patterns and make improvements.

Self-Awareness

a. Regular self-reflection can help traders identify their tendencies, strengths, and weaknesses. Take the time to reflect on your trades and overall approach to trading and identify areas where you can improve.

b. Seeking feedback from others can help traders develop a more accurate self-awareness. Ask trusted friends, family members, or colleagues for honest feedback on your strengths and weaknesses, and use this feedback to improve.

Positive Reinforcement

a. Celebrating small wins can help traders develop a more positive mindset and reinforce positive thinking. Take the time to acknowledge your successes, no matter how small, and give yourself credit for your hard work.

b. Gratitude journaling can help traders cultivate a more positive outlook. Write down a few things you are grateful for each day and focus on these positive aspects of your life.

Mindfulness

a. Regular mindfulness meditation can help traders develop a calm and focused mind. Start with a few minutes of meditation each day and gradually increase the time as you become more comfortable with the practice.

b. Mindful breathing can help traders stay focused and reduce stress. Practice taking slow, deep breaths and focusing on the sensation of your breath whenever you feel overwhelmed or stressed.

c. Mindful movements, such as yoga or tai chi, can help traders cultivate a more mindful and relaxed state of mind. Incorporate mindful movement into your routine to reduce stress and improve your overall well-being.

These are just a few examples of exercises traders can practice helping develop the common themes of a successful trader's mindset. It's essential to find the exercises that work best for you and to make them a consistent part of your routine to see the greatest benefits.

Trader Manual Conclusion

A. Summary of the Strategies

In this manual, we have discussed two options trading strategies: the Zero Days Classic Fly and the Zero Days Batman. The Zero Days Classic Fly is an options trading strategy that involves entering a long OTM butterfly options trade after the markets open. The objective is to capture the time decay of the options while managing risk through a trailing stop order. The Zero Days Batman strategy is a market-neutral strategy that involves entering two OTM butterfly trades, one above and one below the market, to create a hedge against market volatility. Both methods aim to achieve asymmetrical returns by collecting premiums and optimizing the trailing stop order.

B. Final Thoughts on the Importance of the Journaling and Review Process

The daily and weekly processes described in this manual are critical components of the Zero Days Classic Fly and Zero Days Batman strategies. Keeping a journal and reviewing trades at the end of each day and each week allows traders to continuously improve their performance by examining market conditions, trade execution, and mental state. This journaling and review process can also help traders identify patterns in their performance and adjust their strategies to manage risk better and achieve better results. By incorporating this process into your options trading, you can maximize your chances of success and become a more confident and skilled trader.

Appendix

A. Glossary of terms

This is a very brief glossary of terms for the 0-DTE trader. If you want to examine a more complete, near-comprehensive glossary of terms that every 0-DTE trader should know, click here: 0-DTE Glossary.

OTM: Out-of-the-money

Butterfly Options: A multi-leg options strategy involves a bull and bears spread.

Real-time P&L break-even: The point at which the profit or loss on a trade is zero.

Break-even at expiration: The point at which the profit or loss on a trade is zero.

Profit tent: The area between the two break evens of a butterfly trade.

Trailing stop: A stop loss order that adjusts to the current price of an asset as it moves in favor of the trader.

Retrospective: A weekly evaluation ceremony to review the trades and performance of the strategies.

Market-neutral: A strategy that seeks to remove market risk by balancing equal long and short positions.

B. Example journal entries

Date: [Insert Date]

Period: [Insert period]

The proximity of Price: [Insert proximity of price to the butterfly option]

Position: [Insert details about the trade, such as the number of contracts, strike price, etc.]

Max Profit Achieved: [Insert the maximum profit achieved during the period]

Optimal Trailing Stop: [Insert the optimal trailing stop for the trade]

Market Condition: [Insert rating based on the ABC scale, e.g., A, B, or C]

Trade Execution: [Insert rating based on the ABC scale, e.g., A, B, or C]

Trader's Mental State: [Insert rating based on the ABC scale, e.g., A, B, or C]

C. Playbook of best example trades

[Insert details about the best example trade, such as the date, period, price proximity, position, max profit achieved, etc.]

[Insert details about another best example trade, if applicable]

D. Review forms and checklists

Daily review form

[Insert items to be reviewed daily, such as position, price proximity, max profit achieved, etc.]

Weekly review checklist

[Insert items to be reviewed weekly, such as the trades executed during the week, the retrospection ceremony, etc.]