Choosing the right DTE

Overall for the OGs who have been here you guys know I have pretty much gone from 7dte to 0dte back to 5dte back to 0dte and all over the place. I can never quite get a good feel for what I feel like is the best risk to reward.

On one hand we have the longer DTE which is obviously much safer but with safety comes higher risk/ losses if you are wrong.

The market pretty much from about May/ June till the last few weeks has been a scalpers market. Its pretty much been a get in and get out sorta market. No in between. You are either in and out in 1minute or you are burnt due to the 10th reversal of the day. Well the VIX has finally settled down again and we are seeing more and more trending days. The mornings have been highly choppy but once we pick a direction we have generally been sticking to it.

So the more and more I think about it the more I want to optimize my trades. There has been chatter in the server about whether 0dte is really the right choice right now.

Tonight I did a pretty big deep dive using today as the example (due to the big move and trend day). The results are pretty cool and can be seen below in this chart.

Comparing Winning Call gains for 7/28/22 SPY

ATM 399C	1DTE- 7/29	% gain	4DTE- 8/1	% gain	6DTE- 8/3	% gain	11DTE- 8/10	% gain		1034am	398.74		10%
Premium	2.64		3.35		4.24		6.25			0%	398.74		20%
0.10%	2.8	6.06%	3.5	4.48%	4.41	4.01%	6.25	0.00%		0.10%	399.14		50%
0.25%	3.01	14.02%	3.74	11.64%	4.65	9.67%	6.55	4.80%		0.25%	399.7		100%
0.50%	3.53	33.71%	4.29	28.06%	5.17	21.93%	7.25	16.00%		0.50%	400.7		
0.75%	4.16	57.58%	4.71	40.60%	5.65	33.25%	7.53	20.48%		0.75%	401.7		
1%	4.91	85.98%	5.34	59.40%	6.36	50.00%	8.05	28.80%		1%	402.7		
1.25%	5.33	101.89%	6.08	81.49%	6.8	60.38%	8.91	42.56%		1.25%	403.7		
1.50%	6.5	146.21%	6.87	105.07%	7.9	86.32%	9.24	47.84%		1.50%	404.7		
1.75%	6.94	162.88%	7.49	123.58%	8.24	94.34%	10.47	67.52%		1.75%	405.7		
2%	7.98	202.27%	8.4	150.75%	8.86	108.96%	10.45	67.20%		2%	406.7		

Comparing losing put losses for 7/28/22 SPY

ATM 398P	1DTE- 7/29	% loss	4DTE- 8/1	% loss	6DTE- 8/3	% loss	11DTE- 8/10	% loss		1034am	398.74		-10%
Premium	2.32		2.98		3.81		6.08			0%	398.74		-20%
0.10%	2.11	-9.05%	2.8	-6.04%	3.62	-4.99%	5.62	-7.57%		0.10%	399.14		-50%
0.25%	1.84	-20.69%	2.52	-15.44%	3.37	-11.55%	5.16	-15.13%		0.25%	399.7		-75%
0.50%	1.44	-37.93%	2.11	-29.19%	2.91	-23.62%	4.85	-20.23%		0.50%	400.7		
0.75%	1.15	-50.43%	1.8	-39.60%	2.51	-34.12%	4.57	-24.84%		0.75%	401.7		
1%	1	-56.90%	1.61	-45.97%	2.35	-38.32%	4.2	-30.92%		1%	402.7		
1.25%	0.78	-66.38%	1.35	-54.70%	1.98	-48.03%	3.89	-36.02%		1.25%	403.7		
1.50%	0.57	-75.43%	1.07	-64.09%	1.72	-54.86%	3.51	-42.27%		1.50%	404.7		
1.75%	0.45	-80.60%	0.87	-70.81%	1.5	-60.63%	3.23	-46.88%		1.75%	405.7		
2%	0.23	-90.09%	0.6	-79.87%	1.17	-69.29%	2.9	-52.30%		2%	406.7		

Everyone knows that a 0dte is the true lotto which leads to the biggest intraday gains IF you can chose the right direction. However, theta burn is always a struggle and like today we had moments where we just chopped and consolidated before the true move occurred. So looking at this chart.

For this example (which in a way this is of course an extreme) but I took the morning bounce till the EOD and used that to guide this.

Before you look at this chart you need to ask yourself. Are you a buy and hold or are you a scalper? Are you looking to get in and hold for the day? Are you looking to get in and get out? Are you looking to get in and set a trailing stop or have an immediate stop loss set?

A general breakdown of how a the different DTEs behaved today

- 1DTE
    - +/- 0.25% of movement leads to about +/- 20%
    - +/- 0.75% of movement leads to about +/- 50%
    - - 1.25% of movement lead to about - 75%
    - +1.25% of movement leads to about +100%
    - -1.5% of movement leads to about -75% movement
- 4 DTE
    - +/- 0.25% of movement leads to about +/- 10-15%
    - +/- 0.5% of movement leads to about +/- 20-30%
    - +/- 1.0-1.25% of movement lead to about +/- 50%
    - +1.5% of movement leads to about +100%
    - -2% of movement leads to about -75%
- 6 DTE
    - +/- 0.25% of movement leads to about +/- 10%
    - +/- 0.5% of movement leads to about +/- 20%
    - +1.0-1.25% of movement lead to about +50%
    - -1.5% of movement leads to about +100%
    - +2% of movement leads to about +100%
- 11DTE
    - -0.25% of movement leads to about -15%
    - +0.5% of movement leads to about 15-20%
    - +1.5-1.75% of movement leads to about 50-70%
    - -2% of movement leads to about -50%

The 1dte is pretty much the ultimate scalpers delight with only 0.25% (this is about $1 btw) of movement needed to bank a quick 20%. But also comes at a hefty price of being wrong by -20% if it moves against you.

The 4dte and 6dte are an interesting comparison when you look at them. If your goal is a "quick" 10-20% profit they are both pretty similar in that you need about 0.25% ($1) for about 10-15% gains. However, if you start looking at 0.5% movement ($2) then you start talking about 20% gains for the 6dte when the 4dte would net you closer to 30%. However, that 0.5% movement also comes with a hefty price to pay if you are wrong with -30% for 4dte but only -20% for 6dte.

The 11dte actually does not move too badly. You need atleast 0.5% ($2) of movement to get 10% but with only 0.75% ($3) of movement you can net that 20% gains. You are also given a lot more grace in that being wrong by 0.5% ($2) only nets you a -20%.

The advantages of the 4, 6 and 11dte is that obviously you are wrong and you do have the ability to turn what was an intraday play into a swing play. Of course that then comes with the overnight decay too. But you are given the ability to determine whether or not SPY is going to continue on the same trend or

not. I have found myself lately when I have been wrong even on 1dtes being able to swing them to turn them into small wins/ breakevens. Of course with decay and just the overall unpredictableness of this market swings are not always the best choice especially if against the overall trend.

Now I do not have a 0dte included in here but its pretty much a 1dte on crack. On 0dte day expirations obviously everything will pretty much be slightly accelerated due to less DTE. On 0dte expirations days in my opinion some of the best risk to rewards (of course if you aren't going for full on scalps in and out) would be to enter a 3dte or 5dte. A 5dte is going to give you a little more grace but also make you work a little more for the bigger 20% win. 3dte you will be right fast but also wrong faster obviously.

Clear trend days (like today)- best to utilize a 3dte or 4dte.

Range days or days you suspect reversals or just have trouble trusting the trend- 5dte or 6dte would be the best risk to reward.