Hey, welcome back to the *Rude Awakening*.

Today is Monday, February the 8th, 2021, and we are continuing on our 10-part series here on how to build what we refer to as an asymmetric investing program.

Part one on Friday's session was going over the problem. And the problem just to refresh once again, let's take a look at IBM here and use it as an example.

If we were going to go buy some shares of IBM, you can see what that risk graph looks like. Obviously, if we buy the shares at its current price and it goes up, we make money. If it loses money and goes down, we're out of funds, and there is a 50% probability of success. Even if we short stock because we think it's going down, we know we make money if it goes down, but again, it's a 50% probability of success.

Now, one of the things that we could do to overcome this basic coin toss, this 50/50 shot of making money in the marketplace, is we could use options. So if we went to an options table here and we said, "Listen, we're bullish on IBM. We think it's going to go up. So we are going to sell a bullish credit spread on the puts and build that into our trade."

Let's look at this right here. Let's put this in, and let's take a look at that in the risk graph and look at the numbers there.

Well, now you see that it gives us a nice probability of profit. Now it's an 87% probability of profit, but you can see that we're risking about $455 for a $45 profit. So, we're risking almost $10 for every $1 of profit potential. This is the issue. We are either facing a poor risk-reward ratio, we are either risking too much money for the profit potential that we are getting, or if, in the case of just simply buying the stock, we have a low probability of success.

What is the solution to this? This is the problem.

Today, we're talking about the solution.

This solution, folks, is to build a risk-reward ratio that will allow us to not have to be successful very often and still be able to make money.

You can see that one-to-one risk-reward ratio right there that we were just looking at. That's what you get when you buy a stock, is that 50% risk-reward ratio.

What we're going to look at today and the goal that we're going to set up for our program going forward here is essentially right here. We're going to look at building a system going forward that only allows us to risk $1 of loss for every $3 of profit potential.

Now, what does that mean to us as traders going forward?

Folks, really what it means, the key to that is, we only have to be successful 25% of the time. If we are successful in picking our investment choices 25% of the time, and we are only allowing $1 of risk to occur for every $3 of profit potential, we'll actually break even. If we can do better than that, if we could win three out of 10 times, we're making a nice profit.

This is the solution.

We're going to look to build investment opportunities in the stock market that have this three to one reward to risk ratio. Tomorrow's session, session number three, we're going to get into how to automate that with bracket orders.

That's your session for today, folks.

We will see you tomorrow.

Be safe out there with your trading.