Trade Management

By @CryptoCred

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Disclaimer

Neither this presentation, nor anything on my Twitter, Telegram, or any other medium/mode of communication, including private correspondence, constitute financial advice.

I am not a financial advisor and hold no formal qualifications in this area.

Trade entirely at your own risk.

This is for entertainment purposes only.

General Remarks

- Trade management is one of the more psychologically challenging elements of a trade
  - Often invisible when seeing trades shared on social media etc.
- Spectrum between ‘set & forget’ and active management → worth investigating
  - Data
  - Trading style
  - Time frames
- Trade management is where good trade ideas go to die
  - Big part of bridging the gap between analysis and trading
- Trade the chart, not your PnL → focus on the <u>process</u>
  - Market does not know nor care where you entered and where you want to exit, or at which point a trailed stop out pays for a lads’ holiday to Ibiza→ if you’re a technical trader, trade the technicals!
- This video complements the lesson on entry triggers
- All my content is of limited use in the absence of screen time; trade management especially so

Definition & Context

- Definition: *Set of decisions made between opening a position and fully closing it*
- This video does not explicitly address:
  - Compounding/pyramiding/laddering
  - Automated strategies
  - When/how/whether to scale in and out of positions
- Hard video to make
  - Management has many variables and is often linked to one's entry technique(s) and styles; I can't account for all of them
- Manual traders with a price chart focus and a system allowing for some degree of discretion will benefit most from this video
- Aim: provide a framework for thinking about trade management which spurs independent research and addresses common errors → end result is a largely <u>systematic</u> approach to trade management

Evidence-Based Approach

- Two meanings
  - Investigate whether you would benefit from actively managing your trades
    - Straightforward process if you keep a trading journal
    - If actively manage trades, is it to your benefit? What would returns be over X trades if left to original entry/target/stop?
    - If trades aren't actively managed, could you benefit? How many trades turn around before take profit/allow for early exit?
  - Key question: *Are developments in price since my entry aligned with my expectations for this trade idea?*
    - Is price reacting as expected to my technical structure/its break?
    - Is price moving in the expected direction within a reasonable time period?
    - Is price breaking support/resistance or making new lows/highs?
    - Are buyers/sellers stepping in where they should be if my idea is correct?
    - Just a few examples, but the idea is to exercise your discretion to always be reassessing whether the 'evidence' (price action) supports your position - within reason!

Time Frames

- This section addresses the topic of what time frame to employ when managing trades
    - It also presumes that the framework for managing trades is on the basis of a candle close
- Competing considerations
    - If the management time frame is too high, opportunities for management may be unavailable
    - If the management time frame is too low, management may be excessive or unreasonable
- Management time frame is contingent on the time frame of the trade itself
    - Intraday trades will require intraday management
    - Higher time frame trades are better suited for higher time frame management
- Practical tip: manage on entry time frame or one time frame lower
    - W1 setup: W1 and D1 management
    - D1 setup: D1 and H4 management
    - H4/H1 setup: H4/H1 and M30/M15 management
- Not a law of nature; play around with it & experiment but above is a solid foundation
    - Personally: lots of H1 management of D1 setups

Managing Both Sides of a Trade

- Definition: *Managing trades that are at a loss (prior to stop loss order) as well as those that are in profit (prior to take profit order)*
- Traders will rush to protect profits on a trade that is winning but often happily leave a losing trade to be stopped out → unreasonable
  - If you can exercise your discretion ahead of a take profit order to lock in gains, you can do so ahead of a stop loss order to mitigate losses
- Consistently reducing -1R losers to less than a full size stop out will make a meaningful difference to your equity curve over time and make you a better trade manager
- Examples:
  - Sold resistance, price has flipped it and is using it as support
  - Faded an impulsive move into structure with sellers nowhere to be seen
  - Very weak reaction at support followed by closes through it
- Don’t surrender to fate; you’re not a Soviet grandmother

Time-based Management

- Central premise: some trade ideas have an ‘expiry date’
- Price-based management is intuitive, but some trade ideas are time-sensitive
  - Time-based management is managing trades that do not materialise within their given window
- If you are not seeing what you expect to see <u>when</u> you should be seeing it, that in itself can be an exit/management signal
- Best explained via examples:
  - Setups premised on <u>trapped traders</u> (SFP, failed breakouts, price trading beyond a value area or ‘liquidity’ pool) → assume fast rejection if the setup is really a trap
    - As more time progresses, the probabilities shift from ‘trap’ to ‘genuine breakout’
  - Setups premised on <u>momentum continuation</u> (market structure, closes through levels) → assume aggressive participation i.e. price not stalling once structure is exceeded
  - Setups premised on <u>support/resistance</u> or equivalent structures → if price spends too much time at structure without offering a reaction or moving away, the probabilities shift from ‘bounce’ to ‘failure’

Moving Stops 'Versus' Taking Profit

- Mechanisms for exiting a profitable trade
  - Take profit order being filled
  - Manually closing a position at market
  - Stop order above entry if long / below entry if short being executed
- Technically, you can trade and never 'take profit' and instead continually move your stop loss as the market moves in your favour until you are stopped out in profit
  - Risks: Assumes trending environment, assumes that clear levels for new invalidation will form, and 'obvious' areas for trailed stops often get tagged prior to trend continuation
- No right or wrong way, but depends on your trading style and market conditions (among other factors)
  - Trend-following system in a trending market = more likely to capture bigger portion of trend with trailing stops
  - Mean-reverting and/or swing trading systems in a ranging environment = fixed profit-taking at range boundaries, ATR etc.

Dynamic R:R/Evolving R

- I first came across Tom Dante's articulation
- Premise: *The R:R of a trade is not static. It adjusts as soon as the trade is live and price moves away from entry i.e. it is a dynamic calculation (or consideration).*
- Question to ask yourself: is the R:R of a trade reasonable <u>in its current state?</u>
  - Alternatively: If someone offered you the current price, your current stop loss order, and your current take profit order as a trade right now, would you take it?
    - Yes → good!
    - No → R:R of the trade is less favourable; manage it (via moving stop loss order and/or by taking profits)
- Dynamic R:R is especially important when you really get onside with a big thrust candle
  - How close is the trade to target?
  - Where is the nearest structure I could use to define my risk, if any?
  - If no new invalidation level whilst being so close to target, is the R:R justifiable?
- Example: 20 point stop and 40 point target. Price moves 35 points in one candle, 5 from target.

‘Risk-free’ Trades

- Premise: *Moving a trade to break even as soon as possible after it moves positively away from entry removes all risk from the trade i.e. it is a free trade*
- When moving to break even makes sense:
    - Technical invalidation level aligns with entry price (usually rare).
    - Price has moved significantly away from entry but not provided a new invalidation level.
- Reasons to be sceptical of automatically moving to break even:
    - It’s not risk-free. The risk becomes getting stopped out while still being right before your idea can materialise.
    - Price will very often retest technical structures, especially if they are HTF levels.
    - You end up buying the resistance you sold / selling the support you bought.
    - Fettering discretion / abandoning technical trading framework → the market doesn’t know or care where your break even level is
        - If you entered using technicals, why not manage using technicals?

Trade Management Psychology & Tips

- Focus on good trading i.e. the trading process → following rules/a framework
  - Trading your PnL becomes an emotionally-driven and, worse, unreplicable endeavour
  - The market does not know or care about your trade parameters
- A good entry is not a prerequisite but it is valuable
  - Anecdotally, easier to manage trades which take less 'heat'; not as eager to jump out
  - Higher likelihood that you will be able to move to break even <u>based on technical factors</u> (still may not always be the best idea for reasons stated)
  - Less stress via early indication that you're likely to be on the right side
- Make sure there's something to manage!
  - Give your idea a chance to unfold. There's a 'dead zone' between your stop loss and take profit where your job is most likely to do nothing.
- Market doesn't know or care whether you've been losing or winning
  - Trading <u>in contravention to your established system</u> based on previous trades is sacrificing good process for PnL 'comfort' → not sustainable

Conclusion

- Trade management is not easy
  - <u>Screen time and live experience</u> are irreplaceable; your journal and observations will be far more valuable and actionable than any YouTube video or book
- If you’re a manual trader with room for discretion, use your discretion!
  - Reassess and reevaluate the trade with fresh eyes (both in terms of price developments as well as R:R) where appropriate
  - Reducing losses is just as important as securing profits
- Trade the chart, not your PnL
  - The rational, replicable, and long-term beneficial focus is the <u>trading process</u> → trade well and in accordance with your system rather than the red/green on the screen
  - If you’re a technical trader, act like one!
- Personally:
  - *Is price action developing as I would reasonably expect it to if my trade idea is correct?*
  - *What is the evidence for/against my position?*

Fin

Thanks for watching!

@CryptoCred (Twitter, Telegram, YouTube)

@CryptoCreddy (Medium)