Your Strategy Doesn’t Work — and Why That’s OK

> You aren’t paid for predicting; you’re paid for **structuring risk**.

TL;DR

Most retail strategies fail because they have **negative or razor-thin expectancy** once you include costs, slippage, and rule-break risk. That’s fine. If you route your trading through **prop firm structures**, you can exploit **non-linear convexity**: your **downside is capped** (reset/fee), while your **upside scales with external capital** and payout schedules. This lets you pull **larger absolute profits on your personal cash** than buy-and-hold — **without “technically” outperforming** buy-and-hold on the notional account size.

Part I — Why your strategy probably doesn’t work

1) **Backtest lies (a little).** - Data-snooping, overfitting, survivorship bias, and regime shifts create **illusory edges**.

2) **Costs kill slim edges.** - Commissions, spreads, slippage, funding/borrowing, and borrow availability quietly push an edge from +0.05R to **negative**.

3) **Bad risk transforms a good idea into a bad business.** - Inconsistent sizing, martingales, or doubling after losses explodes **risk of ruin (RoR)**.

4) **Expectancy is ignored.** - Per trade: `E = p * W − (1 − p) * L` where `p` is win rate, `W` avg win, `L` avg loss. - If `E ≤ 0` **after costs**, the strategy is **uninvestable** no matter how pretty the chart looks.

5) **Time & variance are underestimated.** - Long plateaus draw down attention, discipline, and capital. You quit right **before** the mean reasserts.

Sanity check: if your live results aren’t within spitting distance of your backtest **distribution**, your edge is probably an artifact.

Part II — Why it doesn’t matter: convexity via prop firms

What is “non-linear convexity” here?

A **convex payoff** means **limited downside** with **open-ended upside**. Prop accounts approximate this because: - **Downside is capped** to a **reset/evaluation fee** (plus time) and/or a firm-defined **max drawdown**. - **Upside taps external capital** (e.g., $25k–$300k funded) and **payout splits** (70–90%+). - You can **stop when ahead** (withdraw) and **reset when behind** — an **embedded “option to reset.”**

This creates an **asymmetric payoff** even if the underlying strategy's raw alpha is small.

Why this beats buy-and-hold *on your personal cash*

- **Buy-and-hold**: ROI is measured on **your capital**. To make $2,400 at 1% monthly, you'd need **$240,000** invested.
- **Prop convexity**: You might spend **$150–$400** in fees to access **$50k–$200k** of notional. If you extract **$3,000** and keep **80%**, you net **$2,400** on a few hundred dollars at risk.
- You didn't "beat the market" on the **$50k notional**; you simply **monetized optionality** on **external capital**, so your **return on *personal* cash** dwarfs buy-and-hold.

  You win by **changing the denominator** (your own capital at risk), not by proving you're smarter than the S&P.

Part III — A simple numbers picture

- Assume a $50k funded account, **trailing drawdown** $2k, **payout 80%**, and **monthly fee/ fee-equivalent** $250.
- You target **$3,000** gross in a month, then **withdraw**.
- **Payout to you** = `$3,000 × 0.80 = $2,400`.
- **Cash at risk** ≈ `$250` (fees) + small buffer time. Your **ROI on personal cash** is **~10×** that month.
- On the **$50k notional**, the month is **+6% gross** — not "alpha vs. market" in any statistical sense, but the **absolute dollars to you** are compelling **relative to your own cash deployed**.

Cycle expectancy framing (oversimplified): - Let `pT` = probability you **hit target** before violating rules; `T` = gross target; `s` = payout split; `F` = reset/fees. - `E_cycle = pT * (T * s − F) − (1 − pT) * F`. - The wrapper is positive when `pT * (T * s) > F`. Even a **small edge** can work if your **target/payout** dwarfs **fees** and you **quit while ahead**.

Part IV — How to apply the convex wrapper (playbook)

1) **Trade to a fixed profit target, then stop.** - Withdraw early/often; don't "give it back" to chase scale.

2) **Hard daily loss and weekly loss.** - Keep the account alive; treat the **drawdown as *air*, not fuel**.

3) **Risk light, trade clean.** - Risk per trade small enough that the **trailing drawdown** is rarely touched intraday.

4) **Reset fast when cold.** - The **option to reset** is part of your edge. Don't waste time digging.

5) **Exploit session bias.** - Focus windows with known microstructure (e.g., **London**, **NY AM/PM**) to boost `pT` modestly.

6) **No compounding until firm scales you.** - Size via rule-based **scale-ups**, not emotional leverage.

7) **Process > prediction.** - Your job is to **harvest convexity**; the market decides direction.

Risks & realities (read this)

- **Rule risk**: daily loss, news locks, trailing drawdown mechanics.
- **Execution risk**: slippage on fast products; commissions matter.
- **Behavioral risk**: tilt, revenge, fatigue — convexity fails if you **overtrade**.
- **Regime risk**: strategies die; the wrapper doesn't save **negative-EV** behavior.
- **Operational risk**: firm policy changes, payout delays, scaling criteria.

> **Disclaimer:** Educational only, not financial advice. Know the rules of your firm, model your expectancy, and size so a sequence of losses costs you **fees and time — not your identity**.

Appendix — Quick definitions

- **Expectancy (E):** average profit per trade/cycle. `E > 0` required.
- **Convexity:** payoff curvature where losses are limited but gains can run.
- **Reset option:** ability to stop when behind and restart; economically similar to owning a cheap option on your skill.
- **Return on Personal Cash (RoPC):** payouts ÷ (fees + small buffer). This is the **meaningful denominator** for a prop approach.