

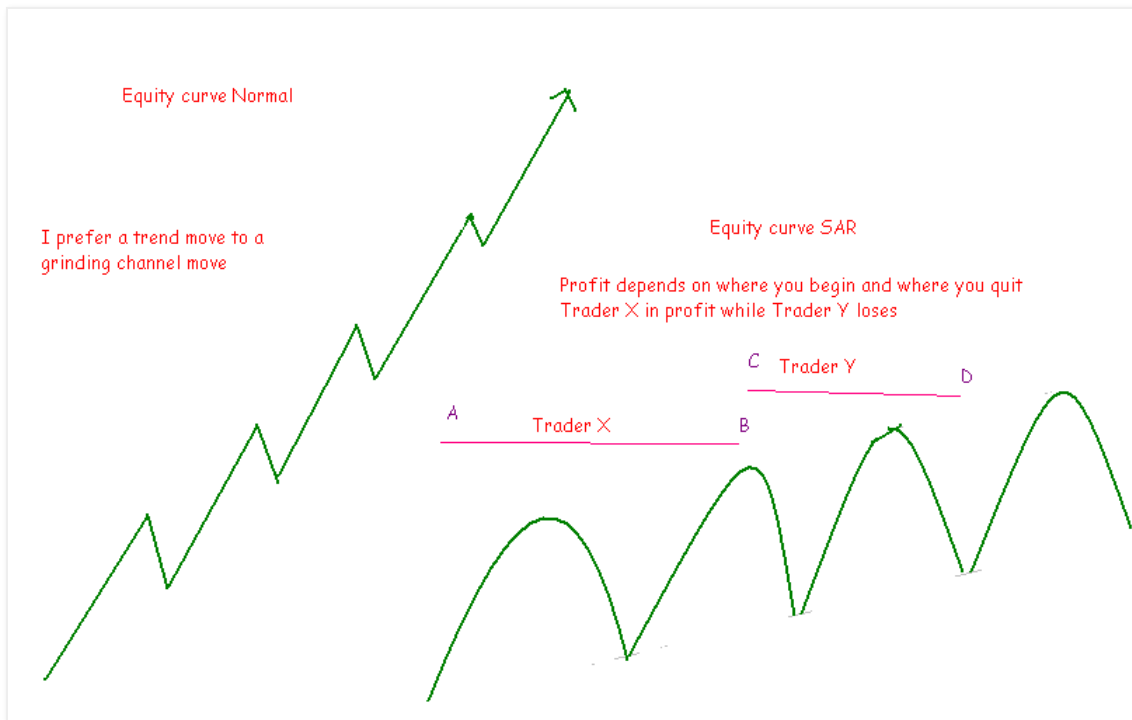


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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Sunday, October 21, 2012

The SAR Circus



SAR (Stop and Reverse) is a market neutral trading system that is always in the market. It automatically gets you long when market is going up and short when the market is going down. Stops are reversal points. People follow different methods to calculate SAR levels. It can be moving averages, Bollinger bands, Pivot points, some market profile levels etc.

I have very keenly observed the development of some SAR systems. Very simple mechanical systems later became very complicated and discretionary. More and more tweaks and rules were applied on it. Tweaks involve multiple lot entries, partial exits, re entries and filters.

I just could not understand the use of filters. SAR is just a number that helps you to stay on the right side of the price move and not a barrier to price move. Further, multiple lot entries and partial exits will do more harm than good. The basic concept of the system is to sit tight through the whipsaws and capture a big trend move. Here you will end up getting whipsawed in multiple lots and cant capture the full benefit of the coming trend move due to partial exits.

Markets are cyclical in nature and alternate between trends and ranges. Expect a lot of whipsaws during the ranging period and never forget Market ranges 70% of the time. We may need to take all the signals as we will never know which one is going to be a home run. During the trend moves you will be able to recoup your earlier losses for sure. But once the market start to consolidate and range again you will give back everything and will be back to square one.

Another problem occurs when you want to scale up your trading. After gaining some decent profit you become confident and double your stake. Immediately market decides to range and wipe out the entire profit earned during the past in no time. Long term profitability of a SAR system cannot be judged with two or three years of data and back testing as the market cycles may vary. Profitability will depend on where you start and where you quit. Hard core SAR specialists can always paint a rosy picture like the wayside fruit seller, who always hides the rotten apples behind the fresh ones. Do not question them. They always keep their "Discipline" cane handy

In my humble opinion, Market will not give you any static edge. Why should Hedge funds spend millions of dollars hiring specialists for research? Why mutual funds are struggling to produce alpha? It is a shame that Goldman Sachs and Credit Suisse professionals are not aware of this wonder method.

I will not advise you to stay away from SAR methods as I have not traded this method live and have no right to say so. I am not responsible if you miss a fortune by not trading the method. I will suggest you to try a plain vanilla SAR method for a very long time. Be prepared for a life long Roller Coaster ride.

I am approaching fifty and I have neither the time nor the patience for this endless Snake and Ladder game.

Posted by [SMART Trader](#) at 7:17 PM



8 comments:



[Sunil Saranjame](#) October 21, 2012 at 7:50 PM

CAR is a better name - Chop and Reverse, lol!

Reply

[Anonymous](#) October 21, 2012 at 9:08 PM

i think choosing and sticking to one security or index while trad SAR method is very important.
I generally go on increasing by position size as my SAR system starts losing money, coz with good SAR SYSTEM , the winning trade is not far and will recover more than what i lost.
Adyant Pandya.

Reply



[SMART Trader](#) October 21, 2012 at 9:38 PM

Adyant Pandya

Martingale SAR?
Great !

ST

Reply

[Anonymous](#) October 22, 2012 at 10:49 AM

ST i dont know martingale SARs concept. I have seen many people(from doctors to drivers) who buy lottery tickets every day with the same number. The result/winner is any number between 0 to 9 which is declared every morning.
These people keep doubling their position size with same number everyday.
After loosing may times one fine day they are winner with all loss recovered and mega profit.
After coming to know this funda i am using it in trading Mini Nifty contracts.
SAR traders can think of this.
Adyant Pandya.

Reply

[Anonymous](#) October 23, 2012 at 9:53 AM

Thanks ST. Very Insightful. Going forward, will try to avoid SAR circus.

Reply



[Ananth](#) October 27, 2012 at 5:50 PM

just an observation....sar systems that flip on close of the candle beyond the sar line offer very good low risk entry points when the candle touches the sar line...

regards..

Reply



[SMART Trader](#) October 27, 2012 at 10:44 PM

Ananth

I think you are referring to the Parabolic SAR.I followed the thread by "dpaterso" at Baby Pips for two years and the conclusion by the thread owner is as follows

"I STARTED this thread almost two years ago!!! Believe me when I say this: not only myself but DOZENS of others tried everything that was humanly possible to make money out of trading 'pure' Parabolic SAR and failed dismally!!!

If you're happy to make small profits over a VERY extended period of time and have the capital to suffer the drawdowns then by ALL means: carry on with Parabolic SAR"

[Read](#)

ST

Reply



[Unknown](#) October 3, 2014 at 8:55 PM

Super post..eye opener for many..

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