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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

Friday, June 21, 2013

Capitulation

Capitulation refers to the act of surrendering or giving up. In financial circles, generally the term is used to indicate the point in time where investors give up their hope to recover their losses due to falling prices, and bail out.

Many investors consider capitulation as an indication of Market bottom. Almost every one who wanted to sell or forced to sell has done so. Only buyers are left now, who will eventually drive the prices up.

It is very difficult to forecast and identify the capitulation levels. Often, investors will only agree in hindsight as to when the market actually capitulated.

In trading parlance capitulation is traders throw in the towel and say "Enough is enough", and exit their current positions either to cut their losses or to avoid further reduction in their profits. In futures markets no body can exit a position without creating an order flow against their own position. Many traders reverse their positions and trade in the new direction.

Short term traders are creatures of habit and with some experience we can identify and pin point where they are going to capitulate and reverse their positions. Our success as a trader will largely depend on our ability to correctly identify capitulation levels.

Learn to identify levels where traders trading the current move realize they are on the wrong side of the market. These are levels from where we can expect a very high probability, non random, directional price move.

Posted by [SMART Trader](#) at 6:47 PM



2 comments:



[Sunil Saranjame](#) June 21, 2013 at 10:11 PM

As always, superb post! "Watch the extremes" is the mantra, right?

Thanks,
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[SMART Trader](#) June 23, 2013 at 11:37 AM

SS
Thanks
This has been called the cardinal sin of trading.
Trying to pick the tops and bottoms

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