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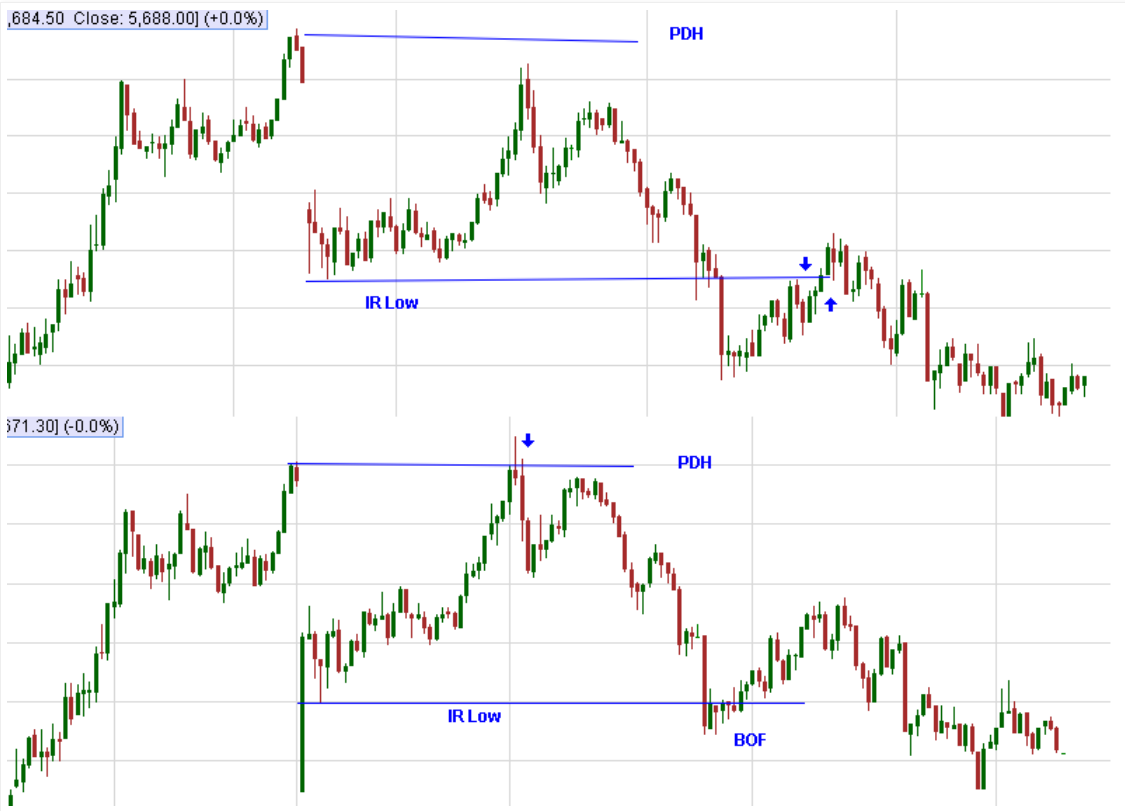
There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Saturday, October 13, 2012

Nifty Levels



The above picture shows the charts of Nifty Futures and Spot for 12th of October 2012. NF chart is on top and the lower one is Nifty Spot.NS and NF move in tandem. In higher time frames price discovery happens on NS and NF follows. Due to the premium and discount components we cannot rely solely upon NS levels.We are playing with 10-15 points stop loss and NF can move on its own and stop us out.Sometimes NS leads and pull NF along and when NF run amok NS rein it.

Look at the above chart. Please note that there is no relevance for exact price levels. Decision points are important. In the morning NS was leading. It hit PDH and a BOF happened. NF failed to test the PDH hence I missed the trade.

On the way down NF was leading and hit the IR Low and broke it. I shorted the BPB and got stopped out. It was a clear BOF on NS. This loss could have avoided by monitoring NS.But I would have lost money going long when NF came back above IR Low because it was already a BOF on NS.

This area requires a detailed study. We may need to act differently depending on which one leads, NF or NS.Leader is the one which hits the DP first and not the one quoting higher.Please do some brain storming and let me know your ideas. This may help us to catch some good trades and avoid some bad entries.

I would like to thank "bizagra" and " Atharva" for bringing this subject to my notice..
Kindly read the comments and give me some feedback

Posted by SMART Trader at 1:13 PM

10 comments:

Sunil Saranjame October 13, 2012 at 1:27 PM

No, I don't think it is important - one may miss a few trades but if we take into account a full trading year then it will all average out.

So one must focus on the traded instrument NF and not on the underlying.

Reply

Raghu R Bhat October 13, 2012 at 3:12 PM

I agree with SS - it will add one more interpretation - and a bigger decision tree thereby violating the KISS priciple - rb

Reply

Kamalesh P Langote October 13, 2012 at 8:07 PM

Ignore NS and focus on NF as we are trading NF and not NS.

Some few hits and misses may be there but that is ok. More importantly it has the advantage of being simple.

On a different note, I look at a reversal of a the most recent significant bar as an indication of trend change. This does not always happen near a decision point so it pays to be alert here.

For eg., on 12 OCT, the bar was around 11.00-11.05 am on 5 min charts.

Note that the candlesticks will appear as a hammer on the next higher time frame.

Reply

SMART Trader October 14, 2012 at 10:10 AM

SS, Raghu, KPL Sir

I totally agree with your views. I am against trading signals on NS and focus only on NF. I don't want to make this complicated.
I am afraid , I was not able to convey the idea properly.Let me explain a bit
Case 1.NF tests a previous peak and we are thinking to short. We look at NS and finds it is comfortably trading above its own previous high. So there is a clear " Divergence" .This will help us to avoid a premature short trade.
Case 2.NF breaks a previous low and pull back. We are ready to short BPB, but we notice NS is yet to crack its own previous low. There is a "Divergence". So we can wait for a clear signal to emerge and avoid a premature short entry.

The issue is NOT Whether to trade signals on NS or not, but
Whether this "Divergence" could be used as an effective decision making tool when trading the extremes.
@kpl Sir
I have noted down your recent significant Bar concept. Thanks

ST

Reply

Sunil Saranjame October 14, 2012 at 9:24 PM

ST, this kind of divergence will always be there especially smaller TF's and we have no way of exploiting it.

Maybe one can plot NF/NS in real time - that will be a kinda oscillator - but using it in trades will be almost impossible.

Reply

Raghu R Bhat October 15, 2012 at 10:32 AM

The way things are - NF and NS are two different instruments tied together only by their cash equivalents. If they were fungible on a day to day basis to their underlying- NF and NS would be forced back to the underlying DemandSupply equation. Settlement is also in cash - so the cycle continues over without resolution. Since no one is bothered about these linkages - it is best to view it as two separate games. Of course some people will play both these games simultaneously.
To come back to your earlier post on illusions - finding an edge would mean trying to find which of NF, NS is "real" and which is derived and try to find an edge. IMHO NF is a derivative only in name.
rb

Reply

SMART Trader October 15, 2012 at 10:53 AM

Thanks for your inputs.
Most of my stop outs are during Market transition to a channel or Barbed wire.I was exploring the possibility of using the "Divergence" to avoid this.Back tested results are not at all encouraging. Instead of getting slapped on the right cheek, I am getting it on the left cheek . That is all.

ST

Reply

Sunil Saranjame October 15, 2012 at 2:28 PM

lol!

Reply

Raghu R Bhat October 15, 2012 at 3:33 PM

At least it proves you are a Gandhian :-)

rb

Reply

SMART Trader October 15, 2012 at 6:52 PM

@rb

In Kerala, those who demand a bribe is referred as a "Gandhian" because they collect pictures of Gandhi (on currency)

ST

Reply

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