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| **The VERY MEAN approach for trading extreme tops at leveraged zero-sum markets** |
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| **Graduate Thesis of Psychology of Trading** |
|  |
|  |
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| **6/30/2012** |
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# Abstract

**In the leveraged zero-sum market, selling short an extreme top and following the downtrend trading is the most profitable approach as I know so far. How to identify when the top is forming; how to dip in the early stage of the topping formation; how to stay in the process and trade with small profits before the market will slump down; and how to catch the last breath of the late buyers. Those issues are interesting and challenging. In this project, I purposed a "VERY MEAN" trading model to trade on the extreme tops at US futures market. It includes the work flow for this kind of market, the "VERY MEAN" entry strategy, the pyramid stop loss strategy, the adaptive exit strategy, and the pattern triggered inter-day entry strategy.**

**Very Mean Approach focus on risk manage to get entry into the market,**

**1) Never attempt to buy an opportunity other than paying commissions. Even if it has the risk to lose opportunities, it's better than that risk to lose money, especially consistently losing money because of attachment of catching opportunities**

**2) Play small intraday trading and play big inter-day trading; intraday trading is working for accumulation small gains to pyramid stop loss level that will use to bid for big moves in inter-day trading with wide stop loss; inter-day moves is the source that major profits comes. Intraday trading is the way to accumulate knowledge and keep good control of the trade for the specific market before risk wide to catch big moves.**

**It's not realistic for a trader only trade on big moves without observation of the intraday moves, especially for the beginners with small size account. It's a winning trader's responsibility to know when to play small and when to play big. It's not necessary to play small intraday to help to catch big swings, but it's better for growth and experience gaining, it will make the development of skills faster than doing less on trading**

**3) Use Very Mean order for intraday trading. The Very Mean order will put on the edge of in range stop loss or slightly out of range stop loss which has higher probability to gain than to lose. The stop loss is tight, and the gain could be small; But the point is, the loss is small, the gain is small, so a) if it makes a break even gain/loss, it's OK. That's a good preparation of inter-day trading, the warm up could give more hints when and where the big moves will happen; b) if it makes a profitable accumulation, it could use for wide stop loss when biding for inter-day moves; c) if it loses in intraday trading consistently, it means I have no clue how this market works, it's better to avoid risk more on inter-day trading because something is WRONG, BE CAREFUL !**

# Trading on 2012 Robbins World Cup Trading Championships

Focus on high frequent moves as well as time compression moves;

Thinking of business model for profits at leveraged markets;

Research products for position size, stop size, profits target, timing spans, measurement of latest average daily range;

Chart Patterns, trend following, corrections measurement;

keep it in mind 3 small moves can equal a big move, big move is low probability event, small moves are high probability events, focus on HP events instead of LP events;

Trade HP is good trade even if it is stopped out, trade LP is bad trade even if it make profits

## Calendar

| Month | Sun | Mon | Tue | Wed | Thu | Fri | Sat |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | 27 | 28 | 29 | 30 | 31 | 1 | 2 |
| [0](http://www.wincalendar.com/June-Calendar/June-2012-Calendar.html) | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| [Jul 2012](http://www.wincalendar.com/July-Calendar/July-2012-Calendar.html) | 1 | 2 | 3  Holiday | 4  HOLIDAY | 5  Holiday  +406 | 6  +265 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | 31 | 1 | 2 | 3 | 4 |
| [Aug 2012](http://www.wincalendar.com/August-Calendar/August-2012-Calendar.html) | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | 29 | 30 | 31  Holiday | 1 |
| [Sep 2012](http://www.wincalendar.com/September-Calendar/September-2012-Calendar.html) | 2 | 3  HOLIDAY | 4 | 5 | 6 | 7 | 8 |
| 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 |
| 23 | 24 | 25 | 26 | 27 | 28 | 29 |
| 30 | 1 | 2 | 3 | 4 | 5  Holiday | 6 |
| [Oct 2012](http://www.wincalendar.com/October-Calendar/October-2012-Calendar.html) | 7 | 8  HOLIDAY | 9 | 10 | 11 | 12 | 13 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 28 | 29 | 30 | 31 | 1 | 2 | 3 |
| [Nov 2012](http://www.wincalendar.com/November-Calendar/November-2012-Calendar.html) | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 11 | 12  HOLIDAY | 13 | 14 | 15 | 16 | 17 |
| 18 | 19 | 20 | 21 | 22  HOLIDAY | 23  HOLIDAY | 24 |
| 25 | 26 | 27 | 28 | 29 | 30 | 1 |
| [Dec 2012](http://www.wincalendar.com/December-Calendar/December-2012-Calendar.html) | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 |
| 23 | 24 | 25  HOLIDAY | 26 | 27 | 28 | 29 |
| 30 | 31 | 1 | 2 | 3 | 4 | 5 |

From July 2, 2012 to December 28, 2012, totally 26 weeks, 2\*26=52 pink days, 3\*26=78 green days, 26 purple days. And two red days (Starting day and ending day of my participation of the competition).

Pink days are limited trading days, Monday normally has volatility to give out the hints what will be the week's starting of direction. Friday normally has no big moves instead of more side way volatility. So intraday trading, especially on Friday, is the way to go for those pink days.

Green days are the days when the major moves appear for most of the markets. Focus on those days with big moves.

Purple days are the weekends, I need to deliver the weekly/monthly summary by those days.

## Markets Research

Pick 3-5 markets as the watch list and trade on them, every two weeks upgrade the list by adding or removing someone to keep it in a well shape.

### Markets to focus on

* setup extreme topping markets: soybean meal
* early down trend markets from extreme topping: soybean,
* late uptrend markets (start to accelerate): feed cattle, Japanese yen,
* regular topping markets: Dollar index
* early uptrend markets (rising from bottom): natural gas, cotton, live cattle, lean hog(50% retracement?), platinum,
* late down trend markets (approaching bottom or forming bottom): coffee, sugar, orange juice, oats, rough rice, wheat( W bottom?), copper, silver(50% retracement?), Australia Dollar, Euro FX, Crude oil, heating oil, gas oil, gasoline

**Specifications (Ticks, margin, stop, range, critical time)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Specification** | **Soybean meal** | **Dollar Index** | **Natural Gas** | **Coffee** | **Cocoa** |
| Symbol | SM | DX | NG | IKC | ICC |
| Months | F, H, K, N, Q, U, V, Z | H, M, U, Z | All | H, K, N, U, Z | H, K, N, U, Z |
| Rollover day | 29--13 | 15 | 25 |  |  |
| Tick | 0.10=$10 | 0.005=$5.00 | 0.005 = $12.50 | 0.05=$18.75 | 1.0=$10.00 |
| Margin | 1958/1450 | 1254/1140 | 709/525 | 3950/3550 | 1980/1800 |
| Marginal stop loss | 5.08/$508 | 0.114/$114 | 0.0736/$184 | 1.06/$400 | 18/180 |
| Minimum intraday stop loss size | 5.1/$510 | 0.115/$115 | 0.075/$187 | 1.5/$600 | 18/180 |
| Minimum inter-day stop loss size | 15.3/$1530 | 0.345/$345 | 0.225/$562 | 4.5/$1800 | 54/540 |
| Average inter-day range (3, 5, 10, 30, 60, 90) | 12.03, 12.72, 13.12, 11.65, 9.7, 8.38 | 0.69, 0.68, 0.68, 0.58, 0.54, 0.55 | 0.0850, 0.1050, 0.1055, 0.1227, 0.1037, 0.1088 |  |  |
| Active intraday trade time,  Intraday critical time (EDT) | 1:30-6:00  10:00-14:00 | 3:00-6:00  8:00-14:00 | 8:00-9:00  11:00-14:30 |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Specification** | **Orange Juice** | **E-mini Corn** | **E-mini Wheat** |  |  |
| Symbol | IOJ | XC | XW | RR | DA |
| Months | F, H, K, N, U, X | H, K, N, U, Z | H, K, N, U, Z | H, K, N, U, Z | H, K, N, U, Z |
| Rollover day |  |  |  |  |  |
| Tick | 0.10=$10 | 0.125=$1.25 | 0.125=$1.25 |  |  |
| Margin | 1925/1750 | 540/400 | 743/550 |  |  |
| Marginal stop loss | 5.08/$508 | 0.114/$114 | 0.0736/$184 |  |  |
| Minimum intraday stop loss size | 5.1/$510 | 0.115/$115 | 0.075/$187 |  |  |
| Minimum inter-day stop loss size | 15.3/$1530 | 0.345/$345 | 0.225/$562 |  |  |
| Average inter-day range (3, 5, 10, 30, 60, 90) | 12.03, 12.72, 13.12, 11.65, 9.7, 8.38 | 0.69, 0.68, 0.68, 0.58, 0.54, 0.55 | 0.0850, 0.1050, 0.1055, 0.1227, 0.1037, 0.1088 |  |  |
| Active intraday trade time,  Intraday critical time (EDT) | 1:30-6:00  10:00-14:00 | 3:00-6:00  8:00-14:00 | 8:00-9:00  11:00-14:30 |  |  |

### Soybean Meal Characters

Trend: extreme topping on yearly time frame, complex heads formed;

Soybean Meal 10 years Monthly chart



Total four waves can be identified, the fifth wave is on the way. Seasonal tendency did not dominate soybean meal market during the past 5 years, it can been seen selling off at summer, but it did not violate the major trend shown above.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Yearly high** | | **Major decline starts** | | **Yearly low** | |
| **Date** | **Price** | **Date** | **Price** | **Date** | **Price** |
| 2011 | Feb 11, 422.6 | | Sept 2, 399.8 | | Dec 09, 283.9 | |
| 2010 | Dec 31, 407.3 | | Jan 8, 322.6 | | Mar 12, 265.5 | |
| 2009 | Aug 28, 316.4 | | June 12, 282.1 | | Mar 6, 97.4 | |
| 2008 | July 11, 273.8 | | July 11, 273.8 | | Dec 05, 67.8 | |
| 2007 | Dec 28, 2007 | | July 13, 118.5; Feb 23, 110.4 | | Apr 27, 60.6 | |
| 2006 | Jan 06, 92.5 | | Jan 06, 92.5 | | Sept 15, 41.9 | |

Soybean Meal Range Extension for Wave 5 on Monthly chart



If the range length of wave 5 is the same with the range length of wave 1, the next resistance for wave 5 is 473.

Soybean Meal Fib Extension for Wave 5 on Monthly chart



Resistance for Wave 5: 503

So the price zone [473 503] is the perfect selling area if the price will reach that level.

Soybean Meal Fib Retracement for Wave 3 on Monthly chart



Downtrend targets: 350, 288, 245, 203, within the next 6 months, if the downtrend will be established, 288 and 245 would be the most important targets.

Focus on range patterns for the wave 5 play, before it reaches 473 level, it will be slightly uptrend, after that will be high volatility range play, then it will come to a slightly downtrend , until it breakout the support level of wave 5 (wave 3 high) and then breakout wave 4 support.

After downtrend will be established, focus on downtrend patterns which will be defined later.

Two Patterns for inter-day play before the 473 level

1. **Five days Exhaustion Pattern**

With a short-term trend being developed for 3-10 days, normally around 5 days, I am looking for the hints like doji, wick/hammer and range narrow down moves to entry the reversal move. The big rallies or decline often times has two large range extension days before it went to consolidation mode.

This pattern is effective for the consolidation mode for weekly time frame, the soybean meal just finished a major uptrend move and it's in range consolidation mode from May 2012 till now.

Soybean Meal Five days Exhaustion Pattern 2012



For trend play, it's useful for profits taking or adding to winners. Working on a Five day Exhaustion pattern could help to find the pausing and correction points when the trend is developing.

Soybean Meal Five days Exhaustion Pattern 2008



1. **Wick/Hammer for false/failed breakout uptrend**

Soybean Meal False/Failed breakout uptrend with Wick/Hammer on Topping 2008



One intraday pattern before the 473 level

1. **High volatility intraday moves**

When the trend is not clear to see, I will work on the big wick/hammer to get in daily play, use Very Mean order seeking the exhaustion level to entry. This status should have high level of range overlaps at daily time frame.

### Dollar Index Characters

Trend: Downtrend on multi-year time frame, the open interest has increased to historic high;

85 level will be next resistance, then 95; 75 will be next support; every 5 can create a resistance/support level for this market;

Dollar Index 2000-2012 Monthly chart





The short-term trend is unclear yet, from early 2012, it went to narrow down monthly move then rally at May, the rebounce is pretty strong (broke out MA 36, 60) that could breakout 85 level in the next few months; after that, it may keep rising to test 90 level or pullback to 79 level or breakout 79 to resume the downtrend; so 79-85 will be the range play for the coming months this year;

Dollar Index 2000-2012 Monthly chart with MA(12, 36, 60)



From the regression channel it can be seen the up side possible resistance levels, and the down side support level; Also, this point could be 50% retracement for the last yearly high which appeared at early 2010.

Dollar Index 2000-2012 Monthly chart with Regression channel as Resistance/Support



From weekly chart below, it can be seen the Fib 50% retracement for 2010 yearly high, the point A from the end of 2010 to early 2011 is the first 50% retracement of 2010 yearly high. The recent point B is the second 50% retracement. But the weekly chart shows a slightly up side trend, in the next few weeks, if it can keep above 82 level without big decline down to 80 level, it's possible setting up a breakout to 86 level then 88 level. 79 level will be the next support if the pullback will happen in the coming weeks.

Dollar Index 2000-2012 Weekly chart with Fibonacci Retracement



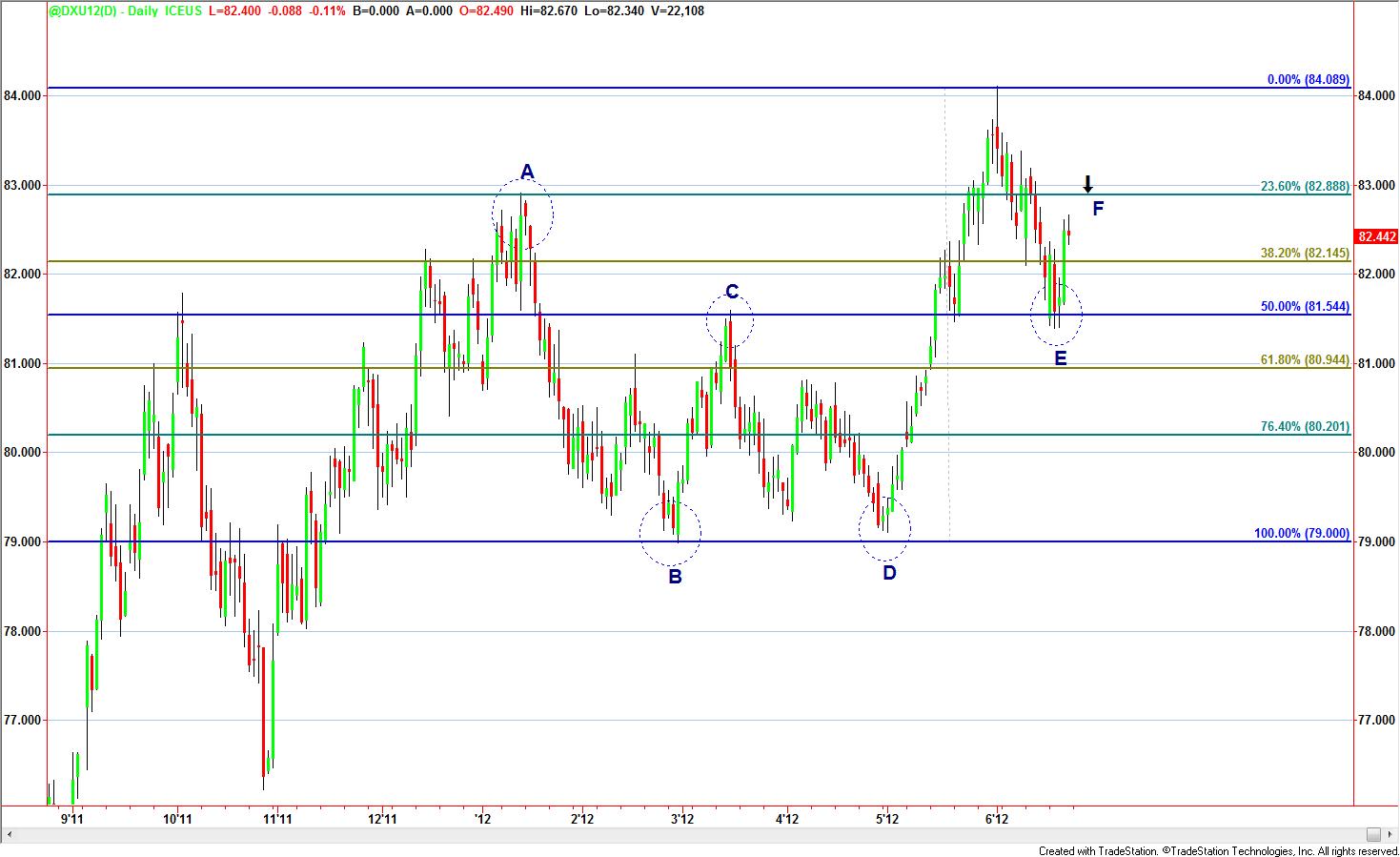
Dollar Index is very sensitive to Fibonacci numbers, especially 50% retracement/extension. So seeking the point of 50% retracement/extension is a significant pattern both for inter-day trading and intraday entry/exit.

Fibonacci 50% Retracement/Extension Pattern

1) For inter-day entry/exit, seeking the points on daily chart, 480 minutes chart for 50% retracement/Extension to get entry and exit point. Combined with one of the other signals include: resistance/support line, or trendline, or MA, or Candlestick doji/wick/hammer.

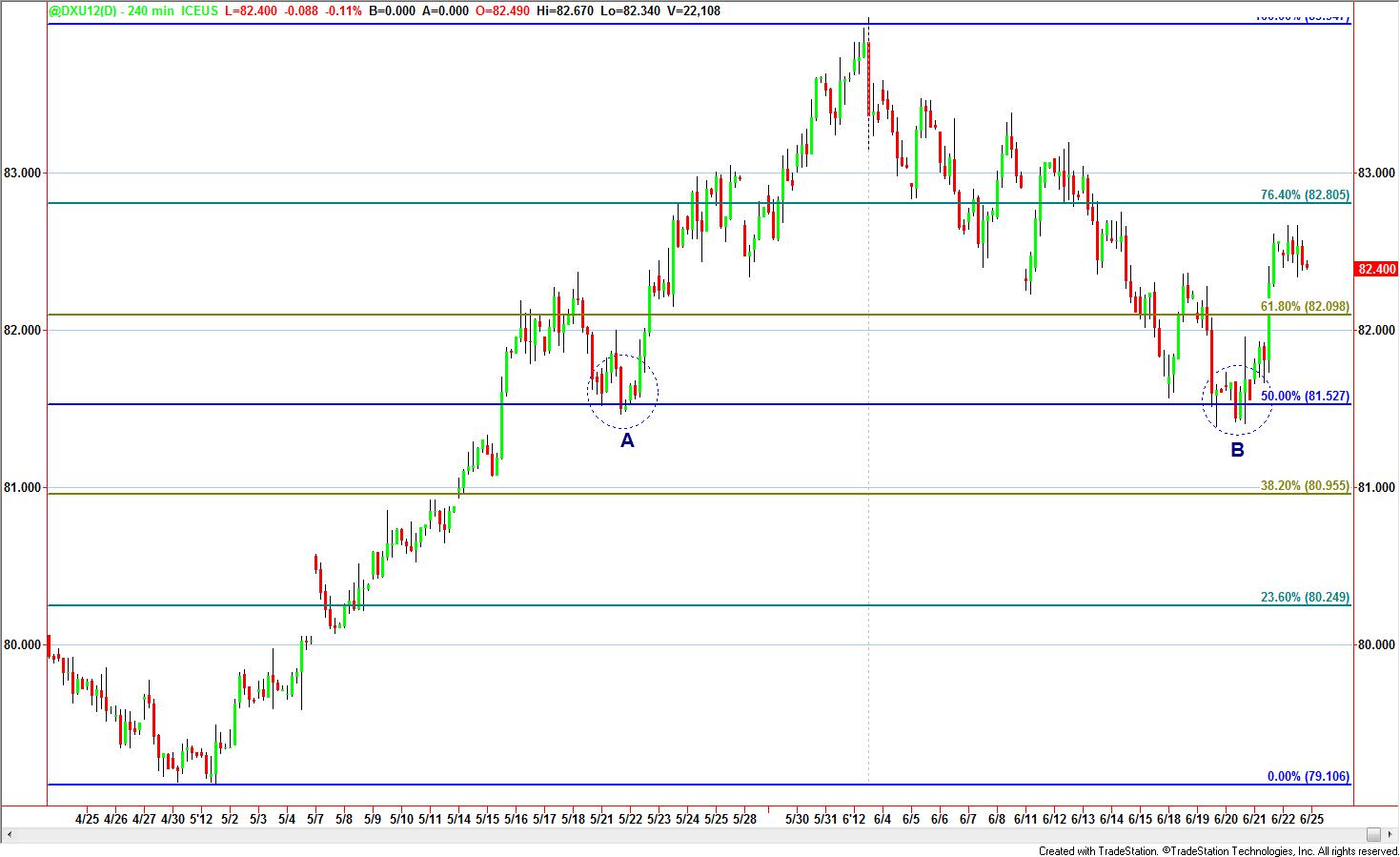
From the daily chart below, it can be seen the next resistance is close to 83 level which is the previous resistance level A, and the next Fibonacci resistance level for E.

Dollar Index Daily chart with 50% Fibonacci Retracement and previous Resistance



2) For intraday entry/exit, seeking the points on (120, 240, 480) minutes charts for 50% retracement/Extension to get entry/exit. Combined with one of the other signals include: resistance/support line, or trendline, or MA, or Candlestick doji/wick/hammer.

Dollar Index 240-min chart with 50% Fibonacci Retracement and previous support



Most of the time doji/wick/hammer will not cause the reversal immediately, it may cause a consolidation (3-10 bars) before it really reversed. So the signal could be, after doji/wick/hammer appeared and consolidation finished without breaking out the doji/wick/hammer Resistance/Support, it is setting up a very good reversal.

Dollar Index 240-min chart with 50% Fibonacci Retracement and Hammer



In the 120-min chart below, the breakout from 82 level (also 38.2% Fibonacci retracement) had gone out of track of the trendline, it may breakout the 50% Fibonacci retracement on point A or pullback to the trendline channel again to resume the downtrend.

Dollar Index 120-min chart with Fibonacci Retracement and Trendline



Dollar Index daily chart for Friday reversal pattern



Friday, especially for downtrend, is a good reversal day for Dollar Index.

Inter-day open: gap open in this market happens a lot;

### Natural Gas Characters

Trend: Multi-year bottoming formed, the first wave of uptrend has done and the correction is going on.

Keep long and buy dips for this market. Natural gas will have quite day trading after pullback, it's time to buy most of the time.

The uptrend is still in the early stage, the ROC is moderate, the volatility could be more, the rally could be short-term (it may last one or two weeks before a pullback).

The resistance levels such as 3, 4, 6 could lead a deep pullback. The major accelerated wave might not be able to show up within the next 6 months. After a deep pullback or long time consolidation correction for the wave 1, the major wave 3 could be expected. It might take one or two years to develop it.

Natural Gas multi-year (historic) bottom monthly chart



Natural Gas weekly chart with MA 50, MA 100



Natural Gas daily chart with MA(50, 100, 200)



Three patterns to get in the long position to catch an uptrend

* Range narrow down at continues downside corrections (Rect A). The best hint for uptrend resuming is the day(s) after pullback then very quiet trading day with narrow range and no wick/hammer or even no doji appears (wick/hammer, doji appears in previous days).
* Doji/Hammer after continues downside corrections (Rect B). Doji is easy to lead small rallies, hammer is easy to lead larger rallies
* Going flat range consolidation 4-8 days (Rect C), the first breakout bar is the hint where the trend will develop

Natural Gas Entry Patterns for long position





Natural Gas 120 Min chart for slump with alert before



The wick and previous pull back at A is the sign for B to have a slump, and the resistance of 3.0 level is a selling point also.

One Intraday pattern (Rect C)

**1) Range play after Trend pausing pattern**

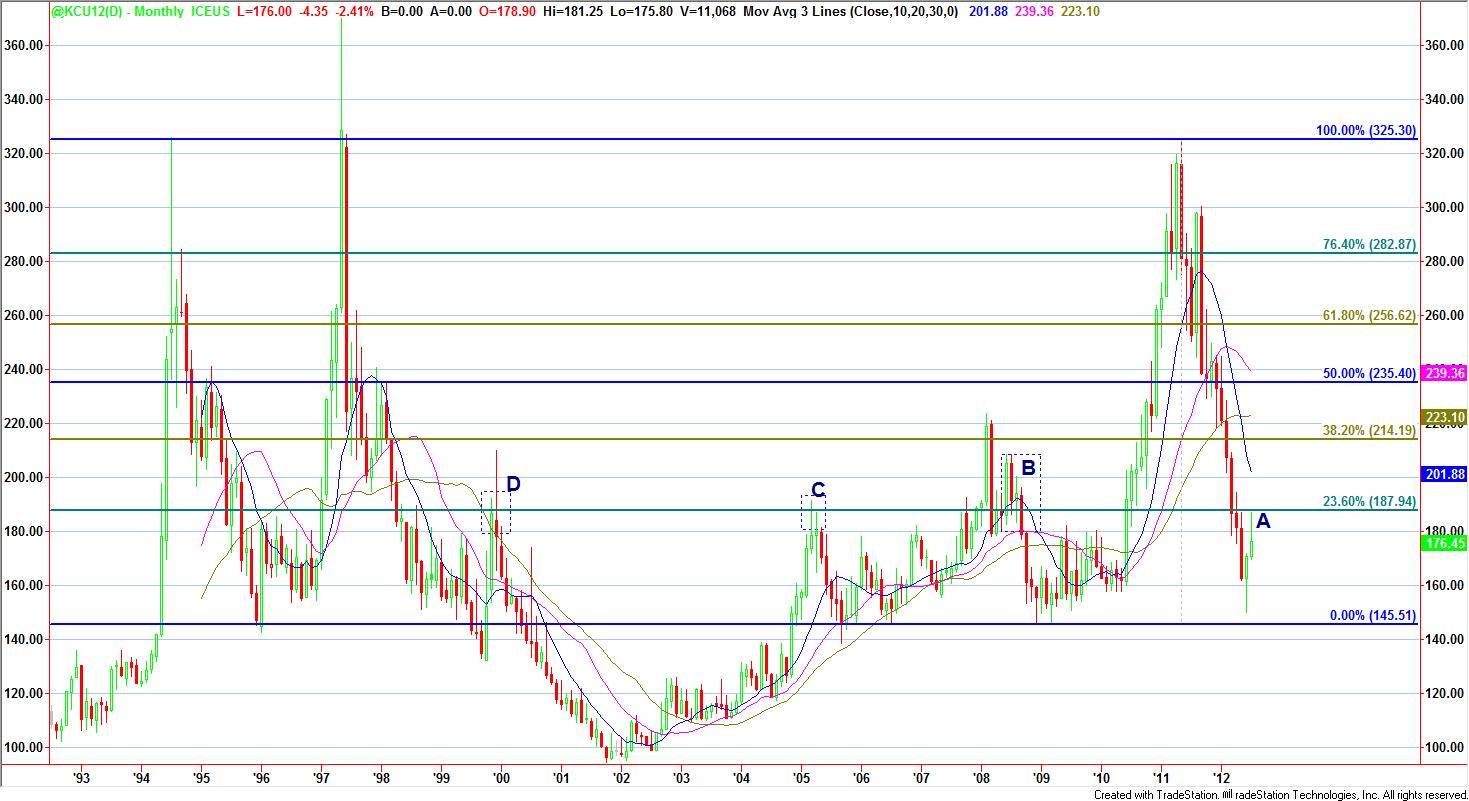
I will intend to play with range consolidation after a trend is pausing (the range could last 4-8 days, be careful being hurt by wick/hammer). The flat range pattern is very easy to find for Natural Gas, the range overlap on daily chart is easy to identify during the range play, the range extension/shrinkage and daily range size are regular in this market, so it's a practical pattern to trade for this market. After a continues trend developed for a while, once the two consecutive high overlap daily move appear, that's a hint the flat range could be formed during the next days. If I am holding the long positions in an uptrend, then it's the time to liquidate part of the positions and switch to intraday play. Or if it's flat in a downtrend, then play intraday and seeking opportunity to get in long position.

Use Very Mean order to trade for range, know where the stop loss is for most traders (play on the edge), and know how to avoid being hurt by wick/hammer, or know how to take advantage of wick/hammer to entry for range play.

### Coffee Characters

Trend: it's in a bottom from 2009 yearly low, and the 23.6% fib retracement from 1997's high and 2001's low. The next resistance is 196, then 227 level;











## Daily Routine (CST)

Home work: 15:00 -- 16:20 ; 20:00 -- 21:30; 2:30 -- 4:30

Trading: 1:30 -- 5:00; 6:30 -- 7:30; 9:00 -- 14:00

## Trading Strategies and Patterns

**There are only two modes of the market moves I will work on: trend or range.**

**The major profits come from trend riding and position size pyramid, which is inter-day play.**

**The warm-up, the control, and the stop loss deposit come from intraday play. It may entry at the end of the previous day and exits the next day, normally within 48 hours time frame. But, holding the position at hand the shorter, the better, because that means I understand the situation better for this market at that time.**

**Inter-day play is seeking for reversal catching and trend riding.**

**Intraday play is seeking for daily exhaustion moves and breakout/false breakout, the gain is small and the risk is small, it’s just preparation of bullets for the coming real battle. This is range play combined with timing.**

**My trading strategy should be flexible and should easily adapt to market changes. (Mark Weinstein)**

**Three steps for catching an opportunity:**

1. **Get in position at range day, warm-up range play with small gain/loss, win stop loss deposit for larger bid**
2. **Get in position at quiet day with wide stop loss to wait for the trend to develop or to reverse**
3. **Hold the position until the winning move being finished or the losing move being stopped out**

### Inter-day patterns

Early trend wave, major trend wave, and late trend wave;

Range narrow down

Five days Exhaustion

Doji and Wick/Hammer appears

### Intraday strategies

Very-Mean entry strategy

**Quiet day**

Quiet day before big moves: those are the days be much alerted, be ready to get in with wide stop loss

Quiet day after big moves: those are the days to take rest and wait/watch

**High volatility day**

Buy dips sell rally, it normally happens after the big rally days or at the reversal point.

Stay as short as possible for one trade, take profits or stop out with one wave move is the best.

**Big rally/decline day**

Stay watch or buy dips/sell recovery at the first correction following the trend;

At the edge set two stop orders for breakout or pull back; figure out which pattern is good for the specific market

## Homework

* Trend, patterns and volatility expected
* Range
* Time points/spans for entry and exit
* Waves
* Profits target and Stop loss

## Trading

### Checklist

Before I put an order, I asked myself two questions:

Question #1: what's the potential risk for this trade?

Question #2: Is this the high probability winning trade?

* Time
* No pattern, no entry
* No edge stops triggered, no entry (VML)
* Stop loss
* Direction
* Price (range)

### Time

The active trading hours are the time when to trade in a market(yellow cells and orange cells),

**Trading Hours for Soybean Meal, Dollar Index and Natural Gas**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Time (EDT) | SM | | | DX | | | | NG | | |  | Time (CST) |
| ECG | AT | Pit | ENY | AT | ELD | ESP | ET | AT | Pit |  |
| 18:00 |  |  |  |  |  |  |  |  |  |  |  | 17:00 |
| 18:30 |  |  |  |  |  |  |  |  |  |  |  | 17:30 |
| 19:00 |  |  |  |  |  |  |  |  |  |  |  | 18:00 |
| 19:30 |  |  |  |  |  |  |  |  |  |  |  | 18:30 |
| 20:00 |  |  |  |  |  |  |  |  |  |  |  | 19:00 |
| 20:30 |  |  |  |  |  |  |  |  |  |  |  | 19:30 |
| 21:00 |  |  |  |  |  |  |  |  |  |  |  | 20:00 |
| 21:30 |  |  |  |  |  |  |  |  |  |  |  | 20:30 |
| 22:00 |  |  |  |  |  |  |  |  |  |  |  | 21:00 |
| 22:30 |  |  |  |  |  |  |  |  |  |  |  | 21:30 |
| 23:00 |  |  |  |  |  |  |  |  |  |  |  | 22:00 |
| 23:30 |  |  |  |  |  |  |  |  |  |  |  | 22:30 |
| 0:00 |  |  |  |  |  |  |  |  |  |  |  | 23:00 |
| 0:30 |  |  |  |  |  |  |  |  |  |  |  | 23:30 |
| 1:00 |  |  |  |  |  |  |  |  |  |  |  | 0:00 |
| 1:30 |  |  |  |  |  |  |  |  |  |  |  | 0:30 |
| 2:00 |  |  |  |  |  |  |  |  |  |  |  | 1:00 |
| 2:30 |  |  |  |  |  |  |  |  |  |  |  | 1:30 |
| 3:00 |  |  |  |  |  |  |  |  |  |  |  | 2:00 |
| 3:30 |  |  |  |  |  |  |  |  |  |  |  | 2:30 |
| 4:00 |  |  |  |  |  |  |  |  |  |  |  | 3:00 |
| 4:30 |  |  |  |  |  |  |  |  |  |  |  | 3:30 |
| 5:00 |  |  |  |  |  |  |  |  |  |  |  | 4:00 |
| 5:30 |  |  |  |  |  |  |  |  |  |  |  | 4:30 |
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**Trading Hours for Coffee, Cocoa and Orange Juice**

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| Time (EDT) | IKC | | ICC | | IOJ |  |  | Time (CST) |
| ENY | AT | ENY | AT | ENY | AT |  |
| 18:00 |  |  |  |  |  |  |  | 17:00 |
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**Trading Hours for E-mini Corn, E-mini Wheat**

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| Time (EDT) | XC | | | XW | | |  | | |  | Time (CST) |
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ECG: e-trade hours for Chicago

AT: active trading hours

Pit: pit session hours

ENY: e-trade hours for New York

ELD: e-trade hours for London

ESP: e-trade hours for Singapore

ET: e-trade hours

**Tips**: End of month or end of season will have significant moves, be ready for that.....

### Pattern and waves

**Quiet day**

If the trend is clear, get entry in quiet; otherwise, stay out.

**High volatility day**

Buy dips sell rally, it happened after the big rally day

**Big rally/decline day**

Stay watch or buy dips/sell recovery at the first correction;

At the edge set two stop orders for breakout or pull back; figure out which pattern is good for the specific market

### Trend

Figure out the major direction of the market for the next day or days; and which pattern I should follow both for inter-day pattern and intraday pattern

### Range

Figure out the L1, L2 range for each market every day, follow the range trading the next day. (Range open/close; Range extension or shrinkage? Range overlap;)

### VML

Increase VML after stop loss, stop loss should fall out of daily range to avoid less hit

### Stop loss

Figure out what size of stop loss should I use based on the expected pattern and range

### Target

Figure out what size of profit should I target on based on the expected pattern and range

### Records

After market time record the trade to TradeLog spreadsheet

### Weekly/Monthly summary and market analysis

The weekend do the summary for the past week and research for next week

## Entry

**Checklist before an entry**

* Time: no inter-day entry on Monday, Friday, especially on Friday, liquidate by the end of the day session
* Is the time interval critical for the destination market ?
* Direction: is trend clear ? Which pattern will be formed ?
* Range:
  + Resistance/support (VML1, VML2, VML3) ?
  + Open/Closed range ?
  + Extension/Shrinkage ?
  + Range alternation, wide or narrow ?
  + Overlap with last day, last 3 days, last 5 days ?
  + Stop loss edges ?
* Wave sequence expected:
  + The sequence of up/down waves
  + The slope (ROC) of each wave ?
  + The starting time for each major wave ? Is now the time critical for the destination market ?
  + The time lasting for each wave ?
* Trade Management (Discipline)  
  If it's inter-day entry, does that exceed 3 times for the market within the month ?  
  If it's inter-day entry, is that stop loss deposit positive and sufficient to cover the losses if it happened? If the stop loss deposit is negative, does that exceed one time inter-day setup only for the market within the month ?  
  If it's intraday entry, does that have two consecutive losses already happened the same day ?  
  If it's intraday entry, is the stop loss out of range ? Or at least out of VML2 range ?

## Exit

**Checklist before an exit**

* Is condition changed after stop loss was defined ? The expected wave does not appears at the time interval expected;
* Profits or loss? if profits is accepted, exit.
* Time: how long the trade I plan to stay, does that hit? how long the underlining move lasted, does that long enough to expected pausing or reversal for that market ? Is now the critical time for the market to make changes ? For intraday trading, is now the time to quit? For inter-day trading, is now the time to quit ?

## Money management

**Checklist weekly and monthly**

1) Split the account balance into 2K units, total 5 units at the beginning. Use (2K\*units + 1K) for each phase trading, once 2K profits has been made, then add one more unit to next phase. The trading size will be 3K, 5K, 7K, 9K, 11K,..... if I keep winning; If I keep losing the size of the trading always be 3K.

**Checklist daily**

1) 10% drawn down (account balance less than 9K), take 15 days break

2) 20% drawn down (account balance less than 8K), take 5+ days break

3) 30% drawn down (account balance less than 7K), take 3 days break

4) 40% drawn down (account balance less than 6K), quit the game

5) Any time 50% drawn down, quit the game

6) No more fund will be added to the competition in case receiving the margin call or blow-out.

7) Profits taking intraday: 10% account balance for intraday is a happy rate; 10% of the initial margin of the market is acceptable

8) Profits taking inter-day: 20% account balance for inter-day is a happy rate; 20% of the initial margin of the market is acceptable; Or 72 hrs rally/decline for inter-day; once the trend is developing well, lock the profits by moving stop loss along with the trend

9) Three inter-day setups per-month at most for each market, if it has two consecutive inter-day losses for a market then stop inter-day trading for the rest of the month in that market. Here setup means an entry that fits a pattern, the trade might take several rounds of entries and exits before it ends up, for a specific market, every month it has 1-3 setups is reasonable and those are the inter-day opportunities should be taken

## Records

Each individual market needs to have its own trade log;

Record every stop loss and reason, and the solution to avoid it next time, check if it reaches the ceiling of allowance of losing trades per day, per month;

## Performance

Profits or loss ?

Violate discipline ?

July performance

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Market | Week #1 (July 2-6) | | | | | | Pattern | Errors |
|  | Intraday | W/L | P/L | Inter-day | W/L | P/L |  |  |
| ZMQ2 |  |  |  |  |  |  |  |  |
| DXU2 |  | L | -270 |  |  |  | VML2 | [Error #1] |
| QGQ2 |  |  | +225 |  |  |  | VML2 | [Error #2] |
| IKC2 |  | W | +450 |  |  |  | VML2 |  |
| ICC2 |  | W | +250+40 |  |  |  | VML2 | [Error #2] |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Sum |  |  | 653 |  |  |  |  |  |

### Soybean Meal

Soybean Meal 60 min chart with MA(30,50,100)



Soybean Meal 120 min chart with MA(20,50,100)



## Analysis

**How the patterns work ?**

[Tips for Week July2-6, 2012]

The first pull back from 5 days exhaustion is buying opportunity, then after recovery, the second slump will come, so the recovery is selling point. See NG July2-6, 2012. A is a buying point before 3.0 resistance is touched.

Natural Gas Daily chart for resistance at 3.0 level on July 2-6, 2012



Soybean Meal 120 min chart for slump with alert



The alert for slump at B are two folds: one is the previous pull back at A, then the wick before B followed by a weak recovery and a failing wick right before the slump.

For natural gas, the wick is a sign for a pull back.

So, summary, the pattern is, after one-way move, when it reaches a resistance level(previous high/low, Fib retracement, timing point, etc.) the volatility will come, this is the first step before set back, then it recovered, then it will go to weak move or flat, or failed wick/hammer, those are all good signs for a correction; and now it's the good time to take risk for a bigger move;

**Reasons for winning ?**

Use Very Mean Order to get position

**Reasons for losing ?**

Did not put order on boundary for DX, the resistance is 83 level which 82.65 is too early.

[Error #1] Do not put order at exhaustion level (Very Mean Level, edge, or boundary of stop loss triggering).

[Error #2] Do not identify the second slump after first pull back, then weak/flat recovery, or failing wick.

[Error #3] Do not liquidate when the move did not go the direction expected in the expected time period.

## Future Work

Research on back-test with programming;

Execute with robots;