**CHAPTER IV**

down then up  
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In this chapter, we will study the most desirable trading scenario.

**PROBLEM-SOLUTION**

Most traders freak out when as soon as he entered a long position, the price drops. Professional Fund Manager just couldn’t wait for those situations, so that they could buy more.

**PHILOSOPHY**

Now you should know why Warren Buffet has been saying this proverb “Be greedy when others are fearful; Be fearful when others are greedy.”  Real opportunities appear in the disguise of risks, while risks seem to appear in the disguise of opportunities. With the analytical ability, you should be able to distinguish what is really what.

**SOLUTION**

If you are convinced that gold price will definitely rise in the long run – as in our case, it will – then, by all means, buy gold when its price drops. It’s just a matter of time when gold will get back to the top of your trading range (**eTP**) and continue to rise even higher.

**STRATEGY & TACTICS**

But how should we execute these trades? This answer is EVERYTHING. This is the key to winning this high-leverage trading game.

You see, in this high-leverage trading game, error-tolerance – which translates to stop loss – is everything. Should you’ve entered a big lot volume, you have to put the stop loss very close to the order opened price. It would mean that the market just has to move very little against your open position, you will be stopped out for a loss. If you don’t have a stop loss, sooner or later, your account will be wiped out completely. It’s just a matter of time.

Here’s the how: SPREAD the trades out across the defined trading range, between **eTP** and **mTP**.

In doing this, you effectively reduce the risk of stopping out for each smaller trade. That would mean you could put the Loss-Cutting Threshold - which is the voluntary risk-control mechanism in substitute to stop loss - very far from your open trades. Which then translates to that even your small trades will almost never get stopped out. If you don’t get stopped out but just hit profit targets, that would mean tremendous profits.

Having said that, the very small risk still remains. Unless you are trapped in a short-term contra-trend that has a spread of larger than 250 price points, may still lose money on some small trades, but that shouldn’t be substantial. The frequencies of small trades being cut-off by the Automated Trading System will be rather low and insignificant.

**DEFINITIONS**

**PrPt** is the price point, which is the distinct gold price without any decimal. For example, 1901 to 1902 is one price point.

**eTp** is the most important number. It’s the expected target price where we would take profit in the future. In long positions, eTp is higher than the current price. In short positions, eTp is lower than the current price. eTP is also the destination end of the trading range.

**mTp** is the opposite end of the trading range, as opposed to the **eTp**. These two numbers define the trading range.

**CASE STUDY**

The best collective trades operation comes long when the market initially moves against you even to the max trading range **mTP**, then reverses its direction, and swings back to your **eTP**.

Let’s consider those situations by observing the following case study.

**CASE STUDY 4 (BEST-CASE SCENARIO)**

Our trading capital is $29,000.

It’s Thursday morning. Let say the current gold price is 1906.

We expect the intra-week high gold price to be around 2000.

We define a trading range between 1800 and 2000.

So, we spread out our capitals, and therefore, for each price, we buy one ounce of gold.

This time, gold doesn’t rise but keep dropping. It drops to 1800, which is the **mTP**. Then Friday morning of next week, it bounces back to our expected target (**eTp**), which is 2000**.**

So, we cash out for profits and make a $20,000 or 69% gain.

Here’s the math:

We bought 200 oz of gold with an average price of 1900. So, on average, for each oz of gold, we would make $100.

Therefore 200 x $100 = $20,000 profit.

So, a 69% capital gain within a couple of weeks is absolutely a great win.

To gain an in-depth understanding, let’s take a look at the following illustration:

A picture containing chart

Description automatically generated

Illustration IV

**FORMULA(s)**

**rAEPr = (eTP + mTP) / 2**

The formula to calculate profit is:

**P =** **aL \* (eTP – rAEPr)**

**ELABORATIONS**

This example could be very close to real-life scenarios. In real life, the market rarely swings to the exact 100th price marks for the **mTP**’s, for example, 1700, 1800, 1900, 2100, etc. The price marks may go over and few price points or miss a few price points. Nevertheless, the price ranges could be close enough that would make this case study a classic case. For the **eTP**’s, given enough time allowance, you would most likely hit them most of the time.

To avoid the risk of getting beyond the Loss-Cutting Threshold (LCT), you should only define the trading range right after drastic price drops. In doing so, you give yourself an extra safety cushion, which reduces that risk of having even a few trades being cut-off by the Automated Trading System (**ATS**).

**RECAP**

One of the corner-stone philosophy for this Trending-Cost-Average strategy is: **“Do not put all your eggs into one basket.”**

Placing large-volume lot size trade is like putting lots of eggs into one basket. Don’t!

Spread them out into many smaller baskets. In doing so, you can manage the risk much more effectively.

Have a healthy account (**hA**). Make sure you are not involuntarily forced out of a position by not having an adequate fund to withstand the market when it moves against you. However, cut out a few losses when you pass beyond the **LCT**.

Don’t just jump into the market. **Wait!** If you want to buy, wait until the market corrects itself for at least 50 price points before you begin to define the trading ranges. These price points are the extra cushion that you give yourself, which widens your error-tolerance.

Be convinced that you’ve spotted the right uptrend. Act with confidence! Do not flint when the market moves against you. That’s how you make more money. The LCT is there already to prevent you from un-manageable loss, but most likely you shouldn’t have to be beyond the LCT.

Have fun making money.