**SESSION VI**

sometimes you just have to settle

In this session, we’ll learn how to proactively handle a losing scenario.

**PROBLEM-SOLUTION**

Sometimes life doesn’t turn out the way we want. Initially we set out to make profit, but then we realized that jumped into the market at the wrong place and the wrong time. The market seems to move against us, and there’s no sign it will reverses its direction any time soon. We consider the plan B, which is the break-even option, but even that is impossible. Well, in those situations, we just have to settle for minor loss.

**PHILOSOPHY**

Expectation is a concrete post-form of motivation. Without expectation for certain goal, achievement, gain, or profit, we are not motivated to do anything. We act because we are being motivated by the expectation of some quantitative/qualitative gain in the future. However, sometimes our expectations turn out to be unrealistic. In those situations, in order to prevent further losses, we need to adjust our expectations.

**THE SOLUTION**

Our Automated Trading System (**ATS**) has the pre-built tool for fund managers to adjust their expectations (**aTP**). If the **aTP** equals to the **rAEPr**, it means that you settle to break-even. If the **aTP** is less than **rAEPr**, it effectively means that you are willing to settle for some minor loss.

**STRATEGY & TACTICS**

The strategy is that we spread out our capital to small trades within the pre-defined trading range with the **eTP** at the higher end of the trading range – in the case of longing gold.

However, after reconsider the situation and we realized that profits cannot be made, and even break-even is not an option, the **ATS** allows you to execute a an adjustment tactic to change the **eTP** to **aTP**, which effectively becomes a new exit point which should minimize the loss that will we incured to a bad trading operation (**TO**).

**DEFINITIONS**

**curPr** as the current price.

**ATS** is the Automated Trading System. Its synonyms are **ATR** (Automated Trading Robots), or **AITS** (Artificial Intelligence Trading System).

**TO** is the Trades Operation is a set of small trades within the defined range of price points.

**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 current price. In short positions, eTp is lower than current price. eTP is also the destination end of the trading range.

**aTp** is the new adjusted **eTP**. It’s the expected target price where we would exit safely to minimize loss in the event that profits cannot be made, and even the break-even seems not to be possible. The Automated Trading System (**ATS**) provides this built-in tool.

**CASE STUDY**

So far, we only discuss the winning and break-even scenarios. What about losing scenarios?

**CASE STUDY 6 (a losing scenario)**

Our trading capital is $29,000

It’s Monday afternoon. Let say the current gold price is 2011

We expect intra-week high gold price to be around 2050

We define longing range to be 1800 to 2050

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

This time, totally against our expectation, gold doesn’t rise, but keep dropping. It drops to 1850. Then Friday morning it only bounces back to 38% of our trading range, which is 1915.

For different reasons, we are concerned that the price may not be able to retrace back to 50% in a short period of time, let say within a month, we then decide to liquidate all positions. What is the outcome?

*We bought 160 oz of gold with the average price of 1930. So, after gold drops down to 1850 then bounce back to 1915 on Friday morning, we liquidate all positions and only lose $2,400.*

*Math: 160 \* (1915 – 1930) = -2,400*

For a 160-Dollar price drop situation, then 38% bounce back, we only lose $2,400, which is only 8%, which is NOT a very bad idea.

Following is the Illustration for the above case study

**Chart

Description automatically generated**

Illustration VI

**FORMULA(s)**

**L** = **aL \*** ( **aTP** – **rAEPr** )

Where L is the loss, and **aTP** is the new adjusted **eTP**.

**ELABORATION**

Do not panic when you get into bad trading situations. Even times like that, you can still be on top of the ball. No need to freak out. You can proactively adjust your expectation, willing to settle for minor loss, and move on.

That’s the beauty of having a trading philosophy which will help you to form a well-rounded mindset. After that, learn how to use the **ATS**. Everything you need is ready. All you have to do is to be trained.

**RECAP**

Aim for the gain. Have a plan B for breaking even. Should both plans A and B cannot be achieved, then settle for minor loss.

Once you’ve mastered the art of money management, the word PANIC will disappear from your book. The rest of your vocabularies would be: *expectations, projections, profit price targets, optimal exit points, minimized loss, well-balanced account, automated profit generations*, etc…

Welcome to our league of Hedge Fund Traders.