**SESSION VI**

*sometimes you just have to settle  
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In this session, we’ll learn how to proactively handle a losing scenario.

**PROBLEM-SOLUTION**

Sometimes life doesn’t turn out the way we wanted. Initially, we set out to make a 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 reverse its direction any time soon. We consider plan B, which is the break-even option, but even that is impossible. Well, in those situations, we just have to settle for a minor loss.

**PHILOSOPHY**

The expectation is a concrete post-form of motivation. Without expectation for a 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 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 reconsidering the situation and we realized that profits cannot be made, and even break-even is not an option, the **ATS** allows you to execute an adjustment tactic to change the **eTP** to **aTP**, which effectively becomes a new exit point which should minimize the loss that will we incurred 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 the current price. In short positions, eTp is lower than the current price. eTP is also the destination end of the trading range. The **aTp** is the newly adjusted **eTP**. It’s the expected target price where we would exit safely to minimize the 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 6 (a losing scenario)**

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 the intra-week high gold price to be around 2050

We define the 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 keeps 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 an 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 newly adjusted **eTP**.

**ELABORATION**

Do not panic when you get into bad trading situations. Even in 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. Our Automated Trading System (ATS) will provide a mechanism for fund managers to adjust **eTP’s** to **aTP’s.**

Having a sound trading philosophy will help you to form a confident mindset. After having a philosophy as your foundation, the next step is learning how to use the Automated Trading System (**ATS)**. Everything you need is available. All you need is to be trained.

A good fund manager is the one who can handle any trading situation with confidence and ease. He should not panic under any circumstances. He’s a good planner. A good fund manager is the one not only being able to make tremendous amounts of money but also being able to exit all positions, preferably, by Friday noon of each week.

As a fund manager your most important job is to determine the intra-week exit points. After enough Trade Operations (**TO**), it’s not so much about making money anymore, but more about making money *with respect to the time-period*. This money/time inversed relationship is what he considers. He has two choices: either making some money in the short term or making more money in a longer time-period.

Train your thought process for consistent-profit oriented. Do not think like retail traders. So, how fund managers should think? Well, the following are a few tips:

* Take profits at new highs
* Take advantage of error tolerances
* Small wins are better than a BIG loss
* Proper funding for your trading account

First, you need to realize that the market does not move in a linear-regression straight line. It moves in slanted crests and troughs cycles. That slanted slope is called the trend. With that in mind, we should enter long positions when the market is in the trough cycle heading toward the new crest. When the market is in the neighborhood of a new high, take profit. In order words, your **eTP’s** or **aTP’s** should be at the new highs.

The real beauty of our trading philosophy is that the very Error Tolerance will make us rich. Error tolerance kills retail traders but profits institutional traders. Why?

To explain this philosophy, we need an example:

Let say the current gold price $2,000 and we set **eTP** at $2,010. If the market moves straightly to our **eTP**, we could have only taken an accumulatively 10-oz position with the average profit of $5 per oz, therefore we only make $50 of profit.

However, if the gold price drops all the way down to $1,800 before bounces back to our **eTP** at $2,010, then we would have taken accumulatively 210 oz of gold at the average $1,905. In this case, we would have profited 210 \* (2010 – 1905) = $**22,050**.

Now, compare $50 profit with $22,050, which option is better?

You see, in the first scenario, the market just moves in your anticipated direction, yet you only make $50.

In the second situation, the market totally moves against your **eTP**, then reverses its direction, heading toward your **eTP**, but in the end, you make $22,050.

There are two caveats though.

First, in the second scenario, you need more capital in your trading account. Your trading account should have around $50,000 in equity, whereas the first scenario would require much less capital. The Pre-Trade Simulator will tell you exactly how much your minimum required capital you need to trade for certain price ranges. So, show up in the class!

The wider the trading range, the more capital we need. To trade a 200-dollar price range (2,000 PIPS), you need at least 50,000 USD in the trading account, with 1:200 leverage.

The second caveat for the second scenario is that: if the market moves below $1,750, you will begin to lose some money via **ALCM** – an automated process that prevents further losses.

You make much money when the market moves against your expected price target and not passing beyond the Loss-Cutting Threshold (**LCT**). That way you should have better entry prices. The further the market deviates from the **eTP**, the more wealth you can achieve.

Being a fund manager, you are not supposed to lose money. Ad-hoc trading is the surest way to lose money. That’s why you need a system to generate consistent profits.

***RECAP***

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

*Once you’ve mastered the art of money management, the word PANIC will disappear from your book. The rest of your vocabulary 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.*