**CHAPTER VII**

*great gain is measured by small casualties  
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In this chapter, we’ll learn the concept of automated incremental loss cutting, which is the mechanism to substitute for retail traders’ stop losses.

**PROBLEM-SOLUTION**

So far, we’ve been discussing winning scenarios, a break-even, and one losing scenario using the Adjusted Target Price (**aTP**) mechanism. What about a winning-with-casualty scenario (some winning trades, some losing trades)?

**PHILOSOPHY**

The nature of our trading practice is to spread a large trading position into smaller trades. It’s like sending an army division into the field to take a particular target. Sometimes the casualty is none and the mission is accomplished. Other times, the general needs to execute plan B to adjust his target. Still other times, he may lose a few of his men in order to achieve the target. This training chapter is about the latest of the three – i.e. winning the **eTP** with some trades being cut out by the Automated Loss-Cutting Mechanism (**ALCM**).

**SOLUTION**

Sometimes the market is not being too merciful to vigorous traders. You can still achieve your **eTP**. However, some casualties will be incurred. In those cases, minimizing the losing trades while keeping the majority winning trades is an art in itself.

This art relies on two crafts:

1. To choose a good entry point (**rUB**)
2. To define a precise volatility range

**STRATEGY & TACTICS**

Spreading our account capital into smaller trades will reduce the risk of being cut out by the **ALCM**. However, that itself is not enough.

A good initial entry point which is being defined by the initial **eTP** will give you more cushion when the market moves against you even beyond the **LCT**. So, as a good fund manager, don’t just define your **eTP**.

Wait! Wait until the market retraces down for about 100 price points, then define your **eTP**. This will help you to stay out of trouble and reducing the possible losing trades.

**DEFINITIONS**

**LCT**is the Loss-cutting threshold, which is the price point where our **ATS** automatically exits negative positions incrementally, starting from the most graved losing position.

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

**ALCM** is the Automated Loss-Cutting Mechanism. When the market moves beyond the **LCT**, our **ATS** will commission an Artificial Intelligence (AI) process/robot to eliminate losing trades, beginning with the most gravely negative trades.

**ieTP** is the initial **eTP**. It improves the **TO** by reducing the risk of the market volatility moving beyond the **LCT**.

**aLoss** is the price point distance from the **LCT** to the **Bottom** of the **TO** when longing gold.

**CASE STUDY 7 (Lose some/Win Some scenario)**

Our trading capital is $46,000.

It’s Tuesday at noon. Let say the current gold price is 1950.

We expect gold to gain $50, so We set the profit target price to be 2000.

We are only willing to buy gold down to 1800 lower bound, which means we define the trading range from 1800 to 2000.

If gold ever gets below 1750, we incrementally exit losing positions, starting from the most losing ones.

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

However, instead of getting straight to 2000, gold drops 250 dollars to 1700 BEFORE bouncing up the next Friday morning to 2000.

What the outcome should look like?

Well, we will lose money on 50 trades, and gain on 200 other trades.

After gold drops below 1750, we incrementally closing the losing positions, from most losing first. Therefore, when gold drops to 1700, be closed 50 losing positions with-$125 per oz, which is -$6,250.

However, when gold bounces up to 2000 and we cash out for profits, we will gain 200 oz at (1800...2000) an average of $100 per oz. Therefore, our gain is $20,000.

Offset the washed-out between both losses and gains ($20,000 - $6,250), we still gain $13,750.

For a 250-Dollar price drop situation, then bounce back to the projected target price, we still make $13,750, which is about 30% in the matter of weeks, which is NOT a very bad idea for a drastic trading situation.

**FORMULA:**

**Loss = aLoss** **\* (Bottom – mTP)**

A picture containing chart

Description automatically generated

Illustration VII

**ELABORATIONS**

Think thoroughly before you execute your **TO**.

The **ACLM** is there but you should not rely on it, because it will reduce your profits. Do not use it if you don’t have to. Keep refining your **ieTP** before you use it.

***RECAP***

*As a general sending his men to take a certain target, he can get his target, but sometimes he may lose a few of his men. A good general will lose just a few men. A great one loses none.*

*Planning is a very important part of the operation. Proper execution of the plan is also important.*

*As a fund manager, exploit your Risk Manager skills to help you with the planning when you come up with the numbers for your****ieTP****s. If you have good plans, then the****ALCM****has very little work to do, which is extremely beneficial to your profit line. We need the****ALCM****, but hopefully, we may never have to use it.*