2015.10.28 Reflection

Today was down over 1000.

On the mountain, I was reflecting on why I act differently with futures vs. ETF.

ETF I would try to buy low and sell high. Futures I try to buy high and sell low.

Try to go into a 100% certain trade -> go for the really obvious (seemingly 100% success rate) trade (usually clear up and down trend going very fast), wishing the trend can last longer and place stop very tight to the current price and walk away with the sure profit.

Result: either very small profit (due to very close profit taker with no chance of winning) or huge losses. Hoping there for a reversal but the entry point is already wrong.

Reason is position size is big -> seek 100% probability trades -> trade the very obvious one -> lose money.

Looking at the charts doesn't not reveal the psychological struggle during the game, everything is easier in hindsight.

Mentality of trading cash vs. futures.

Cash: hold at least a few days, not very sensitive to moves, not nervous, try to buy low, will average down if needed, do not expect 100% success rate, no stop loss.

Futures: holding period a few minutes, stare at the screen, care about every tick, chase high and lows. Very impatient. Sell rallies too early, like to sell at the day’s lows, rarely buy.

Need to learn to trade futures like cash:

1. Bigger account size (so can withstand 5% of volatility at least)
2. Same methodology as trading cash, buy on dip and sell on rallies.
3. Knows when is the greed/panic trap (when heading up or down very fast, it is most likely and trap, wait it out before trading). This is where patience comes in. When it is very tempting to trade (either open or cover), it is most likely a trap. As experienced today.
4. Eliminate confirmation bias and paralysis, once the opposite trend establishes, switch into the opposite trend (at lows or highs)
5. Keep in mind PTC, but be flexible.
6. Keep old strategy, buy ETF on the dip, hedge with futures when necessary, not allowed to sell on lows.

What I need to do better is selling points. Define rules not to be broken.

1. Would you trade the same strategy if you were using ETFs or options? (These two have implicitly longer holding horizons in the brain and these forces the behavior to be beneficial to the long run and not for the next 5 minutes)
2. Would you trade the same strategy if you can only exit the trade T+1? (This will eliminate trading at the highs/lows which have high probability of failing the next day)
3. Do not chase lows.
4. Sell on rebound, not when going straight down.
5. When going down fast, do not enter, should cover position. Any obvious movement is a trap. Go into a position when it is greed/panic trap.
6. Avoid the thinking that ETFs and futures should be treated different. The origin of this thinking is the size of the future is larger than the ETFs, the pnl shows up tick by tick, it is poignant. The thinking will lead to trading the money, not the position and leads to complacency due to small pnl from chasing and the false feeling of control (due to ability of changing the profit taker to the break even line), also leads to chasing fast, obvious, strong trends for the false high probability of success (exactly the ones that are most likely to reverse)
7. Selling ETF vs. short. Depends on if want to be net short. If want to be net short, will use futures, otherwise ETF. d
8. The later in the day the harder it is to break high/low. There are a lot of so called greed/panic traps where the market goes quickly in one direction to attract people to fall into the trap. Once entered it will quickly reverse, use confirmation bias to rip people off.
9. Once in position, be flexible and think about flipping position.

(followup 2016.Feb.26)

This diary was during the rudimentary stage of the learning process. One clear error was the constant chasing. As was stated, chasing either resulted in big gain or small loss. Some basic knowledge of PTC (orderless fluctuation as I would call it) can be observed, but the hard rule of no chase was not implemented. In addition, this was before any research on probability was conducted. Shorting blindly into upswings with no clue about the **day's distribution** was common. Understanding of **weekday's effect** was nonexistent. No understanding of the **nature of consecutive day overlapping** was observed.