2015.9.27

在尾盘要敢于做空，不断高点做空。

有一个弱点是涨的时候有expectation of going higher. 这个是一个人性的弱点。

那就是机会。尤其是尾盘的时候。对于无限损失的恐惧另做空不是那么容易。

* concern with humble confidence, not fear\
* focus on what is most uncomfortable
* emotion happens, and affects quality of thinking
* reason and logic live within emotions
* emotion is a deviation from a norm established by the brain
* 这几月展现出来的情绪： fear (quickly 斩仓)， hope (do not cut losses) ， boredom ( keep going into position where there is no trend) , hesitation (cannot act when chances are obvious)
* Fight or flight -> is it about aggression or avoidance, blood pressure goes up, reaction turns biological
* Avoid/attack(revenge trading). Turn toward discomfort (approach + rest/digest)
* Traders see no reality – they are believing and seeing. See what they want to see.
* Trading account is revealing all the truth. (2016.8.22 correct)
* Thoughts and beliefs are caused by biological nature -> mindfulness means observer of and continuous judge thoughts and beliefs, question validity and logic of biological thoughts (160822 brainwashed by Randy Howell)
* Brain and mind is having a constant struggle. Can change who has control.
* Discipline of a ruler. Courage of a warrior. Impartiality of a sage. Self soothing of a care-giving.
* Develop an intentional mind.
* Fear/Anger/Greed/Euphoria.
* Method edge is trained. Mindfulness is needed for method edge.
* Let go of control of outcome. Master the mind that you bring to the moment of performance. Must bring discipline, courage, impartiality and self soothing. Do not try to control outcome.
* Emotional regulation/mindfulness/internal dialogue/access historical emotional programs as a function of memory/internal struggle (challenges of ambiguity and embrace probability based thinking, giving up the success/failure of the current trade). Become intentional
* Cannot allow arousal to happen.
* Trading from home environment (comfort zone)
* Breaking out of the comfort zone of the mind on uncertainty
* Trading account is revealing the comfort zone and what needs to be worked on.
* Boredom with no social contact is an issue with home office.
* Disciplined impartiality is the only state of trading mind.
* Dopamine will induce euphoria and is a dangerous state of mind.

Availability heuristic: how investors use recent or most easily recalled information to make judgments. Any two days might show anchoring from the previous day due to investors recalling only the recent day.

Investors attribute more probability to an event if it was associated with great emotions. Investors overestimate the probability of extreme events.

Over the past few months, why was I not making money? Buying high and selling low. Fear.

Representative heuristic -> representativeness does not equal higher probability.

People maximize expected utility instead of expected return.

1. Loss aversion. (hold onto losses)
2. Prefer certain profits (sell gains too early)
3. Chasing certain

Gamble for unlikely gain. RISK SEEKING (buy high, SS low) (entrance) 🡪 do not buy high

Settle for likely gains. RISK AVERSE (SELL WINS EARLY) (exit) -🡪 Hold onto winning position

Gamble to avoid likely big losses. RISK SEEKING. (not selling losing position) (exit) 🡪 cut losses

Settle for small losses instead of risking to lose big. RISK AVERSE. (Afraid to sell high, afraid to ) (entrance) 🡪 dare to sell high and buy low

* Prospect theory
* Cognitive biases

Availability heuristic: if something is recalled, it must happen more frequently.

People overestimate the likelihood of extreme events happening

People gamble to win the money back.

Pain of paying

* Moral tax on consumption
* More/frequent spending is painful
* Method of payment and timing of payment affect pain of paying
* When form of payment is distanced from cash, less pain of payment

Prospect theory:

People overreact to small probability and under react to large probabilities

Comment mar26/2016

This was written at the preliminary stage of trading. No understanding of probability was visible. Most of the analysis was psychology based which was important but did not guarantee a positive expectancy model. The biases were well stated however, being able to identify the biases is not equal to the ability to make money. Doing real research which concentrated on weekday and AM/PM distribution and using tree model to gather features of crash was way more useful than these psychology studies.

Comment 20160822

This was written in a time where psychology was overemphasized. The comment was written when research in R was being carried out, which generated good results.

Currently the focus is on refining trading using fundamental principles, based on universal truth of the market. This includes that markets fluctuate both on the grand scale and on the small scale. Supply and demand result in short run market behavior. People often talk about buy low sell high but few people realize that this means no chasing, low means people are selling. What is observed in the market is result of people having done something.