Monday, November 07, 2016

US jumped on FBI terminating investigation.

Gold off,

SPX fut up 1%.

However, there is no real evidence what is happening with the election.

@1301

amFirst10 was weak and market is currently at highs, not adding position.

Need: true range.

@1322

I am kind of confused as to what to trade at this point.

The eligible stocks are

002038

603658

600160

601012

Since today is Monday, there is a force of Friday-Monday continuation. Rebound would have been done this morning. Monday afternoon I don't have too much advantage.

Keep researching on this.

**@1439**

Hedging idiosyncratic risk is the key. I want a diversified portfolio aiming at reaping the average return of the strategy instead of hoping for a one time huge gain.

Positions in HK start to shave off a bit. Hillary's win is a little bit too exaggerated at this point. Today in US trading this position.

Sold 25k USDJPY @104.43. Taking some profits. Now the only futures position left is oil and gold, they will hedge somewhat.

Be careful when market gets too complacent before political events. Cut risky assets at highs and keep hedging assets.

@1446

Market is very weak with no reasonable rebound.

The advantage of the recent strategy is that the risk on the downside is not huge.

Monday is not a rebound day so the rebound is quite weak.

Size of the position needs to depend on the index direction. Today due to a weak amfirst10 and a generally weak pm session, hard for stocks to rally as it meets the selling pressure on the top.

When market drops on T-1, stronger stocks will outperform.

The current position is poised to recover tomorrow probabilistically.

Both stocks closed at the lows which is rather rare.

More research to be done later today.

Tuesday

Gold continues to get killed as US election looms with clinton emerging as the winner.

Oil makes its way back to the 44.85 handle. USDJPY @ 104.5. VIX got crushed from 18.75 to 16.65. Markets in risk on mode. US equities had a rally of 2% but this might be complacent. Be careful in front of the election putting no more risk on.

002038 双鹭药业 weak and a threat to hold. Cut the position at a small loss. This stock has not outperformed January and that is a distinct sign of weakness. Take note of stocks like this. When stocks show sign of long term strength and inflation resistance, this warrants a buy or higher position. If long term momentum is weak, put in very position. This stock is very weak and hard to sell, which signifies that the weakness in the stock is a major concern.

Tuesday

Selling pressure is big from the open. Election race is tight with Trump on the verge of winning Florida. Keep risk low.

**Wednesday, November 9, 2016**

(This is a make-up snippet on Thursday morning)

Markets swung wildly. During the AM session, Japan was down 4%, H was down 5%. SPX was down 5%. China was down 2%. Gold was massively bought and oil massively sold, USD massively sold. It turned out big US investors digested the risk almost entirely the next morning and the index massively rebounded. This wash kicked out many undetermined investors. The market started realizing that having Trump as the president might not be a bad thing.

**Thursday, November 10, 2016**

Yesterday the portfolio had a massive swing. The ptf was down more than 10k as oil was down 5%, with gold up 3% which was insufficient to hedge the loss.

I bought USDJPY when it was down to 101 and sold it at 103.4. Later it rose to 105. World markets rallied in spite of a Trump victory.

I made money from this move, on HSCEI I bought futures and call spreads and on A50 I bought futures. I made money from USDJPY positions.

The key lesson is to buy in during panics, if you chase the trend most likely you will lose. Even in a market where the market is dominated with institutional traders, the market is still dominated by emotions, let alone market like China.

The reason I did well through this wash is that I insisted on buying/selling at advantageous levels and refused to sell at panic levels. This required that I had a small position and I could withstand market movement. I went into the election with very little position on and they were OK hedged. Holding position for the long term is like holding a free option. As long as the underlying is not too crappy, a longer holder period will invariably increase the probability of making money on the position.

I seem to understand the market a bit better – keep buying inventory at lows and hold position steady and don't panic. Buy inventory at lows and distribute them at highs. It is same as doing any business. Participating in any greed/panic moments do not generate long term returns.

However, risk management is paramount.

Weekday rationale:

Monday: back from the weekend with lot of news and price action that is undigested over the weekend.

Tuesday: after overreaction from Monday, Tuesday tends to counterbalance that overreaction

Wednesday: Another day with big rebound, seen 4/20 Wednesday, 11/9 Wednesday.

Thursday: Due to Tues and Wed's rebound strength, Thursday tends to be weak as people start to cut risk for the weekend.

Friday: A lot of risk from the US overnight, buying is subdued, retCL is supressed, there is the negative convexity of Friday-Monday continuation.

People are only able to sell on T+1, so index tends to be open low due to people cutting position and secure profits.

The key to profits is day to day overlapping, afternoon rebound strength. Strength is from amFirst10 and amMaxT. Advantage is from entering at a low percentile and retPMCL. Competitiveness comes from computer screening, I can follow few hundred stocks and monitor them closely, which is not possible for others.

It is important to keep an independent mind through the turmoil. Trump scares the market due to his unpredictability, but his policies are essentially supporting less regulation.

I personally think that the market will go through a volatile period and I don't want too much positioning recently. For China, keep researching and focus on strategy building. Focus on trading in the middle of the day instead of trading at market open, which is quite risky.

@929

As per long run observation, Thursday not that safe given a strong rebound on Wednesday. There are plenty of excuses to sell off. HK is selling off.

@1023 Profit taking just started as HK sells through the opening level.

@1056 Gold is not in play.

Friday, November 11, 2016

Day starts off with gold and oil both down.

Need to know where your competitive advantage lies. Equity research has been more advanced than research in other fields. Focus on this advantage and zero in on it.

Currently the China portfolio only contains gold and having a balanced portfolio is important to hedge risks. j

Keep overnight exposure low which means no full position.

This week's best opportunities were still in the rebound of Tuesday and Wednesday, which reminds me of Apr 20. Be aggressive during key rebounds after panic drops.

Gold and oil have no real fundamental values and could go anywhere. So trading these do not reflect any true skills. Therefore, it is key to focus on trading with relative advantage.

Focus on obtaining real stable returns with cash in HK. Focus on China related equities. These are your true advantages.

**Friday**

Issue today: gold took another plunge. Issue with buy yesterday: stock closed at highest the day before, should not trade. There are a lot of profit taking on this stock. There is a reason why this trade was not successful.

You should pick stock with a A shape the previous day, preferably not closing on the low percentile.

HK is reluctant to rally given the US situation and today's Friday-> unwillingness to take risk over the weekend, there are no buyers. China is stronger on optimism.

Saturday, November 12, 2016

Gold and oil both take a plunge. Commodities are lower as a result of rate expectations going higher. Oil position is off by 10% and gold position is off by 3%. Commodities have been moving aggressively since the election.

Few lessons from these moves:

1. don't take too much risk on any asset class, keep position sizing low
2. don't take too much overnight risk
3. focus on your key advantage which is tested by numbers and now that advantage is in a-shares
4. A global portfolio is very hard to manage, especially one that consists of commodities, currencies and stocks. Take defensive positions, not offensive.
5. All the positioning in gold that had been building up from a while ago are being sold off.
6. Prepare for the case when oil and gold both lose 50%. Be able to handle the result for the long term.
7. I have no informational advantage to trade world asset classes. Therefore, it is important to limit your position to a small size. Focus on trading what you know.
8. Have a long perspective that is longer than a short term swing. Insensitive to short term moves.
9. The above can guarantee a safe position but does not map out a way to winning.
10. The goal is to gain a feeling of global positioning and keep alert, also to learn global asset allocation. Keep positions on but small. Treat the temporary losses as tuition fees.
11. Correlation broke down between gold and oil.
12. Tencent position also got destroyed. This is a very crowded trade and HK stock market is generally not favored by traders. The trade of long US and short HK is being put on again.
13. Instead of guessing, follow the numbers and trade.
14. Be prepared to lose all your investment on any particular trade, diversify fully. Never take more risk than you can handle. Increase horizon to infinity. Invest in what must happen eventually probabilistically.
15. From what happened last night in black commodities, you need to discover value before it hits the news, otherwise it's too late.
16. Avoid trading stuff that is heavily traded or heavily positioned.
17. Not one trade can make/destroy the portfolio. Control risk on any one investment.
18. Average gain across a portfolio is important, not a few stocks.

Sunday, November 13, 2016

Reflecting on the position on 山东黄金, the previous day there was a big rally, and it opened down 8%, meaning that people are quickly exiting the position and the size on the stock is really heavy. This was against the rules in several aspects.

1. Trading a very popular stock (Don't make bets on economy/events, but long term probability distribution) (The position in the US are bets on global asset trends, and this is very hard.)
2. Last day was closing at almost 100% -> should not buy stocks which closed at a high percentile. A lot of profits were on this stock on heavy volume -> profit taking desire is very high.
3. Should focus on not so popular stocks, before it massively hits the news. When it hits the news it is time to exit.

Trading big retCH stocks is essentially trading stocks in which people lost money. Big retCL stocks mean that people have made money. Pick stocks where investors are losing money.

Stick with trading low percentile, high retCHY stocks.