2016.2.28

February is almost over.

A rundown of core advantages:

I would like to elucidate the important influences that I consider to be the pillars of the pathway to learning to trade.

1. No chasing. Influences: Larry, Alexander Elder.

The concept of no chasing expresses the simple idea that one needs to buy at the day's low or sell at day's high to have a possibility to profit, it guarantees a relative cost advantage which coupled with prudent position sizing can increase the probability of success even when the market is completely unpredictable.

1. Position sizing.

Influences: Van Tharp.

Position sizing achieves objectives. It is about how much you win when you win, not the percentage of wins. Position sizing directly ties into the winning probability of the trade.

1. Advantageous positioning.

Influences: 量子盘感,潘建廷.

The market represents a **flawed dynamic system** which always seeks equilibrium and in constant state of confusion. What is observed in the market is precisely a direct result of the majority of participants in the markets performing the same action, which by definition is wrong because 80% of people are losing money. Chasing into a trade means that there is no costing advantage and the cost is above majority of the participants, this will lose out in the long run.

1. Primary trend cannot be manipulated.

Influenced: Dow Theory

Markets behave unpredictably filled with human emotions, but in the long run, markets reflect economic fundamentals and revolve around a long-run stable valuation. This provides the basis for choosing the direction consistent with the primary trend.

1. Probability

Knowing the probability distribution of the daily max and min and expected returns is crucial. RetOPC, retLO, retCL, weekday effect, bull-bear market effect.

1. Market specific Knowledge backed with technology

Live premium/discount.

Discount percentile.

1. Operating as a business

Influences: Trade like the casino

投机岛: 以现货的心态做期货.

Zero leverage.

Small position (<30%).

Position size is proportionate to the winning probability of the trade, capped at 50%.

Reasonable expectation of the profits.

Positive expected returns on each trade,

Going forward, areas to be improved or developed:

1. Cutting loss. This area is badly done on Thursday when the market took a plunge of 6%. The probability distribution already indicated that it was highly likely for a day of big loss. Stop trading in these cases and cut position.

2017May2 review:

this was the week of the low point of 2016, market took a plunge on thurs after a V shaped wed. With that pmcoY there was no reason to hold on thurs until the close, should liquidate at the latest 10:30 and pick up again at the close.

The term cut loss I don’t like very much. First, it is hard to define the threshold in terms of percentage. Cutting loss should be time based and not percentage change based.