Mar7 2016 Trading

Last week was a bullish week. The distribution for today:

mean retCC if weekday == 1 & newBullIndicator

mean: 1.01%. The trend is bullish.

Max/Min distribution: MaxPM: 66%. MinAM: 78%.



It is not optimal that all position was sold off last week, as we should at least have 1 lot in position which corresponds with the overall trend. Now we will need to wait and see.

Objectives this week: work on **position sizing on the long side**. Intraday can go up to 3 futures, end of day cut is to 1-2 future. Look for panics and identify them, especially during 1pm-130pm period, always trade against the panic with small position.

Cuing to buy @ 9425. Reason: bull market Monday. Got the position at this level. Got another lot at 9370. As of 1032, both are underwater. Index keeps breaking lows. No position will be added at this point and the position will be held until the end of the day. (**comment 3/10/16: note that the previous week how much profitable position had accumulated. Be very careful on Mondays. Bought too much too quickly.**)

This week, the issue of **buying time** will be focused on. Now there is no systematic strategy regarding entry time. Historically, open and close have been two times that I have been actively buying. Today the mood is favoring small caps and people are selling large caps to get into small caps.

Another issue is net portfolio standard deviation, as per the formula Portfolio SD = weight\*SD(stock). Currently the index has a sd of 25%, therefore having a 50% position will make standard deviation of the entire portfolio 12.5%. This implies the move of 0.78% per day.

Things are being sold off and investors are taking profits from last week. I have about 30% of the portfolio on risk, which won't be increased until the end of the day.

1044:

Running distributions:

MaxT is at 937, MinT is 1042. Max is 78% in the morning. Min is 60% in the afternoon. RetPMCO is -22bps. RetAMCO is -95bps.



pmMax/pmMin:

PmMax is more likely to occur in the first hour. PM min is more likely to occur in the second hour.



Knowing the distribution, does this shed any light on the entry points? End of market is surely one buying point. 1030 onwards is not a good buying point. Looking at amMinT1 distribution, 27% it will be in 10.5-11, with 73% probability it will be in 11-11.5.

Looking at the dayMinT distribution, **buying after 2pm will be the only sensible time**.

In reflection of the past few weeks, be careful on Mondays as these are a day of big volatility. When market is not clear, make sure to use small position.

Both positions are deeply underwater, which raises the question of the buying time.

The two position is more than 50 bps under water. Two units were entered at 942 and 1012. These were relatively high percentile levels of today. Although these levels were the lowest at the point of entry, market soon took a plunge and these were not preferable levels in hindsight. As discussed previous[ly], there should not be any buys after 1030 when market breaks new lows.

In terms of discount at the entry points, it was a mere 20 bps, which descended to 80 bps at one point. Waiting more patiently for the better level is preferable next time.

Today I don't see any egregiously outrageous mistake. It is just necessary to work on the position sizing and gain experience about entry levels. Currently since the index is still above 20DMA I will continue to assume a bull market scenario. (Comment 3/10/16: the mistake was the size of the position, which was wrong in several senses: **volatile Monday, after a week of rally, two entries are too close together.**)

**Tuesday, March 08, 2016**

Yesterday I was down about 50-80bps. One thing that is very important is that volatility is high on Mondays and this mean it is more likely to have a continuous spur rather than a mean reverting session. The second buy was too close to the first buy.

Close and open are good trading times.

Upon observing the price movements of the past 2 months, if it closes at the lows, buy 1 unit. If it closes at the highs, sell one unit. If it opens below yesterday's low, buy one unit. If it opens above yesterday's highs, sell one unit.

All whole day drops are good to follow. Rise and fall -> need to be careful on the Thursday or Monday that follow.

Max/Min distribution: Distribution wise, dayMax: 55%PM. DayMin 63%AM.

RetCC -0.01%.



Investors are fidgety today. I can smell the fear. The sell-off continues. The panicking is severe.

Bought 1 unit at 9220 to take advantage of the panick. Currently 45% in position, will not add anymore. It is hard to say what is causing the panic. Extremely weak scenario.

The sell-off was very quick and at this relatively high level, I have the biggest position which is absorbing big losses. On the way up last week, I almost had no position and always exited too early. Investors raked in a lot of profits last week. Today is the catharsis for last week where people offload their long. Lesson learned is that during a upward trend don't sell of all the position, always keep some chips in the game, pay extra attention to the local relative level of the entry, for yesterday and today, apparently the level is considerably high after a week of rise, the fall is inevitable and less position should be taken on at this level. Now I am full-on vulnerable with 45% of total portfolio, which is way too big. The entry was way too early.

Overnight position has been costing me money. Limit the size of overnight position. In addition, buying/selling at day's beginning and end to take advantage of opportunities. Intraday trading can be risky, especially buying on the lows. Intraday trading should be limited to cases where probability distribution is for it, for example, when the morning highs are reasonably late. For a situation like today, the mood is extremely bearish; people are looking to sell at every single opportunity. Holding 2 units last night and buying the position today was all bad ideas.

Further improvements to current trading strategies:

1. Look at the level from a multi-day perspective
2. Only trade when there is more information about the probability distribution – cannot trade at the open -> no advantage here.
3. The money made last month was from buying at day's end.
4. Holding position is dangerous and should be avoided.
5. My position size has been maxed out at 45%.
6. Learn to hold profitable position longer.
7. Buying point – today bought too early again. (bought at 937)

(Comment 03/10/16: this buy was well-done. It adhered to the principle of buying on panic. The expected return of this trade was positive and a risk-neutral position was utilized to take advantage of it. This was well done. What needed improvement was the staggered entry. )

**Wednesday, March 09, 2016**

Yesterday was an exciting session. The buying was too early. This raises the question of the buying points in a quickly falling session. The existing position on Monday was 2 lots, which was very big as well. Overnight position should be limited to 1 lot.

I am tempted to buy at a 2% discount. The discount is a bit ridiculous.

Bought @ 9190. 3

Average cost for 3 futures is 9290.

It will be needed to reduce position throughout the day to keep flexibility and tradability.

Volatility is very high and markets are fidgety. Position is already 60 bps under water and need to cut position down to 1 lot at COB today. With an increasing level of volatility in the market, position needs to be reduced.

Tomorrow will be quite dangerous and I would like to unload at least 2 lots today. The point is when to unload. (**Comment 03/10/16, the recognition of Thursday as a dangerous day was well done.**)

Noon time: less position should have been kept as of yesterday close. One lot is enough because we need to ensure flexibility of the next day's trade. Today's position is 60bps under water.

Recently, an issue is that buying has been too early. You need to add another position to ensure costs are averaged. The average return in the morning session is negative after all.

The afternoon session was characterized by a serene first half and a rising second half. Having the

. su retPMCO if weekday == 3

Variable | Obs Mean Std. Dev. Min Max

-------------+---------------------------------------------------------

retPMCO | 806 .0012266 .010795 -.0496438 .0557631

I decided to hold until the close which was a correct decision.

Futures closed @ 1.5% discount which is very bearish. Investors are very cautious and jittery today as can be seen from their reluctance to give China the benefit of doubt.

On the China side, IH1603 closed @ 1.6% discount, which shows that investors on the mainland also don't want to hold position going into Thursday. Having 1 unit of future would be my preferred position. While I have been making trading PnL, the delta that I have been carrying since Monday have been heavy and the trade PnL barely offset the delta PnL from the existing position.

The key lesson is that long position needs to be slowly built with staggered entrance, while existing position needs to be kept to a low of 1 unit. I was lucky to have an opportunity to liquidate position today and yesterday. In the case there is no opportunity to liquidate the position on the day, one should be prepared to carry the position overnight. Therefore the position has to be small.

Currently 150 under water this week. Trade PnL was 180 USD while delta pnl from the two first futures are -320 USD. Trading records seem to suggest that I am more adept at intraday trading rather than delta trading. Keep overnight delta low is a must.

In addition to the above comments, the day trades were well done. There needs to be some space between the staggered entries. The second entry point empirically this week has been Monday: none (do not staggered entry on Monday or Thursday), Tuesday: 1035am, Wednesday: 1135am. The second entry is aimed at supporting the first entry and also to bring down the cost. The Monday position has severely sabotaged this week's performance due to the quagmire effect. Delta position is to express a view only, it does not generate majority of my PnL so a little bit of holding is more than enough.

Lack of panic and strict objectivity is the commendable trait of the past few trading sessions. Holding until session's end withstanding big PnL swings was difficult but achieved. Patience was observed. Some thinking in probability and expected returns were applied. **Position sizing was badly done**. With two lots going into each trading day, hands are tied after buying one extra lot. **Going forward, I would like to see less overnight position if possible**.

Research on the expected return and distribution has been very helpful. Further mining of index data will be needed to obtain a deeper understanding of the markets.

**Since my strategy is predominantly based on mean-reversion, trading a big size on Monday which is known to be historically volatile is quite unintelligent**. The entrance of a big position on Monday is not warranted in retrospect. It caused considerable trouble to carry and keep alive and this position is going into Thursday which is very troublesome.

Some analysis on the percentile:

During bull market, the percentage of days that closes > 80%

Mon: 58%

Tue: 44%

Wed: 47%

Thu: 37%

Fri: 43%

The above analysis shows that thurs is the weakest in bull market.

In bear market, the percentage of days that below 20%.

Mon: 40%

Tue: 28%

Wed: 30%

Thu: 41%

Fri: 23%

In general: (Lowest/Highest 20%)

Mon: 21%/43%

Tue: 20%/37%

Wed: 20%/38%

Thu: 28%/28%

Fri: 16%/33%

**Thursday, March 10, 2016**

What has been missing in the past few trading sessions is an incremental position towards the later AM session, this was not achieved due to the existing position which is too large. Large delta overnight position is crippling my ability to take advantage of the intraday advantageous positions.

Going forward, **the overnight delta needs to be cut,** and on **Monday position needs to be necessarily less than the other days**.

Position sizing depends on current market condition (bull/bear market demarcation), weekday (Monday is the most volatile and my strategy is geared towards non-volatile/mean reverting situations), the situation intraday (with the amMax set after 1030am, there is more likely mean reverting behavior than if the max appears before 945). Position sizing needs to be mechanical and devoid of emotional motivations.

**A preliminary mind-map of scenarios of position sizing.**

(Position levels: low (15%)/medium (30%)/high (45%))

Overnight carry: Low

Monday: Low

Thursday: Low.

Below 20DMA: Low

After big drop overnight carry (Drop on Monday): medium

After big drop overnight carry (Drop on Friday, below 20DMA): No position.

Intraday panic scenarios (1PM Trap): high

Morning position buildup: build to medium.

Futures open @ -1.7% discount. Thursday is known to be traditionally weak. It will be difficult to trade today. Try to pick a spot to exit, I do not want to accumulate position too early today. Market is very weak at the beginning of the day.

Last week was a typical bull market scenario but I didn't have the necessary position on. Last Friday, position was exited too prematurely. **Make sure to have very light positioning on which is consistent with the 20DMA.**

Index opens down 80bps.

Distribution: Max in AM: 57%. Min in PM: 55%



There is a rally early in the morning.

Sold one position @ 9290. I will have one position going into the weekend. Current discount is -60 bps.

1030 probability distribution update:

Daymax: 67% in AM. DayMin: 67% in PM.



The morning sell was at a good level. Position was reduced to a comfortable size. The reason for the remaining position is to be consistent with the 20DMA. There remains a big probability that the dayMin occurs in late PM. (**1637 Comment: make sure to not take chances like this in the future.**)

Afternoon has an average return of -0.15%. Morning has an average retAMCO

Bought 1 unit @ 9180.

Going into the close, markets soon took a dive mainly due to the Thursday effect. The panic was a good opportunity to build the position before Friday, which it is expected that we have a 55bps return. In hindsight, it was good to sell the one lot in early afternoon, then pick it up later.

It was a good opportunity to buy in the late PM. All indices broke today's low. The only operational flaw was that the one lot was kept throughout the day instead of being sold early PM. Although one lot was cut sagaciously in the early AM, the second future was left out of laziness and the unwillingness to miss out on an unlikely rally (from a probability point of view)**.** **This is the flaw of irrational hope with no regard to probability.**

Bought another position @ 9130.

Three futures going into tomorrow. 86bps discount. Markets start to panic massively and this is a good opportunity to pick up some supply. I am content with [sic]

Checking on the probability distribution tomorrow:

Max/Min

From max/min graph, it can be seen that max= 54% in PM. Min: 64% in AM.

Expected return = -0.11%.

RetOPC: -0.42%. AM Ret: 14 bps. PM Ret: 14bps.

The loss is coming from the low retOPC, which has been taken into account by the futures, which is at a -0.92% discount. The onshore futures is at a 70 bps discount and the offshore is @ -1% discount, showing the bearishness before the weekend.

The position has reached the maximum position size and this leaves tomorrow no addition space for trade. Tomorrow it will be required to look for opportunities to sell two futures and go through the weekend with only 1 lot.



1528 update

Selling off continues and discount has reached -1.4%. Possible news behind the panic is that China might allow commercial banks to replace bank's bad debts with equity (meaning banks will be hold equity of firms whose debts are bad debts). Is this positive or negative news? Markets seem to interpret it very negatively. No more position will be entered at this level. While there might have been a news leak that resulted in the selloff, I tend to think that it was due to the fact that it was Thursday.

This vertical selloff continues and now the index is at -1.6% discount. I am tempted to buy more here but I am limited by the 50% rule. It will be interesting to see how the situation plays out tomorrow. Now I am in a reasonably content position. Many people are liquidating their position which can be seen due to position size being too heavy. Today's reluctance to clear out the position has cost quite a bit of money (costing $240.) People's greed/panic extend beyond the regular trading session and it is very interesting to observe.

In a review of today, I walked into today with the notion that today was going to be a weak session. 1 lot was sold at the beginning of the session which was well done. **However, I was being complacent and decided to keep the remaining position until Friday although I knew the chance of breaking new lows in the PM session was high**. This was a sign of overconfidence. Going forward it is important to obey the probability distribution and not having any wishful thinking.

Another mistake earlier this week was the **piling up of position on Monday which crippled my trading afterwards, while Monday is known to be the most historically volatile day**. I was not able to add position on Tuesday due to the fact that I was already holding 3 lots Tuesday morning. I was also not able to add position on Wednesday due to the delta carrying over from the night before.

**As can be observed, the big issue lately is position sizing**. It is in a very rudimentary stage of development.

Shcomp index has just broken the 20DMA. As previously discussed, no short position can be systematically left overnight unless it is a firmly confirmed bear market situation. Once in bear market territory, trade very small sizes as the market volatility will spike.

Position sizing strategies are the key going forward. It is simply too important to be ignored.

Friday, March 11, 2016

I have 50% of effective positioning heading into Friday. This position is very big and I am susceptible to black swan events. Make sure overnight positions are smaller going into the future.

From a preliminary checkup on the position taken this week, there is a tendency to overbuild position in a quick downturn. This needs to be fixed. Position needs to be built much more slowly than this.

Daymax:　50/50 am/pm

Daymin: 62% in the AM.



Market is very fidgety after a weak afternoon session yesterday. The average return today is 22 bps and on average retOPC = -73bps. Historically, 85% of the cases similar to today have been classified as bear market. It is crucial to reduce position before Monday. We have at least two lots to sell today.

Position sizing is a big issue. Doing probabilistically correct thing is important, but position sizing is even more important. Today market

Given that the close as of EOB yesterday was below 20DMA, it is important to reduce risk at the end of today's session.

Do not risk anything that is not probabilistically correct. For yesterday's session, it was apparently not correct to hold a long position. The addition of position was fine, but the second entry needed fine tuning. The supporting entry was way too close to the first entry. (14:40 and 14:55). For one time slot, only 1 position is allowed.

Onshore future is at 24 bps. A50 futures is at 50 bps discount. Offshore investors are not bullish.

A further check of probability at 1012 yields that the daymin is 80% AM and max is 53% in the PM.

There is 58% chance that amMaxT1 will be after 10.5.

RetAMCO is on average 61 bps. RetPMCO is on average -2bps.

If possible, I will sell 1 lot before the end of the AM session.

The session is very weak.

1030am Update

Daymax is 50/50 between now and the end of the session.

Daymin is 75% in the am, 25% in the pm.

RetCO is 33 bps.

RetPMCO is -13bps.

RetAMCO: 40 bps.

Market is weak. Investors do not want to take on risk.

This point is a good entrance point if there was not so much existing position.

Market was down 4% this week and it is really hard to trade. The main issue is the overnight position which has been heavy. On Thursday night, 3 lot was carried overnight and the entire position is underwater. Looking toward next Monday, a bear market Monday the volatility will be high and we will need to get rid of a lot of position. The trades this week were merely making up for the overnight losses. Last week was irrationally strong and this week in return is irrationally weak. It is important to understand the nature of the markets. **A medium swing-trade trend is usually 3-10 days and a predominant emotion rules the market**. Now a bear spirit rules the market. I have a few positions to get rid of and it is seemingly difficult now.

Weekly review:

Trade list:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | MAR 7 09:44:53 | MAR16 Futures | XINA50 | BOT | 1 | 9425.00 | SGX | 1.50 |  |
|  | MAR 7 10:14:41 | MAR16 Futures | XINA50 | BOT | 1 | 9370.00 | SGX | 1.50 |  |
|  | MAR 8 09:37:08 | MAR16 Futures | XINA50 | BOT | 1 | 9220.00 | SGX | 1.50 |  |
|  | MAR 8 14:57:54 | MAR16 Futures | XINA50 | SLD | 1 | 9335.00 | SGX | 1.50 |  |
|  | MAR 9 09:07:04 | MAR16 Futures | XINA50 | BOT | 1 | 9190.00 | SGX | 1.50 |  |
|  | MAR 9 14:45:03 | MAR16 Futures | XINA50 | SLD | 1 | 9255.00 | SGX | 1.50 |  |
|  | MAR 10 09:34:38 | MAR16 Futures | XINA50 | SLD | 1 | 9290.00 | SGX | 1.50 |  |
|  | MAR 10 14:43:54 | MAR16 Futures | XINA50 | BOT | 1 | 9180.00 | SGX | 1.50 |  |
|  | MAR 10 14:59:15 | MAR16 Futures | XINA50 | BOT | 1 | 9130.00 | SGX | 1.50 |  |
|  | MAR 11 11:32:03 | MAR16 Futures | XINA50 | SLD | 1 | 9140.00 | SGX | 1.50 |  |
|  | MAR 11 11:58:39 | MAR16 Futures | XINA50 | SLD | 1 | 9180.00 | SGX | 1.50 |  |



11 trades were done this week. PnL is flat.

Generally, this week has been a slightly downward trend, intraday volatility is high especially on Tuesday.

**Negative points:**

The staggered entry on Monday was badly done. The two positions were simply too close to one another (945 and 1015).

**Positive points:** High level of day trading skill has been demonstrated this week which was commendable. Patience was observed, selling points were well crafted. Positions were sold at day's high on Tuesday, Wednesday and Thursday. On Friday positions were sold off a bit earlier but this was acceptable, because a big drawdown was observed in Friday afternoon and the reduction in position effectively curtailed the panicking which would have taken place with a larger position.

**Improvements:**

It is apparent that day trading yields profits more than overnight delta positions. Be very careful about leaving overnight positions.

Position sizing was the theme of the week and this wasn't very well done. Buying cannot be too close to one another. Monday is historically more volatile and no more than minimum position sizing can be taken.

**The reason for buying too early was out of the fear of having no position in an upward market.** This can be alleviated by having one basic lot which serves to make sure that positive index return is always captured. This can ease the anxiety that there will not be a buying opportunity during the day. **Buying early occurred on Monday(945 1015), Tuesday(935), Wednesday(900). These are way too early.** After these positions were put on, this was already 50% of the entire portfolio, which left no flexibility whatsoever and the entire position was petrified and was at the mercy of the market to for a rebound. There has to be the opportunity to enter at least 2 trades per day to ensure cost averaging. This will become the 1+1+1 model going forward, which means 1 overnight position, 1 day trading position and 1 backup position. Note on Monday if it is a rising market, I do not buy, if it is a falling market, I buy at day's end for 1 lot. On Tuesday and Wednesday, normal staggered entry can be executed which max out at 3 lots. On Thursdays, a traditionally weak day, position is capped at medium size unless the market drops massively which can justify an additional lot. Friday is similar to Tuesday and Wednesdays.

The maximum size tradable is directly proportional to historical volatility on this weekday.

**312 Reflection**

Several preliminary decisions have been reached earlier today.

Machine learning with R and python will be the priority. **More carefully *mine* into days of catastrophic losses.**

3 lots will be the cap for now, no additional cash will be injected until further notice.

Buying points and position sizing will be the key.

Specifically, when are you forbidden to enter into any position?