2017 11 13

Ytd in Dapeng. Did some in-depth thinking about trading this year.

1. Follow high sharpe stocks (all stocks currently in ptf are high sharpe ytd stocks)
2. Add on lows. Ytd sharpe needs to be maintained to be tradable.
3. If losing money on 1 stock, do not add position until the position comes back to positive
4. Future expires at the end of the month, can be taken as a natural step to take profits and rebuild position
5. Stocks need to be cleansed of losers at month end. Time cut-loss is more efficient than percentage cut (emulated from day trading perspective where positions are liquidated at the end of the day)
6. Prefer to trade highest sharpe stocks for day trading, these have the best rebound probabilities. Trading ICBC resulted in trading loss for last week.

Monday Trading, AM:

ICBC and changjiang elec hedging each other well.

No need to do much today.

Net pnl sharpe weak @ 0.36. Normal for Mondays.

Huada gene strong again.

Banks rebound.

Electric weak.

Consumer stocks weak: Yonghui, Haitian, yili.

11.14.2017

Weak tues morning, no more position adding today.

Cut ICBC position by half to move into China merchants bank

This week looks in adjustment.

A little too much pos in big caps which are correlated. Moutai, futs, insurance, changjiang elec.

1022:

Markets continue to correct. Looks like some heavy correction is in store.

Wait it out for a few days.

The key is first not to add position too quickly too early. Ensure that the position added on the way down is no more than the position added on the way up.

Second is when AM shows real weakness, that is when adjustment occurs. For the entire last week, AM pnl was positive, that was true strength which necessitates some correction this week as people need to be washed out. Down about 0.8% of position in the first hour of trading.

Look at tomorrow’s am to deduce market strength. Today just stay put.

13pm

That AM drop has destroyed the graph. Wait out this week on light positioning.

**11.14**

Drop weight down to below 70 first. Aim at about 65.

Aim for that stature.

Month end cuts. Keep all winners and cut losers in half.

**11.15**

Futs dipped lower in overnight trading.

Currently holding about 600k delta which is enough for this level.

AM got smashed with -28k.

Should reduce position/at least not add when AM sheds too much blood.

Tues and wed AM cost about 33k so far.

Heavy AM drops -15k on tue and -12 on wed.

PM +10k. Negative corr and PM strength makes PM rather innocuous.

This kind of AM move clearly indicates bearishness.

Put a hold on trading until market recovers in sentiment.

Futs get smashed 50 bps into close.

Fut pnl is being eaten into – don’t add pos here.

For haikang, big players are exiting their pos. Not smart to chase in here.

Problems/Issues/Improvements

1. Hist China: compare year high dates. The close the better. Trade T on these stocks. A lot of people do technical analysis, try to fathom what they think. (They prefer to trade stocks that have a good technical shape)
2. Look at cumulative AM loss as a measure of weakness. (Solely looking at the AM as an indicators for trend, PM rebound is meaningless for trend, it is a statistically mean reverting)
3. You are missing T trades on strong ytd stocks. (moutai, huada gene). Players will play T on the strongest stocks.
4. At the first stage of sell-off, most players are in a profit. There aren’t many that haven’t entered. Increasing position in the first stage of fall is wrong.
5. Small players don't get to trade T on these big price stocks since the are afraid. (Big price effect) (This also could be due to survivorship bias)
6. Look for stocks stronger than the indices.
7. Apparently a new high effect here.
8. Stay away from stocks closing at absolute lows (0 percentile), gaps lower (shower large amount of selling)
9. Whole markets are adjusting,
10. Aggregate AM positive to make sure trend is ok

Trend pnl: wtd AM

Compensating pnl: wtd PM

The key in a downward trend is to use compensating pnl to make up for trend pnl.

1. Keep delta constant to avoid being hit on trend pnl on T+1
2. Need trend pnl>0 and owed pnl<0 (don’t owe any pnl)
3. Stop trading when trend pnl <0. This happened on Tuesday and applies to stocks on Wednesday.

11.16.2017

Tradable stocks by trend pnl: ICBC (2k), huada genes(1k), fangdatansu, aier eye (170)

Look for trendpnl-owe pnl >0 .

PD went down in US, still bearish on china. No more position additions.

Market open down -3k, not planning to buy much, just a few here and there.

Was droning this afternoon. Market rebounded strongly after 2 days of correction.

11.17

Gain in sharpe this week: huada gene, moutai, pingan

Month end cuts:

凯乐科技 (2.2)

晨鸣纸业 (ytd sharpe 2.0)

爱尔眼科 (2.0)

招商 has exceeded 工行 in ytd sharpe. Start replacing.

Replace 海天味业 by 安琪酵母

年夏最优表：

医药 华大基因 5.6 恒瑞医药 3.3

有色 寒锐钴业 4.8

酿酒 贵州茅台 3.9

安防 海康威视, 3.7

材料： 隆基股份， 3.6.

通讯： 中兴通讯 3.2

机械 大族激光 3.1

家电 青岛海尔 3.1 （格力 3, 美的 2.9）

百货 永辉超市 2.93.2

食品 安琪酵母 (伊利 is second, 海天味业 third)

电力 长江电力 2.9

旅游 中国国旅 2.8

原件 韦尔股份 7.5

**调仓：(500k)**

Eliminate: （low sharpe） (-450k)

方大炭素 (-25k)

凯乐科技 (-40k)

晨鸣纸业 (-70k)

海天味业 (-40k) (to be replaced by 安琪酵母)

工商银行 (-220k) (replaced by 招商银行)

美的集团 (-40k) replace by 海尔

Reduce：(赚钱效率低，但是盈利) (-70k)

恒瑞医药： (-70k) (cut by half)

Get: （+360k）

招商银行(+220k) (highest sharpe bank)

安琪酵母 +30k (highest food)

中兴通讯 +30k (highest communication)

青岛海尔 +40k (highest home appliance) (replace 美的)

寒锐钴业 +20k

韦尔股份 （small, start with 20k）

Increase: (+80k)

永辉超市 (+20k)

大族激光 (+30k)

平安 （+30k）

华大基因 + ? 30k

隆基股份 + ? 30k

Week end analysis:

Stocks:

trade: -1156

mtm: 3880

Very volatile week resulting in flat pnl.

Friday trading resulted in some buy loss. Largely

Small caps down 3% this week whereas big caps up 3%.

Moutai is volatile at the top, ytd achieving a new high and today opening down 3%.

Moutai traded 8.5b with 1% changing hand, which warrants no further buying.

Futs:

Traded 2 lots on the way down, well traded.

Thurs + Fri both up as small caps tank and cash seeks big caps.

Mon,Thur, Fri big caps outperformed. Tues and wed set back.

+13k this week.

Strategy of holding long is working fine. Accumulate at needed position, expiry reduces risk automatically.

Benefits of managing a ptf over changing stocks everyday

1. More familiar with the stocks
2. Less trading cost which is very important in the long run (people like to brag about how much vol they trade, but this doesn’t generate any value)

**11.18.2017**

Cut loss criterion

1. To avoid bear market, if stock doesn’t make money at month end, should reduce pos, keep the ones making money (add position on a monthly basis) mechanically.
2. Some stocks are not effective, as shown in pnl/delta, like ICBC, should reduce pos on these and divert assets to those more effective.
3. Month end adjustments should be clearly documented.
4. Should divert delta to top ytd sharpe performer in each sector.

Standard dev has been as low as 3% since Aug, this is very good. Return has been about 20%, so sharpe has been high. Annualized return has been 27.5% since probation day 1, realized standard dev is 3%, sharpe is 7.86, which means that for any level of target return, you just need to increase your position by required return/current return.

If you can stand 5% annualized standard dev swing in your returns, your return can get up to 40%, which means you can have about 3mm delta. 2.5~3mm delta should be the max that you should put on.

For futs, you can use up to about 30%-50% pos max for stability reasons. 6% rule should never need to apply because it would entail an index loss of 15%.

Some fut stuff:

Picking up pos after close at discount has worked out even better than pmcl. When am < 0, pm will rebound but followed by another heavy slew of selling in the AM again. Trend pnl tends to autocorrelate so you are better off picking up pos at deep discount after close.

So your buying period is from 13:00 to 23pm. Basically discount trading and pmcl trading.

When adjustment occurs you tend to buy a bit early. You absolutely cannot increase pos when trend pnl is turning negative, even when it closes at lows. **Only pick up on the second day of loss.**

**Staggered pickup means that you only accumulate on the second consecutive drop day.**

Again, pos accumulation needs to be slow. Strategy needs to depend on

1. Ytd sharpe
2. Mtd performance

If both reaches the desired threshold, you hold the pos until natural expiration. If any one of these is not met, you need to actually sell. You can sell at the close of any up day to capture the day gain, or you can sell at the open to avoid trend pnl loss. You are only interested in reversion of discount and pmcl.

**11/19/17**

Reflection since Jul:

First setback was in Aug. The mistakes were that the sizing was too high, trading was too aggressive and cut losses at Friday panic lows.

Now only trade top sharps and adjust sharpe based positions every month. Constantly stick with highest sharpe winners and as long as it stays a winner, no position needs to be cut.

Important criteria:

1. Sharpe change
2. Pnl change

If sharpe and pnl are good, then can add position, otherwise reduce.

**Adding pos:**

1. Position needs to be profitable to add.
2. Not on the first day of selling. Wait until 2nd day.
3. Add very each time. Each addition needs to be an absolutely small size that you are totally **indifferent to the pnl on the trade**. This way your purchase will most likely to free of biases and emotions. If timing is incorrect you can always do another inconsequential purchase.
4. Reason 1: Sharpe going up: can buy
5. Reason 2: making money in the month: can add.
6. Adding at panic times. (2nd day dropping, pm close, future after market)
7. Ytd new high. New high begets new highs.

**Selling:**

1. Done at day’s end only, absolutely no intraday selling. No pnl advantage here.
2. Reason 1: replacing with top sharpe stock in each sector
3. Reason 2: losing money at month end: cut
4. No selling solely due to closing at highs, (because this method has not been tested for validity. )

**Loss Cutting:**

1. Sharpe loss + pnl loss, cut 50% pos.
2. Sharpe loss/pnl gain: don’t add or reduce (this means vol is going up), if pnl is going up, no need to reduce.
3. Sharpe gain/pnl loss: don’t add or reduce (This never happens)

Monthly max loss control point:

**Previous misconceptions/wrongdoings:**

1. Enter and sell too quickly ( results in high commissions)
2. Put on huge position when markets dropping (should wait or cut when markets are becoming more volatile, you should add when markets are on an uptrend, and add slowly)

**Holding**

1. When month mtm is up, HOLD.
2. If net pnl is up but month pnl is down, CUT/HOLD.
3. If net pnl is down and month pnl is down, CUT.
4. If net pnl is down and month pnl is up, HOLD.

Basically, if month pnl is up, then hold. If month pnl is neg, then cut.

Transaction cost analysis:

Total guohu: 870

Total Brokerage: 21k

Total stamp: 44k

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| firstDate | Guohu | Brokerage | Stamp | SumCol |
| 2016/10/1 | 0 | 10 | 0 | 10 |
| 2016/11/1 | 73.34 | 1639.25 | 3567.45 | 5280.04 |
| 2016/12/1 | 110.13 | 2489.44 | 6135.59 | 8735.16 |
| 2017/1/1 | 29.78 | 1097.4 | 2286.13 | 3413.31 |
| 2017/2/1 | 50.15 | 955.39 | 1436.4 | 2441.94 |
| 2017/3/1 | 67.74 | 1937.24 | 4526.98 | 6531.96 |
| 2017/4/1 | 154.08 | 3950.57 | 9405.94 | 13510.59 |
| 2017/5/1 | 102.07 | 2365.57 | 5067.76 | 7535.4 |
| 2017/6/1 | 74.99 | 1525.19 | 3796.38 | 5396.56 |
| 2017/7/1 | 147.36 | 2871.07 | 6010.52 | 9028.95 |
| 2017/8/1 | 40.68 | 1961.5 | 1828.77 | 3830.95 |
| 2017/9/1 | 6.65 | 136.91 | 103.49 | 247.05 |
| 2017/10/1 | 4.3 | 155 | 0 | 159.3 |
| 2017/11/1 | 8.53 | 253.96 | 212.43 | 474.92 |
| Sum | 869.8 | 21348.49 | 44377.84 | 66596.13 |

Controlling cost is important.

People mistakenly think overtrading is a good thing. But it doesn’t improve investment performance.