Trading 2017-4-5

**Wednesday, April 05, 2017**

Mon, tues was off due to QingMing.

News came out that China is opening up Xiong An special region in the middle of nowhere. Seems like a big scam to me and looks like the usual government relocation, pushing up local property prices, etc.

Cut 450k delta as of 10, losing 0.9% on the cut. Some losses are expected because need to reduce the vol of the ptf at some loss. Now holding about 20% of delta.

Market in euphoria mode. Picking up during market downturn and wait has worked out well.

First after the break. Rebound weak. Buying power exhausted. Not many sectors in the red, jewel, environment and cement.

Compounding factors make tomorrow's trading tricky. Liquidity will be in shortage. Still, cut risk to reduce ptf vol in the morning. Pick up delta in the pm.

**Thursday, April 06, 2017**

Holding 1 buck of delta, cut some risk in the morning. Delta to at most 300k. I have about 700k delta to cut which means over 2/3 of the pos needs to be cut.

Cut high openers aggressively.

**Friday, April 07, 2017**

Futs open weak. HK heads straight down. Cut pos.

Needing improvements:

1. Trading stocks based on hoch flex, quite haphazard.
2. Not enough info while buying. No idea of rebound potential. You need a more well-rounded idea of how the stock is. Especially trading volume, CL, and how much you can expect to make from an estimation from HO (HO-> CL)
3. These days, the AM cutting pnl is very bad. This is for reducing ptf volatility at the expense of positive expected trade pnl. The buys on the previous days were good, on the lows and they expect to outperform in aggregate and you are cutting them early to reduce ptf variance. Not enough time was given for these positions to mature. This means that the position on the previous day was too high, which led to aggressive cutting. If you bought less the previous day, you would have to do less cutting and more time to let that pnl mature, and carry through the low Sharpe morning period.
4. Currently there is no trading in the late AM period, this period offers attractive opportunities with high Sharpe. Some capital needs to be allocated to this period. To keep positioning constant per day, bought needs to be equal to sold. This means the aggregate position coming from yesterday is the maximum you can buy on T. Late AM buy + late PM buys = Ytd position. If maximum allowable position is 80%, then ytd holdings is 40%, and 40% is bought intraday, 40% is sold during the day, then 40% is carried overnight, maximum intraday exposure is 80%. Overnight exposure should be kept lower and late AM needs to be taken advantage of. Also at the open, position is cut too aggressively, this leads to expected loss. You should wait until 10ish or PM to sell on the greed, not on AM with the rest of the people trading on their full position panic selling (they are paying this cost to be able to trade other stocks, therefore representing an opportunity cost; also they are cutting because they cannot handle the full position exposure. You are cutting the pos to ensure that AM volatility is reduced, not due to opportunity cost reasons but due to portfolio volatility reasons.) You are paying for that opportunity cost and paying a lot of stamps on immature positions

Positions that are bought in late PM need potentially a full trading day to mature, positions that are bought in late AM are possibly mature by the next AM. Since most positions now are bought on pm lows and there is not enough time to mature, the sell trading pnl suffers. You cannot handle the pnl swing in the AM due to heavy positioning which is why you are paying this cost. Therefore, to have a longer average incubation time, you need to participate to a limited extent on AM trading. This will increase volatility earlier in the day but there is more incubation period.

On Thursday you sold a lot of pos in the AM, resulting in a delta vaccum, and not sufficient pos was picked up. This resulted in buying pnl did not cover selling pnl.

For summing up, positions that are bought on pm close on lows need to be given a full day to mature, accordingly, the size dedicated to this strategy cannot exceed a threshold, doing so would result in ptf exposure would be too big to survive a volatile AM session.

You bought 800k delta in the pm today. These are apparent losers that are underperforming the market. Too much delta is allocated. There was no trading in the AM at all, which missed the index rebound. The index CL is a time tested good tasting beta and you can't leave that on the table.

You started with 440k delta, sold 180k and bought 800k in the pm, net 1m of delta. You need to have position by the start of pm for starters, delta needs to be spread out to fully take advantage of the diversification of different sectors.

Going forward, you can have 600k of delta, buying 600k over the day, and ending with 600k-800k delta. So, holding 40%, buying 40%, cutting until under 40%, it would be better.

How to take part in AM trading? First, you cannot buy at the open, never. Doing so would be a terrible low sharpe strategy. I did that this year, you are easily stepping onto bombs regardless of the pm stats. So when can you buy? The answer is at a place where a reasonable HO is ascertained. HO increases CL and if underlying falls back, then CL would be a positive expectancy strategy. Good sectors don't always give you until late pm to trade. That's why you have to start early, about 10:30 am. Note that if the market keeps dropping, 11:00-11:30 is not tradable. 10:30 is a first key place to add delta, stock would either rebound or would keep dropping, if the dropping occurs, time to buy other stocks in the pm.

**Throttle spots to accumulate delta:**

One is around 10:30, this is when stocks take a breather from the early morning trading, volume is lower and people are stuck. Any place where markets are slow and level is attractive, is a good place to enter. Never enter during Euphoria for obvious reasons. When markets are fast, don't do anything. Note that AM return has no sharpe at all, so holding a position does not generate stable returns. You have to trade it. For sectors that demonstrate a tradable quality, position can be put on.

Next throttle spot is about 13:30 and onwards sellers panic sold, buyers panic bought.

Trading based on levels offers a good opportunity.

That was a lengthy discussion that pointed at the selling PnL issue this week. Overly heavy positioning overnight caused unprofitable liquidation, paying the cost together with the full position traders. I don't want to pay this cost so you need to lessen the overnight positioning. You want more trade pnl and less mtm. So you need to trade more and leave less delta on the table overnight.

**Cut less delta in the morning, give late pm trades a day to mature.**

**Buy less delta in the afternoon. Spread out delta buying to late pm.**

**Move the delta cutting a bit later. Some to late AM, some to late pm. The key is avoid cutting it in the first 10 minutes with the panic full position traders.**

When markets close high, you should leave less delta overnight, because if you don't and leave that to tomorrow, you will suffer from the open, and the panic sell will leave the pos very hard to trade, either you cut during panic or you hold through the day with a negative expected return.

Therefore delta on the table should be less at the end of a good session, more at the end of a bad session.

Pos needs to indicate 大约出货时间。This depends on the PMCO of the stock ytd. For positive PMCOY, it has to be the case that you made money, (by rule cannot buy rising PM stocks), you sell this at the open or in the AM. For stocks that had a negative PMCOY, you are allowed to hold it until the close. This could be either have been bought at 10:30 or in the PM, in both situations, holding until the PM is permitted. PMCOY and Percentile are needed to determine the estimated liquidation time.

**Tasks on the horizon**

1. linux migration, morning tasks need to be done in python/pyoo
2. Stock selection need to be more automatic and not from manually screening chinastock. The purchase points are not optimized, orders are input immediately upon visual inspection. There needs to be reminder if position is to be added on a new low and the price at which to add. So it needs to know your existing position, your maximum allowable delta exposure on a stock,
3. Index trading reminders: I want a reminder for index on low percentiles, with reasonable ammaxt and amho. Buying needs to start on first retreat (10:30 ish)
4. Introduction of other factors in deciding whether to buy. These factors include average range, huge range is needed for trading. Relative percentile means. Return ytd, 5d, 20d, 60d, 250d. Stocks need to have a way mores specific profile. Average volume. Close to close volatility. Average rebound (CL), average HO, average CH and LO. Produce a relationship between CL and HO. (How much HO is required for an additional unit of CL).