**Trading Constitution**

Directive

This document serves to elucidate on the strategies employed.

**Stock**

1.0 Overview

1.0.1

The stock portfolio is meant to be a fully diversified holding of blue chips in each sector as well as fund ETFs which can be fully hedged by offshore futures.

* 1. Stock Universe
     1. ETFs (due to no stamp)
     2. Blue chips of each industry
     3. Daily screen of high YTD sharpe ratio stocks
     4. Stocks consistently higher than 60DMA
  2. Entrance
     1. Entrance is to be made in the PM. (Avoid taking position in Trend PnL)
     2. Entrance is to be made on the day after a low closer. (Target at owed PnL)
  3. Exit
     1. Exit is to be made at the close.
     2. Exit is to be made at the end of an up day.
  4. Accumulation
     1. 2-2-2 rule (Day). Trade for 2 days. If position is not profitable, don’t trade for the week. Wait until next week.
     2. 2-2-2 rule (Week). Trade for 2 weeks. if position is not profitable, don’t trade for the month. Wait until next month.
     3. 2-2-2 rule (Year). Trade for 2 months. if position is not profitable, don’t trade the stock for the year. Cut position at the end of 2 months.
  5. Dissemination
     1. Profitable dissemination
     2. Cutting. As per the 2-2-2 rule, cutting is to be done at the end of the 2 months.

**Futures**

1.0 Overview

The futures should take advantage of market mispricing, orderless fluctuations and serve as a hedging tool for the stock portfolio.

* 1. **Trading Opportunity**
     1. Crash days – accumulate futures in deep discount (accumulate from 14:30 to 17:00)
     2. Negative PMCO autocorrelation – accumulate when previous PM was negative (accumulate from 13:00 to 15:00)
     3. Orderless PM movements (Index above 60 DMA)
  2. **Position Sizing**
     1. Comfort Principle: should not cause psychological stress.
     2. Indifference Principle: should be indifferent to the gain/loss on any given trade. (A loaded dice has a random outcome on each toss yet guarantee long term winning by LLN)
     3. Sizing should be consistent with Sharpe Ratio of the strategy
     4. Trend: 1/3 position. Day trade: 1/3 position.
     5. If trading PnL is negative after 1/3 position is put on, pause.
  3. **Long term Accumulation Strategy**
     1. Accumulate when trading PnL on the day is positive (Avoid overbuilding on crashes. Maximum risk on a losing day trade position is 1/3 portfolio )
     2. Accumulate when markets are stagnant and heading down. (Guarantee cost advantage in the immediate trading region)
     3. Accumulate when markets keep hitting periodic highs. (Guarantee market strength)

**1.4 Intraday Trading Accumulation**

1.4.1 Intraday trading: inventory model: 1/3 position trade around orderless movements.

1.4.2 With pmcoY support, add position on unrealized gain on dips, end of day dissemination. Aggressive accumulation. Aim at pmco autocorr gains. Timing: all PM.

1.4.3 Without pmcoY support, entry on day lows+crash dips. Eager dissemination. Conservative accumulation. Avoid pmco autocorr. Aim at overselling and crash dipping. Aim at late PM 2:30 onwards.

**1.5 Decumulation Strategy**

1.5.1 Decumulation Time Slot

1.5.1.1 On T, at close.

1.5.1.2 On T+1, during confusion period (9:00 – 9:30)

1.5.1.3 On T+1, during AM session.

1.5.1.4 At market close, at highs.

Key to returns that beat the market

1. Intraday vegetable trading. Aim at 30 bps movements with 1/3 position. Reason for 1/3: you need to have 1/3 as base mtm position and 1/3 to add in case closes at the lows.
2. PMCL. With pmcoY support, you can add on unrealized profit, dissemination at close. With no pmcoY support, add only at PM low, eager dissemination.

Key to stock outperformance

1. Opening panic following a low closer
2. Accumulate on PM lows. Sell the next day at highs.
3. Aim at 1%~2% return on these strategies. Use 10% portfolio, should contribute to about 10 bps ~ 20bps.
4. Pick long term stable/upward stocks, camp in low closers where day traders lost money. If others haven’t lost money, no entrance.
   1. **Stress Management**
      1. Trading should not cause any emotional swings/stress.
      2. Stress: for stocks, swing to close accumulation/dissemination for stocks.
      3. Stress: for futures, suspend intraday futures inventory trading (size capped at 1/3). Switch to crash discount trading (full position allowed), pmco support trading(full position allowed). Dissemination: in confusion period.
      4. Switch to Open & Close monitoring instead of all day monitoring.

**1.7 Positioning Control**

1.7.1 Futures: 1/3 position intraday. full position on pmcl advantage. 2/3 position advantage.

1.7.2 Stock: add/reduce based on Sharpe.

* + 1. 2-2-2 Rule. Trade 2 days then pause, then trade 2 weeks then pause, then trade 2 months.

**1.8 Bear Market Control**

1.8.1 Fut: only trade pmcl advantage. Suspend inventory trading.

1.8.2 Don’t touch stock ptf immediately. For 2 months down, start cutting position.

1.8.3 Be wary of negative trend continuation and confidence shattering. (Last week markets were already opening lower a few sessions in a row but markets didn’t correct. It chose to correct when futs were in a big premium (Going against consensus, feeding on previously observed fear))