WARRIOR TRADING

CHAPTER 11: TRADE MANAGEMENT

Trade Management

Today You Will Learn

- Proper Stop Placement
- Price Targets
- Scaling Positions
- Trade Management Time Frames

Stop Placement Scenarios

Stop placement is imperative to successful trade management as this allows for proper positioning to capitalize on market movement

Proper stop placement can be, and normally is, much more complex than using the obvious point since these are zones where you want to be initiating/adding to a position, not exiting(adding to position against a stop)

Proper stop placement is a fine balance with regard to distance relative to price action

- Too tight and the subsequent move will likely be missed due to a premature stop out while incurring losses
- Too far and avoidable large losses are certain

Stop Placement

Stop Placement: Scenario 1

A stop is placed INSIDE the last relative extreme swing, or current inflection point

Benefit of eliminating the slippage factor

Avoiding the momentum created by the mass cluster of stop orders

Essentially the stop should be placed at a point where if the market approaches it is very likely it will penetrate through both scenarios 2 and 3

Best utilized once a level has confirmed as an inflection point, followed by a fast time frame higher low(for long), or lower high(for short)

Stop Placement: Scenario 1

Stop Placement: Scenario 2

Stop placed slightly OUTSIDE the last relative extreme swing, or current inflection point

Allows for the trade to have sufficient range to resolve

The consideration when using this stop is lack of liquidity, otherwise known as slippage

Since this scenario is the most obvious, the majority of stops will be placed in this zone. When this zone is hit, most and if not all stops are triggered and a influx of orders hit the market creating a strong momentum move which removes liquidity and is responsible for poor fills well outside the anticipated level

DO NOT place orders at levels susceptible to poor liquidity

Stop Placement: Scenario 2

Stop Placement: Scenario 3

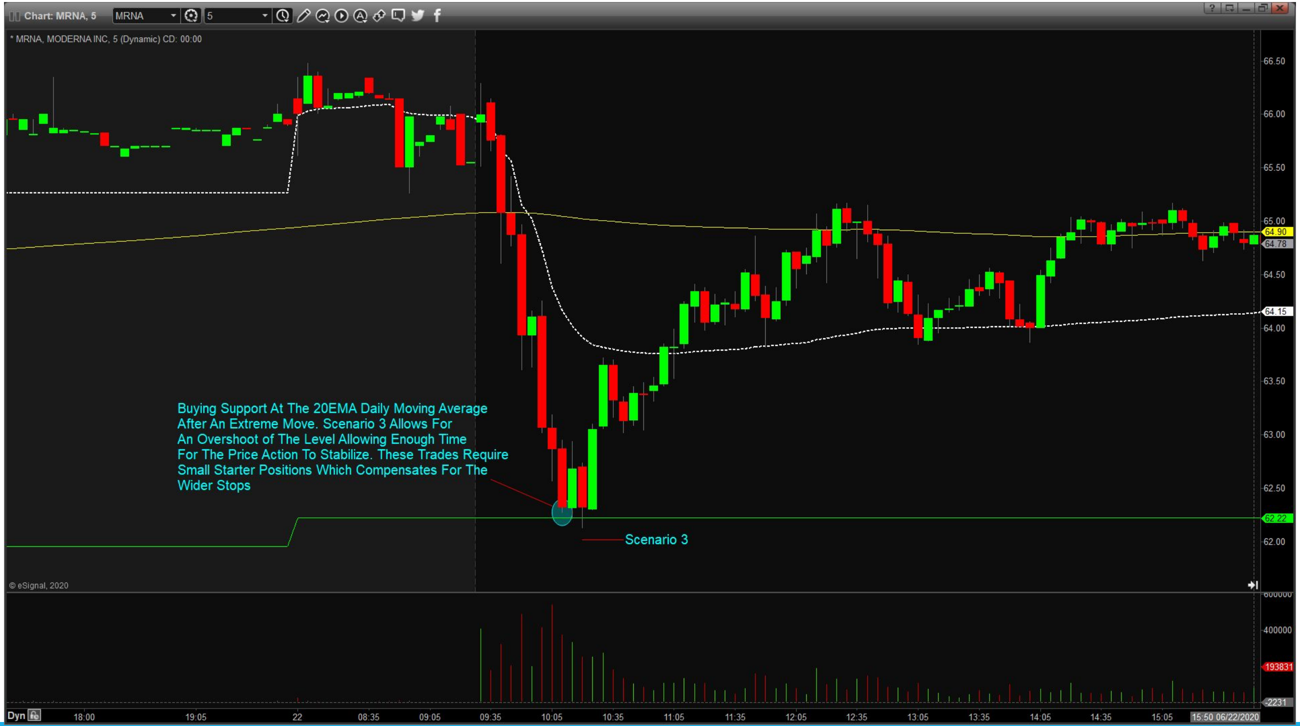
Stop placed WELL OUTSIDE of the last relative extreme swing, or current inflection point

The consideration here is the widened risk parameter being this is a stop with the furthest distance, thus requiring a greatly reduced position size to start the trade

How far is far enough?
To gauge distance it is best to use the current market movement as all stocks behave differently with some being much more prone to quick, volatile movement. I will typically look to use 0.5% - 1% as the distance

Scenario C best utilized in situations of a volatile price action with wide range

Stop Placement: Scenario 3



Price Targets

There are TWO approaches to setting price targets for exiting trades

Risk Multiple Approach(2:1, 3:1, 2%:1%, 3%:1%)
Market Structure Approach

Incorporating a CONSISTENT exit strategy into your trading plan is a critical step in achieving profitability over the long term

Depending upon your strategy, one price target approach may be more suitable while many traders choose to use a hybrid of both

Price Targets: Risk Multiple Approach

The most common approach in determining a proper exit is by mathematically computing the exit based upon the initial risk of the trade, otherwise known as risk multiples

Risk multiples generally are used by most new traders as it reinforces a structured system that leaves out the guesswork of determining exits

Once you have established consistency, this will begin to occur naturally in that you will be able to evaluate the risk/reward of a trade instantly without the mathematical computation

Price Targets: Risk Multiple Approach

See risk multiple chart example in video

Price Targets: Market Structure Approach

A more advanced approach to exiting positions is by utilizing the significant support/resistance levels that are clearly visible

Market structure points include pivots, trend lines, gap entry & fill points, moving averages

I prefer to use a hybrid as I will first look to take off anywhere from a ¼ to ½ of my position to cover my initial risk. Then, I will hold the balance of the position to exit at significant market structure points previously identified in our technical analysis while always maintaining a portion of the position for an extended move through the pockets identified

Price Targets: Market Structure Approach

After initiation of a trade, look toward the next major level and set limit orders for portions of your position

Always place your limit orders well inside the market structure levels

Let's imagine there is a long term pivot point at $10 and you hold a short position from $11. You would want to look to set a limit order for a portion of your position somewhere between $10.05 - $10.15

In a typical situation, plan on exiting your positions in 25% - 50% increments as the market moves in your favor

Scaling Positions

When entering a trade you have TWO options, SCALE in or ALL in

Scale In: a process of entering/exiting a position in multiple trades
All In: a process of entering/exiting a trade with a predetermined position size, completed in one trade

There are several benefits of scaling into a position in several trades in anticipation of continued resolution including reduced risk while maximizing profits

Scaling is a skill that is developed over time and is always on a case by case basis determined by the trader's discretion as to what type of trade will be taken, i.e., a momentum scalp or a longer trend trade?

Scaling Positions

Most situations will allow for scaling into a position which greatly reduces risk from the outset

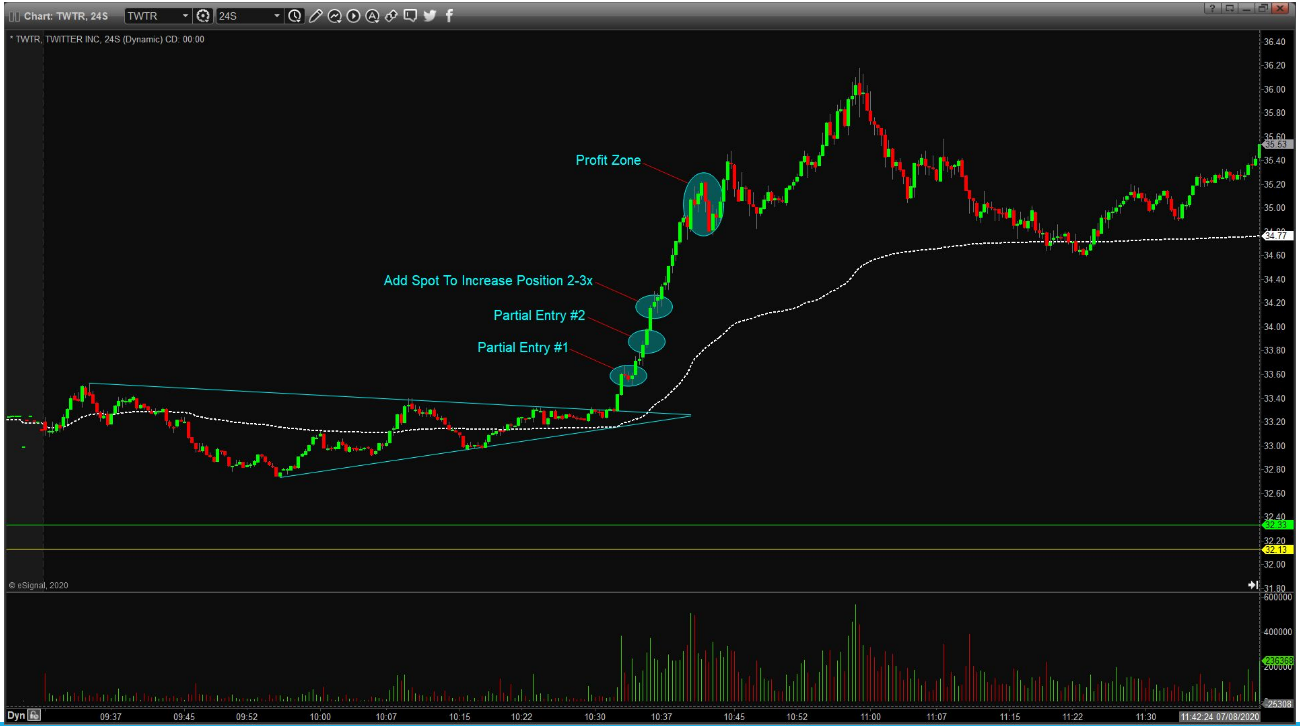
By scaling in, you greatly reduce your initial risk due to not having a full position which in turn allows for more patience to determine whether or not the trade will work. This will help avoid the all too common situation of fearing loss due to too big of rather than making too quick of a decision which often results in a loss. Patience Pays!

Risk management is especially imperative while scaling since this is an approach that is used equally often in positioning counter trend which can be extremely effective in many instances but also can turn devastating quickly if stops are not respected

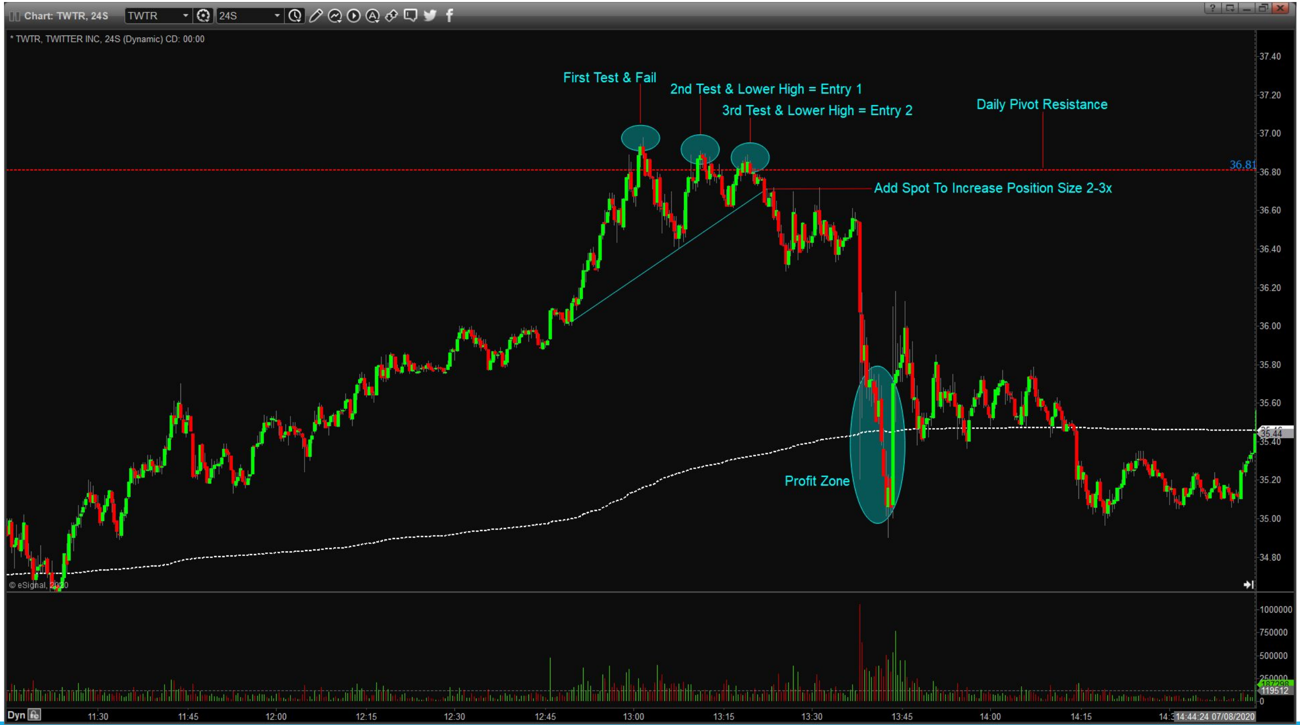
Determine a size that you are comfortable with and work up to filling that size by scaling in anticipation of the move, i.e., 500 share total while scaling in 100 share blocks

Scaling Positions

Scaling Positions



Scaling Positions



Price Target Scenarios

Example Scenarios

Risk Multiple Approach

A trade is taken at $10 and the identified risk is $0.25. Your first exit would be at a 2:1 multiple of the risk which is $0.50 (0.25x2) or $10.50. Once 2:1 is hit you can keep adjusting portions of your position to 3:1, 4:1, etc

Percentage Based Approach

A trade is taken at $50 and the identified risk is 1%. Your first exit would be at a 2% multiple of the risk which is $1.00 (0.50x2) or $51. Once 2:1 is hit you can keep adjusting portions of your position to 3%, 4%, etc

Scaling Positions

When scaling in small blocks such as 100 or 200 shares you are allowing for the market to move through its natural ranges before making the anticipated move. During this time, which is most often occurring at or near a significant support/resistance level, you are scaling into the position in a slow and controlled manner. Add to a position near the stop!

This type of positioning is a low risk approach since you are not near a full size position until the move has began to CONFIRM and only then are you able to double or triple your position while adjusting your stop

Scaling Exits: Maximize Profits!

While exiting a position for profit, it is encouraged you maintain a portion of the position, with a breakeven or profit stop, for an extended move which often will result in vastly increased profit potential

Tradeoff: Exchanging consistency for larger, but less frequent wins

Scaling Exits: Follow A Plan!

Develop a system for which you will begin scaling position for profits

Without a plan, the edge of a winning trade is essentially lost as the tendency will be to book profits quickly and be distracted by the immediate noise of the market

A specific exit strategy, or plan, can be used as a uniform approach across each trade. For example, as mentioned earlier I choose to use a hybrid approach in which i will take profits at both market structure points but also on percentage based moves from my average. Percentages keep everything relative for all price ranges