Audio Transcript of the Trade management video lesson

Hello my name is Clive Lambert and I would like to welcome you to this video lesson on Trade Management which forms part of the advanced online three month Institutional Trader Programme developed by Knightsbridge Trading Academy in association with London Stock Exchange Group Academy. This lesson is divided into four modules.

Module 1 explores the essentials of trade management and why it is so important, then in module 2 we explore how to use technical analysis in your trade management strategy. The third module explores technical analysis including Support and Resistance, Trendlines, Moving averages and Parabolic SAR in more detail and in the final module, we bring everything together.
Now let's turn to Module 1.

Trade management is risk management, but on an "individual trade" basis, so there is some overlap, of course, but there are also a number of other specifics that need discussing.

So what is this overlap?

- Reward/Risk is obviously important on a trade by trade basis.
- "Event risk", and knowing what could affect a trade is absolutely imperative. If you know that a central banker is about to talk, or that there are some big numbers coming out, and you don't know how this is going to affect the market, then would you have an open trade?!
- Every different product has a different level of volatility. You cannot trade 2 year Bonds in the same way as you would trade 30 year bonds, or treat dollar Yen in the same say as you would treat Euro/Sterling.

Your own trading style and risk tolerance are very important, and all part of your voyage of self discovery. Some traders thrive on volatility and favour "breakout" trading, where you look to get on big moves, whereas other like rangy markets and trading for small profits in ranging market conditions.
Respecting your stop is **so important** as ill-discipline can cost a trader dearly, and is often one of the biggest downfalls of a novice trader.
Knowing your trading style and the challenges this poses is a good place to start:

- If you are an investor or portfolio trader you will need to employ wider stops and bigger targets. You will need to think about asset allocation, spreading your risk across different asset classes, and hedging risk. We shall take a closer look at this in the Risk Management module.
- The day trader or swing trader has a different set of priorities. If you are a breakout trader you will need to think about how to manage false breakouts. A range trader may have to introduce an element of averaging into their strategy.

- A tick trader or scalper needs to think about timing trades for maximum impact, and would most likely wait for economic releases in order to guarantee volatility to suit their purpose.

Let's go through a couple of "day trade" set-ups to sample how a trade can be signalled, triggered, and managed once it's "live".

Trade 1: 7th December 2016 – DAX Futures
Background: After two days of solid gains we were breaking some important resistance levels on the daily chart, not least a bunch of recent highs between 10800 and 10840. Meanwhile the Eurostoxx 50 was also doing a similar thing and US Equity markets were making new highs almost daily. The Dec 6th high was 10840 and we opened above here. This was very bullish price action. We had a target above at 11001 and thought there was scope to head there quickly. It was time to look for a long setup.

The "Optimal" entry areas were never quite reached but the dip around 1.15pm was into support at 10904 and with a stop below trend support at 10886 we had a trade with risk of just over 20 points. What was the potential reward?
A move to 10948, then 11001, so 70 points "net". This means a Reward/Risk of 3.5/1. Nice!

Within an hour we had rallied to hit the first target at 10948 where half the position was covered for a profit. The stop, meanwhile, had moved up to just below entry, as we were referencing the rising trendline as a "trailing stop".

By the end of the day (5pm UK time) we had seen further gains to 10993 and we covered the balance here. So a 67 tick net profit, versus initial risk of 20 ticks. Alternatively if you wanted to continue to run the trade, the trendline had moved up to 10940 so even a stop under here would be a "stop profit".
This trade is from the same day in the Gilt futures. So what's the background? The market has been bearish for a number of weeks although the last few weeks has seen a sideways consolidation, capped at 123.80-124.12. There is a "range trade" opportunity here, especially as we've just posted two "Shooting Star" candles on the 30 minute chart. So the question we have to as is "is the reward/risk favourable"?

- Selling here needs a stop either above the day's high, ie above the Shooting Stars, which is above 123.86, or above 124.12, the high from the far left of the chart.

What can we expect target-wise?

123.25 is reasonable and has merit as it was the previous day's late low and the bottom of the Bollinger Bands.

So we have 2 possible trades, one with reward/risk of 2.4/1, the other basically 1/1, so the trade with the wider stop can be discarded and the decision is whether to take the trade with the tighter stop, and therefore the better Reward/Risk.

The trade with the tighter stop was stopped for a loss. The sellers didn't return after the Shooting Star candles and we rallied through the highs; a 19 tick loss. Interestingly the resistance at 124.12 wasn't breached… Something to note down for the next day's trade! *
Interestingly the next day saw an early failure at 124.07 followed by a sell off to 123.55 in the morning session.

In both cases the trades were in line with the "bigger picture" trend, the reward/risk had been evaluated beforehand and was seen to be favourable, and they had realistic expectations considering the volatility of the respective instruments and the current market conditions.

One made a profit, the other was stopped out.

One made 67 ticks, the other lost 19 ticks.

Both employed Technical Analysis for entry signal, initial stop placement, target setting, and trade management once the trade was "live". All of these things meant that "Fear" and/or "Greed" didn't have to enter the equation!

One made money, one didn't. THAT'S TRADING!

And that concludes module 1. Thank you for your attention.

Module 2

Now let's turn to module 2 – the importance using technical analysis in your trade management strategy. By finding a "mechanical" system that employs basic rules of trade management and respects stop placement, you mitigate a lot of the emotion that can be ruinous to traders and is the reason so many traders fail.

Trading is a business. Losing trades are part of the cost of doing business. You must get used to this idea, and make sure you develop a system and strategy (and the discipline to carry it through) that means your winners outweigh your losers.

Most successful traders will also look at all their trades afterwards; winners or losers; to see if there's anything they could have done differently, or anything they missed in making the original decision.

Technical Analysis can be an effective tool for trade placement, stop placement, and ongoing trade management once a trade is "live".

To identify set ups and Signals you can use Candlesticks, support and resistance, Indicators such as RSI or Stochastics and "Volume at Price" analysis.

For stop placement again you can utilise Support and Resistance, Trendlines, and things like Bollinger Bands and Moving Averages

To aid trade management again things like Support and Resistance, Trendlines, Moving averages and indicators like Parabolic SAR are things to consider.
Let's take a look at these individually:
Candlesticks can show reversal patterns which, if seen at Support and/or resistance can flag potential trade ideas. A momentum study like RSI or Slow Stochastics can give extra confirmation as they are designed to give buy or sell signals when markets are overstretched

Volume at Price analysis, also known as Auction Market Theory or Market Profile, can tell you if the market is trading close to areas of high or low volume previously. These are often optimum areas for trade entry.

On this chart you can see a Doji candle posted at the start of January 2017 in Dollar/Yen. This reversal candle had a high of 118.61, exactly matching the high from a few weeks earlier. This immediately flagged that a pullback trade could be seen. Not only that but at the same time we also got a “Top Failure Swing” sell signal on the RSI (with the RSI reading lower at this time than it had been a few weeks earlier) and we’d already seen a sell signal on the MACD, with the blue line dropping through the red line from above.

For Stop placements you can also use Support and Resistance, Trendlines, Bollinger Bands, Moving Averages

You can use support and resistance for stop placement in a similar way to trade entry.

But do consider that there are machines/algos (even people!) that will “look” for stops, and situations where there is likely to be stops placed. Be wary of this!

And that concludes module 2.

Module 3

Welcome to module 3 where we will continue to explore the use of technical analysis methods such as Support and Resistance, Trendlines, Moving averages and Parabolic SAR for trade management. As per our DAX trade in the first module; using a rising line, be it a trendline or a moving average, as a “trailing stop” reference, saying “keep me long all the time we’re above the line, stop me out of/when it breaks” is an excellent way to try to stay in winning trades. There are other systems like the Parabolic SAR that are specifically designed to follow trends and can be used as a proxy for a trailing stop.

Let’s look at these individually to give you a flavour of how a trade can be “run” for maximum profit potential using technical analysis. In this example we got a signal for a long trade in DGE.LN after holding support around 1950 in early December. We got confirmation and a “trigger” when the market gapped higher on December 8th.

Here we can see a rising trendline formed with the lows around late December and we entered the New Year still above here, so still long. If we get a closing breach of the trendline we shall cover the trade. Simple as that.

The “Parabolic SAR” indicator, developed by J Welles Wilder in the 1970s, is a useful tool for trailing stop placement. All the time the market is rising, so are the red dashes. If/when the market drops through the red dashes they “flip” to blue dashes above the market (starting at the highest point) that fall with the falling market. Be aware this indicator is terrible in trendless sideways markets.

Moving Averages can be a very good tool for trailing stop placement if you find an average that is historically reliable. As with the Parabolic SAR these suffer in sideways market conditions. Again we will stay in the trade unless/until the market drops below this line, in this case the 20 period Moving Average. All the time the market's rising so will the line, keeping you in a winning trade and moving your stop higher with the market.

Some people favour using momentum studies to give them signals. The MACD has been in "long" mode since the signal was given and continues to say "stay long", with the blue line above the red line and both lines rising.

And that concludes module 3.

Module 4

Welcome to this final module, where we bring everything together to assist you in developing your trade management strategy.

What we've been covered so far is by no means exhaustive, and just gives a flavour of the sort of things you should be thinking about when formulating a trading plan, strategy, and "rules" (rules that need to be stuck to!) to make a successful trader!

A couple of other things to think about are:

- Averaging, and trading strategies involving multiple entries.
- Patience to guard against overtrading.
- Costs.
- Back-testing
- Position sizing

Again let's look at these individually:

"Averaging" is the practise of trading in "steps", ie not having just one entry point but several. There is a big difference between having a strategy that involves a "stepped" approach to trade entry and plain old "dollar averaging".

For example it is okay to say, right from the start "I want to buy at 25 and add on a deeper dip to 15".

What is not okay is saying "I am long at 25 but it's gone down to 15, so I'm going to buy some more so my average entry price is 20, and hope that it now starts to go up!

This is very bad practice and means that you are buying more of something that is losing money for you already.

Overtrading is one of the trader's worst enemies. Just because you sit in front of the screen all day doesn't mean you have to be in the market all the time. Trading is about waiting patiently for setups and opportunities. Waiting for the "easy money" rather than running around trying to chase every dollar. You <u>will</u> miss trades and opportunities aplenty, but the market will still be there tomorrow!

Apart from anything else being “in the market” all the time is mentally exhausting, and a mentally exhausted trader is generally not effective or capable of making rational decisions. Some traders will only do a couple of trades a day, and some days none at all, if no clear opportunities arise.

Trading is not about ego or the thrill of riding the undulations of the market’s every move. It’s about building P&L.

Apart from anything else, overtrading can also lead to increased costs.

Even on a spread bet/CFD platform, costs can severely cut into profits. Remember on these platforms the costs are in the spreads.

There are other costs to consider as well; your seat in the office, technology, charting and trading software and other services…

Back-testing means looking back historically to test your trading strategy on past data. Whilst “past performance is not indicative of future results” there is a lot to be said for back testing as all markets have “personality traits” and one of the assumptions of Technical Analysis is that price action is repetitive.

When you are back testing BE HONEST about entry levels. There is no point in back-testing a strategy using parameters that cannot be “satisfied” in real life.

Many charting systems and platforms such as CQG and Bloomberg have excellent tools for testing strategies, especially technically based strategies.

Let’s consider a few points re position sizing now:

You should think about trade Size versus Account size – You don’t want your first trade to blow up your entire account. Remember FX, CFDs and Futures all use leverage, so this could easily happen if you’re not aware of the potential downside for any particular trade.

What are you comfortable with? - Some traders find a step up in size bothers them. You need to be comfortable with the size you are trading and it’s better to err on the side of caution rather than make silly mistakes because you’re worrying about bigger swings in your P&L.

What is your level of experience? - It almost goes without saying that novice trader should start off small!

All of these make sure you don’t go in “too big too early”.

As you build up experience and P&L what else should you be thinking about?

Everything on the previous slide still applies and you need to have the discipline to “keep it sensible”. Even the most experienced traders will tell you that when you suddenly think you’ve “found the answer” the market has an amazing habit of bringing you down very quickly!

Traders set their position size based on many different parameters:

Conviction level of each particular trade – Higher conviction trades can be traded with greater size.

Potential “event risk” scenarios – If there is potential for market moving events or announcements you may want to reduce your size.

Volatility – as per the above. In times of higher volatility many traders (especially newer traders) should reduce their size as a precautionary measure. After all, if volatility is high you will soon get resolution to any trade, either being stopped or reaching targets/heading in the right direction.

Your own current performance

- If you’re having a good run then “size up”. If the run ends go back to small size until you have a couple of winning trades. I have seen many highly successful traders use this strategy to very good effect.

To sum up Risk Management and Trade Management are key elements that need to be understood, and put into action, in order to make a success of trading.

There is no point in going into trading “blindly” without knowing the risks involved, both with respect to the instrument(s) you’re trading, the current environment, and your own personality.

It’s a hard career, and one where you will always be learning, but without the basic building blocks to manage risk and to manage trades you will have no chance! Good luck!

And that concludes this final module in this video lesson. If you have any questions about anything we have covered, please do send me a question via the Institutional Trader Programme platform or ask your online course tutor during the course of your three month online programme. Thank you for watching and listening.