

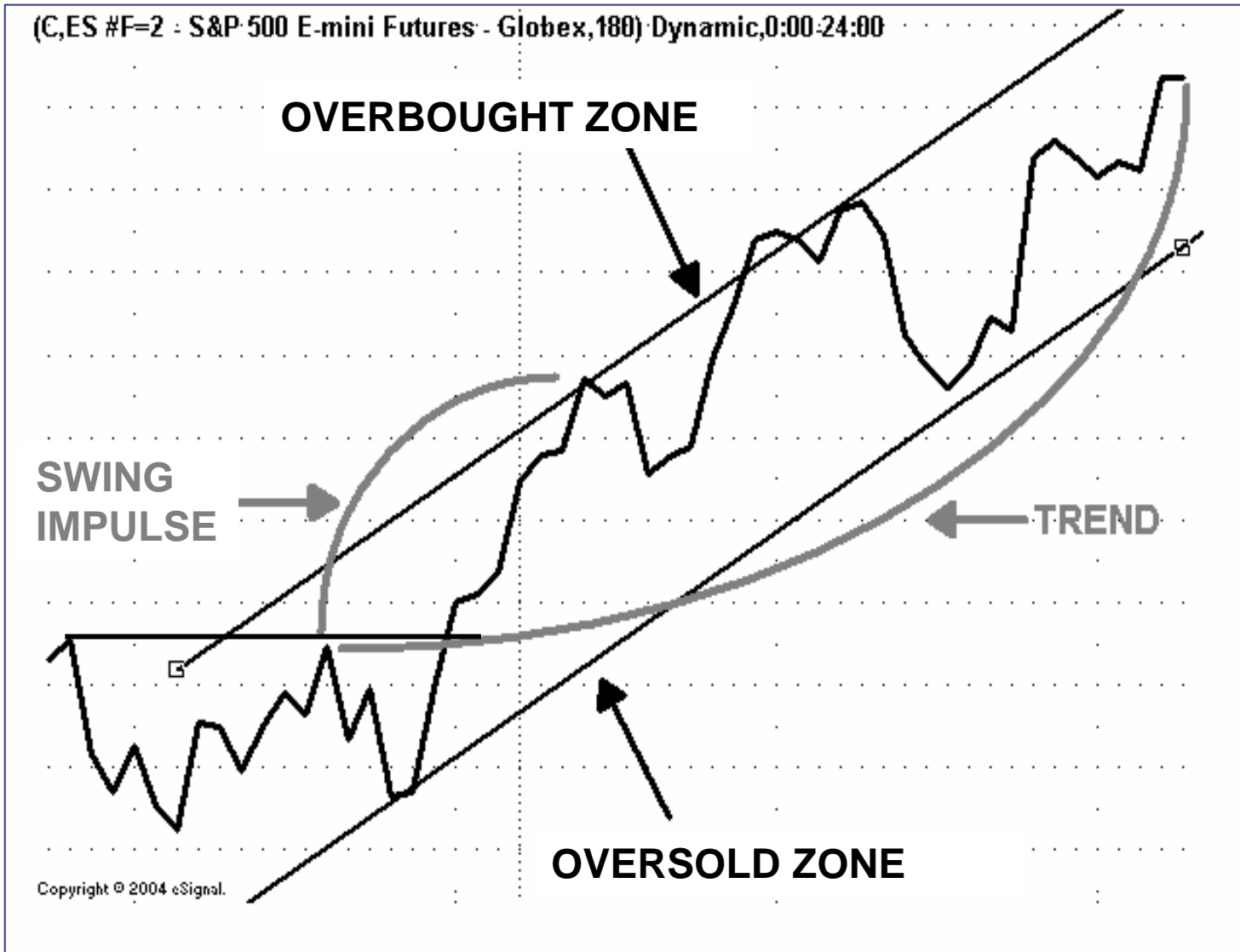
Position & Swing Trading

Methodology overview

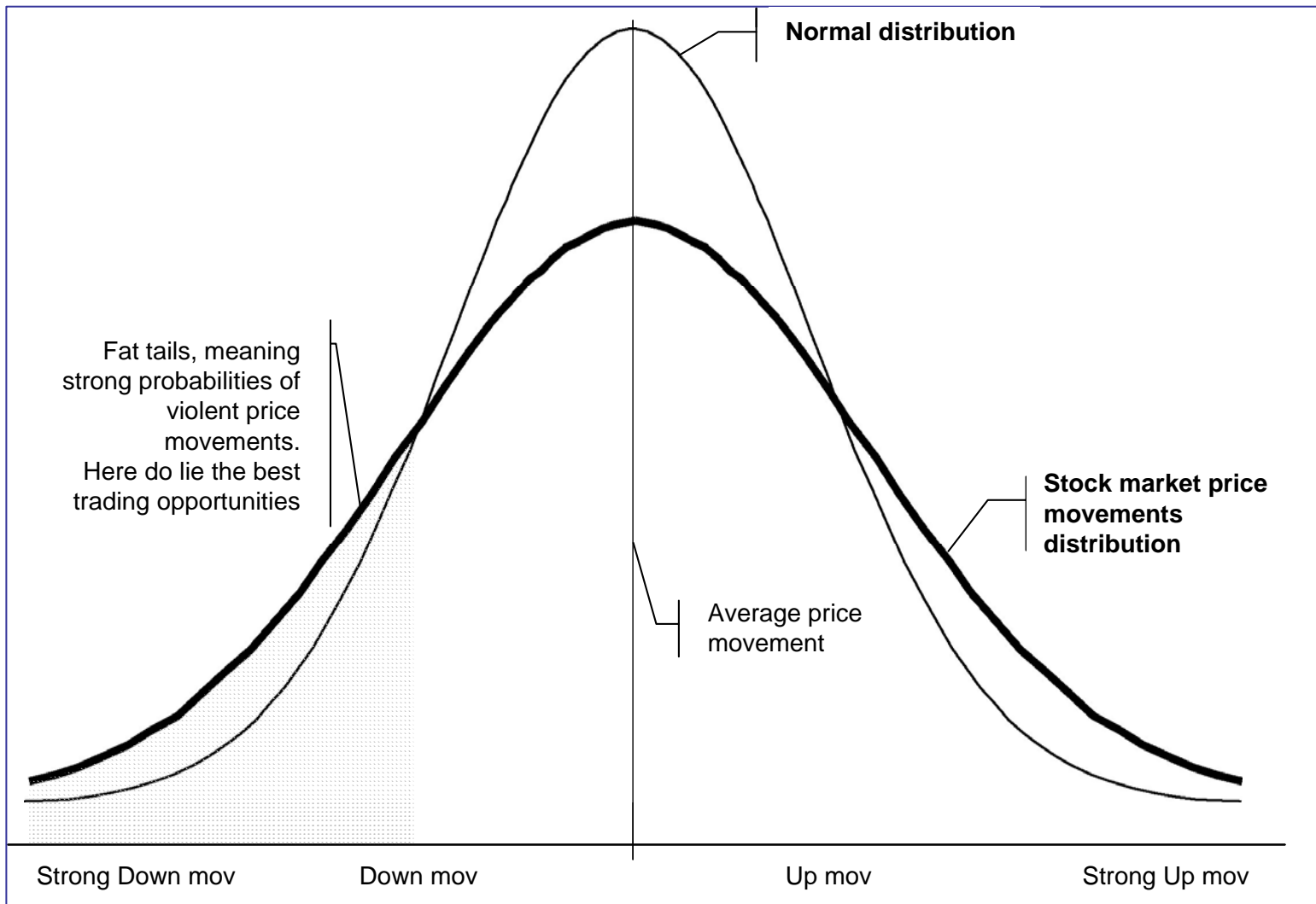
Edoardo Ciotti, Budapest, September 2005

edoardo@ciotti.net

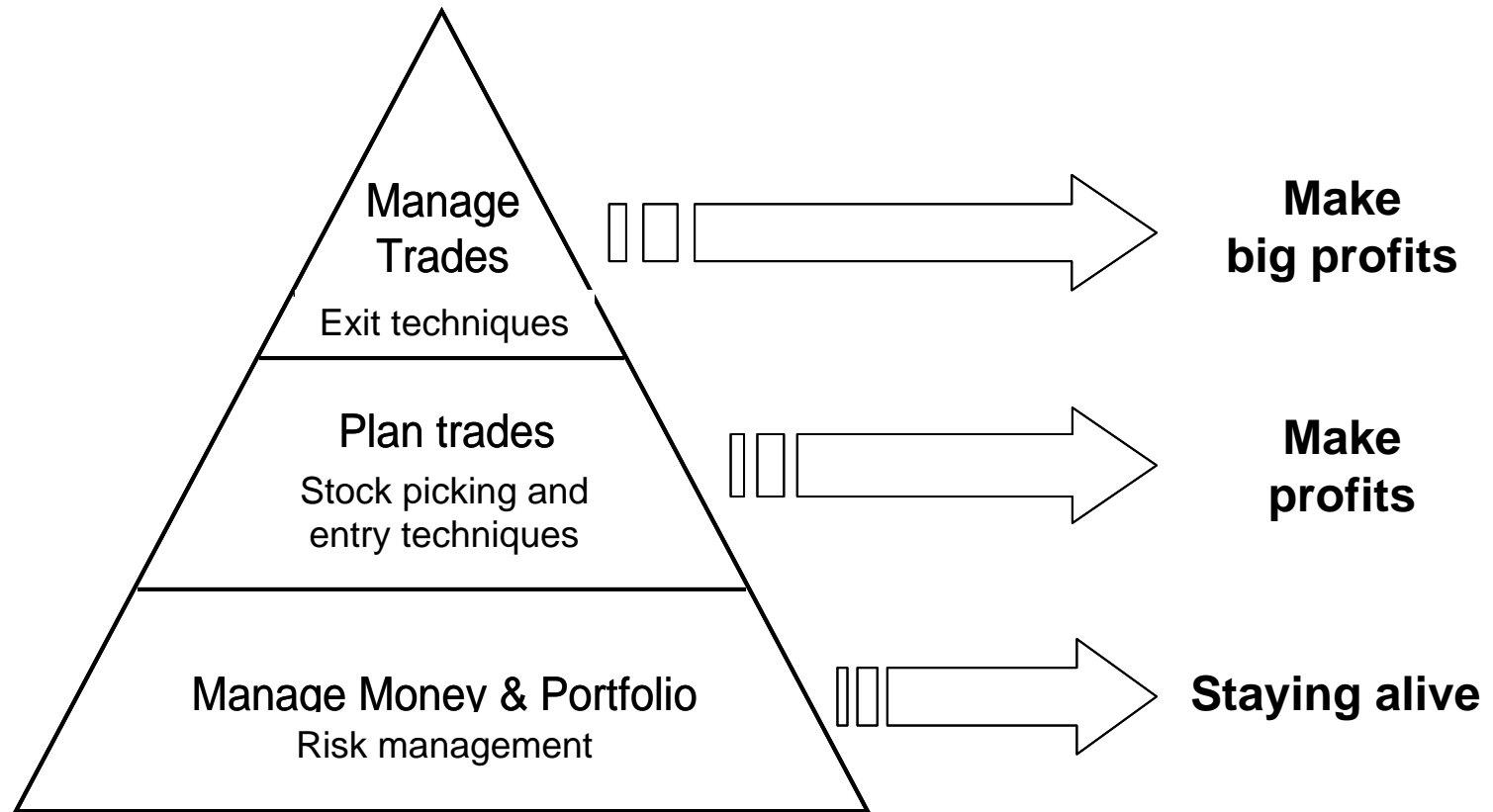
POSITION VS SWING TRADING



WHY DOES IT WORKS

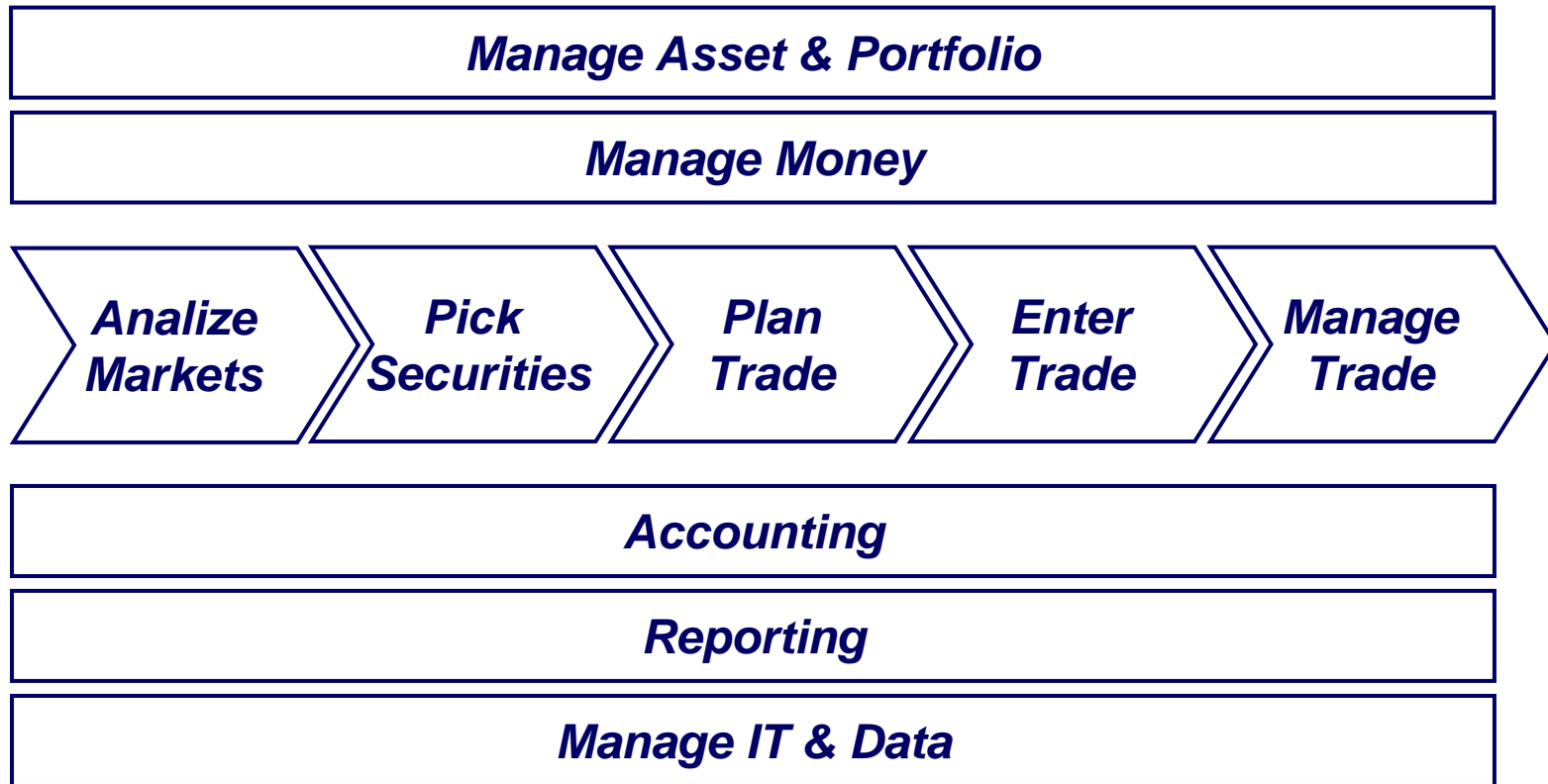


METHODOLOGY OVERVIEW



- *Manage the “Bad Tail”* : manage position and portfolio risk
- *Provide an Hedge*: trough stock picking and entry/exit techniques
- *Adjust to risk profile and psychological resistance of the trader*

METHODOLOGY FRAMEWORK



MANAGE ASSET & PORFOLIO

...a set of rules prevents the trader's working capital to be killed or wounded to death by a single bad trade (à la Parmalat) or a losing streak.

Working capital	% of personal wealth committed to trading	30-100%
Max entry size	Max capital (in \$) to put on a position	5-8% of working cap.
Max trade risk	Max risk (in \$) on a single trade = (Entry Price-Stop Loss Price)* (# shares/contracts)	0.5-1% of working cap.
Max portfolio risk	Sum of all trade risks in a single direction (long or short)	5% of working cap.
Practical rule	...force trading to the aforementioned limits only if : <ul style="list-style-type: none">• market trend is strong• the equity curve is in strong positive trend ... otherwise reduce trading activity	

MANAGE MONEY

...a set of rules for position sizing and target exits' definition. A security's chart "talks", my way of listening consist in adjusting parameters (entry point, stop, entry size, targets) to entry pattern.

Entry Size

Chart/pattern defines entry point and stop and, therefore, the risk assumed.

Entry size is computed in order to assume a fixed dollar risk per trade.

Security's liquidity also influence entry size (max 1/50 of total daily volume)

Partial exit targets

Two Methods:

- *Full Stop*: one shot exit when the stop is hit.
- *One to One*: sell 40-60% of position when paper profit $\geq 1 \times$ (initial dollar risk).

ANALIZE MARKETS

Stock trend is made by three biases:

- The broad market bias
- The sector bias
- The stock own bias

That's why a stock trader must watch the most important indexes and rule is just one: stay with the trend.

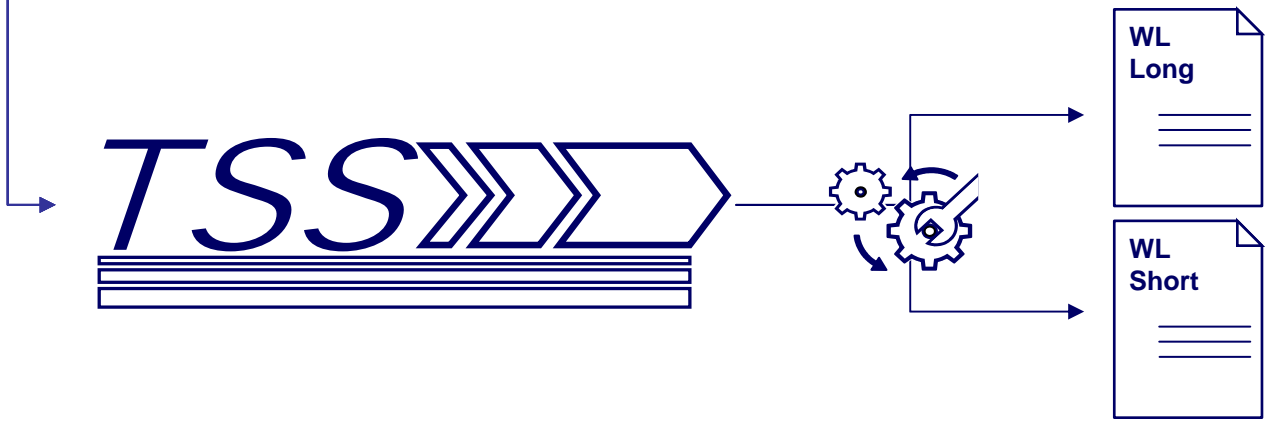
Practical Rule

- In a non-directional market I look for stocks to buy and to sell short
- In a slightly directional market I trade mostly with the market's trend
- In a strong market trend I trade only with the market

PICK SECURITIES

...Every week I build two watch lists (one for the long side, one for the short side).
I look for stocks with these features:

Tradability	A combination of liquidity and volatility
Trend	...no comment...
Congestions	2-3 weeks long or more
Volatility compressions	6/100 and 10/100 HV ratios < 0.5 Bollinger Bands are compressed Bollinger Bandwidth low



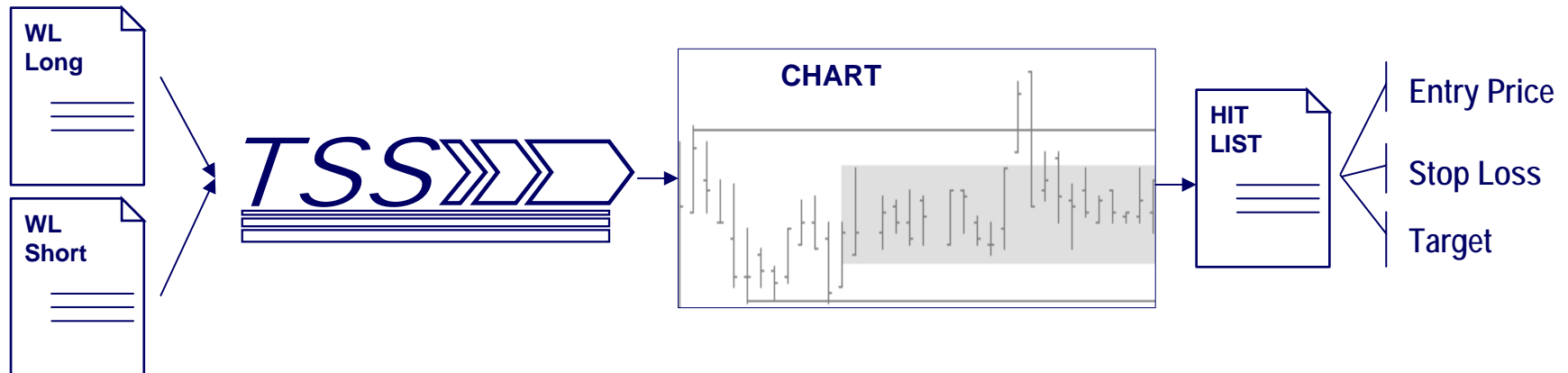
PLAN TRADES

...Every night, when the market closes, I study my watch lists' charts looking for...

Sign of strength (weakness) or 1-3 bars patterns in congestions or volatility compressions (Higher highs, higher lows, rising volumes, etc.)

Trend's temporary halts (ledges, micro-congestions, pullbacks)

The aforementioned happening in correspondence of important support/resistance levels or bigger technical patterns (cups with handle, triangles, etc.)



ENTER TRADES

...In absence of shocking news coming out during market closing, stocks should open at or very near the pervious day close...

***Gaps/extreme openings
according with my entry way***

I take the trade only if gap/lap is small and if stock is congestioning or coming out from a congestion; I don't take it if prices are "stretched" (i.e. outside Bollinger bands)

***Gap/extreme openings
opposite to my entry way***

These cases are fairly rare but good as gold, because them allow a lower than average risk entry with Larry Williams' oops.

MANAGE TRADES (Swing Trading)

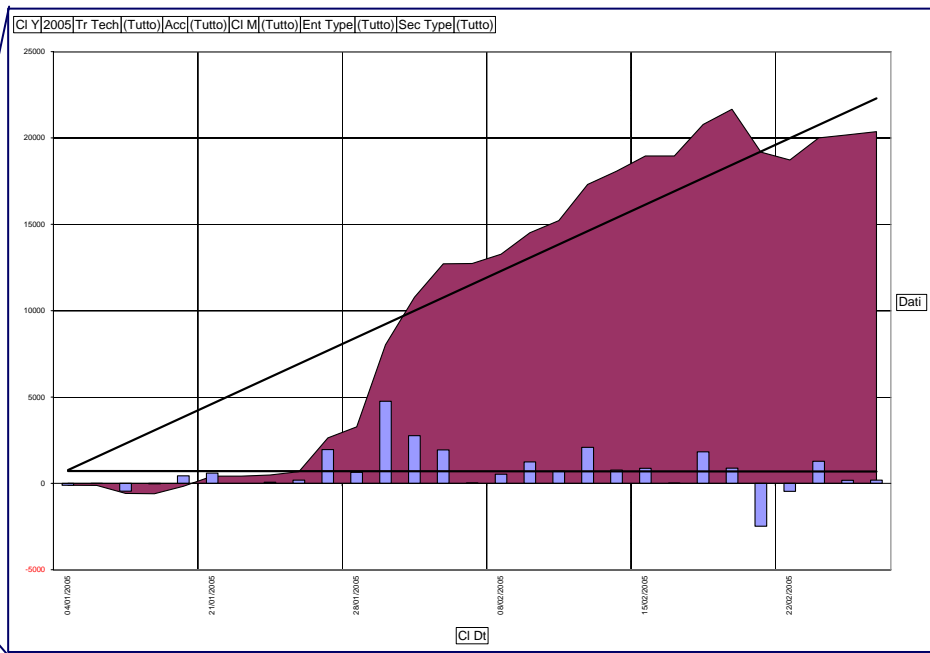
<i>Initial stop</i>	Defined by entry pattern.
<i>Time stop</i>	If, after 2-3 bars since entry, the trade didn't pay out at least one time initial risk, our entry is invalidated. Keep position or liquidate depending on general market trend.
<i>Trailing stop</i>	If prices move my way "quietly", my stop goes under a natural point (2-4 days low, long bar, etc.).
<i>Stop tightening</i>	If prices are running or are reaching the pattern's target, I become more aggressive in stop positioning (last bar low, volatility stop, natural point, on a intraday time frame, intraday low after a gap, etc).

ACCOUNTING E REPORTING

...There's no improvement without metrics computing and assesment...



INPUT →



CI Y	CI M	Tr Tech	Gross P	Gross L	Net P&L	Coms	A Dur	#Fills	Trdes	#Wins	#Los	A Win	A Los	Lr Win	Lr Los	Trade	P fact	%Wins	%Loss	P rat	C rat
2005																					
		1																			
		Position Trading	€ 1,418		€ 1,418	€ 25	9.0	7	3	3		€ 473	€ 881			473	100.0%	0.0%		57.88	
		Swing Trading	€ 5,732	-€ 3,594	€ 2,138	€ 217	4.2	61	25	13	12	€ 441	-€ 300	€ 926	-€ 892	86	1.59	52.0%	48.0%	1.47	9.88
		1 Totale	€ 7,150	-€ 3,594	€ 3,556	€ 241	4.8	68	28	16	12	€ 447	-€ 300	€ 926	-€ 892	127	1.99	57.1%	42.9%	1.49	14.76
		2																			
		Position Trading	€ 7,709	-€ 297	€ 7,412	€ 102	23.7	31	12	10	2	€ 771	-€ 149	€ 4,878	-€ 174	618	25.95	83.3%	16.7%	5.19	72.87
		Swing Trading	€ 15,969	-€ 6,063	€ 9,897	€ 299	14.9	98	47	27	20	€ 591	-€ 303	€ 2,350	-€ 543	211	2.63	57.4%	42.6%	1.95	33.10
		2 Totale	€ 23,669	-€ 6,360	€ 17,309	€ 401	16.7	129	59	37	22	€ 640	-€ 289	€ 4,878	-€ 543	293	3.72	62.7%	37.3%	2.21	43.16
2005 Totale			€ 30,820	-€ 9,955	€ 20,865	€ 642	12.8	197	87	53	34	€ 582	-€ 293	€ 4,878	-€ 892	240	3.10	60.9%	39.1%	1.99	32.50
Totale complessivo			€ 30,820	-€ 9,955	€ 20,865	€ 642	12.8	197	87	53	34	€ 582	-€ 293	€ 4,878	-€ 892	240	3.10	60.9%	39.1%	1.99	32.50

Exhibit: - congestions Hera



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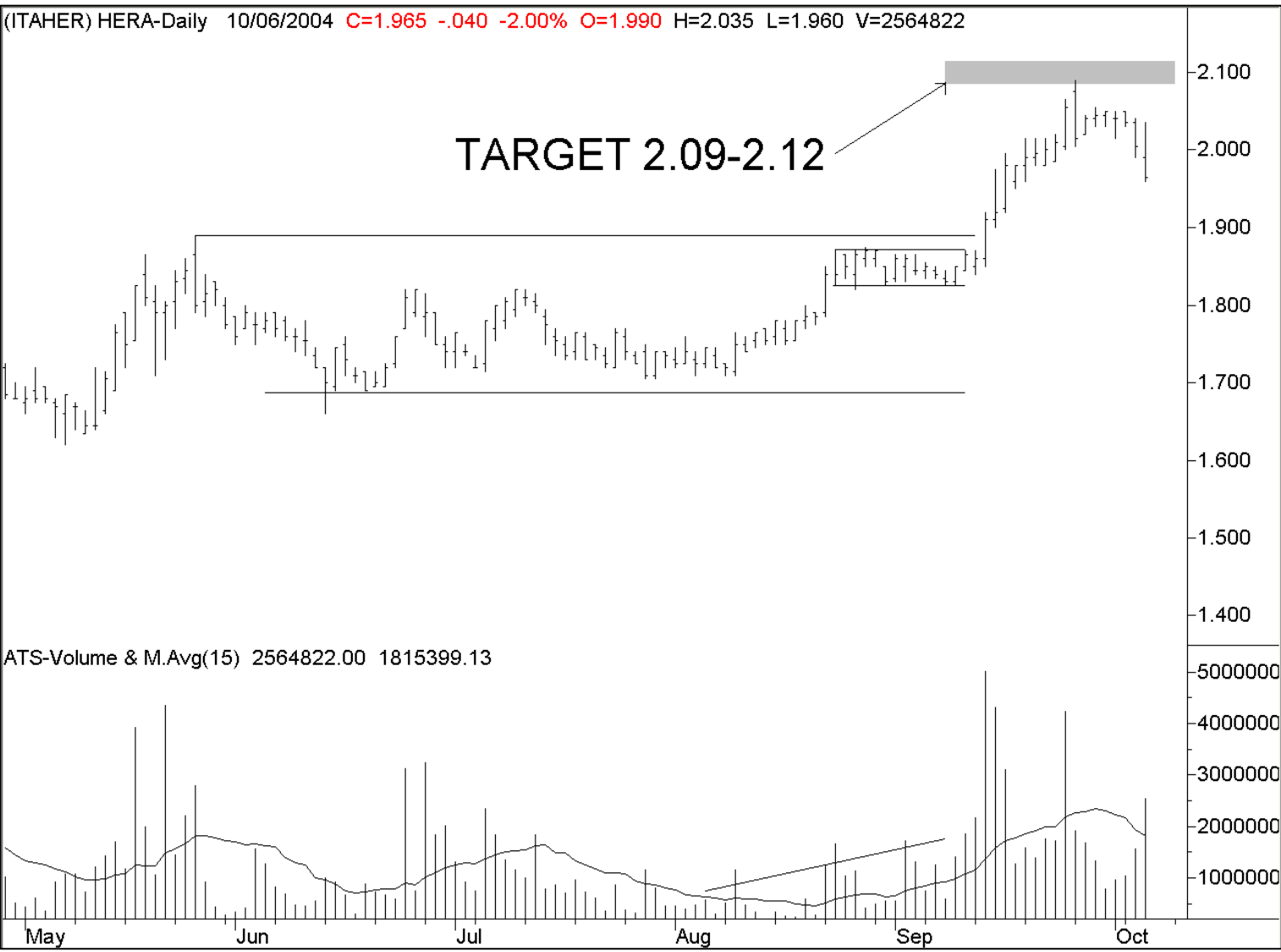


Exhibit: - congestions Hera

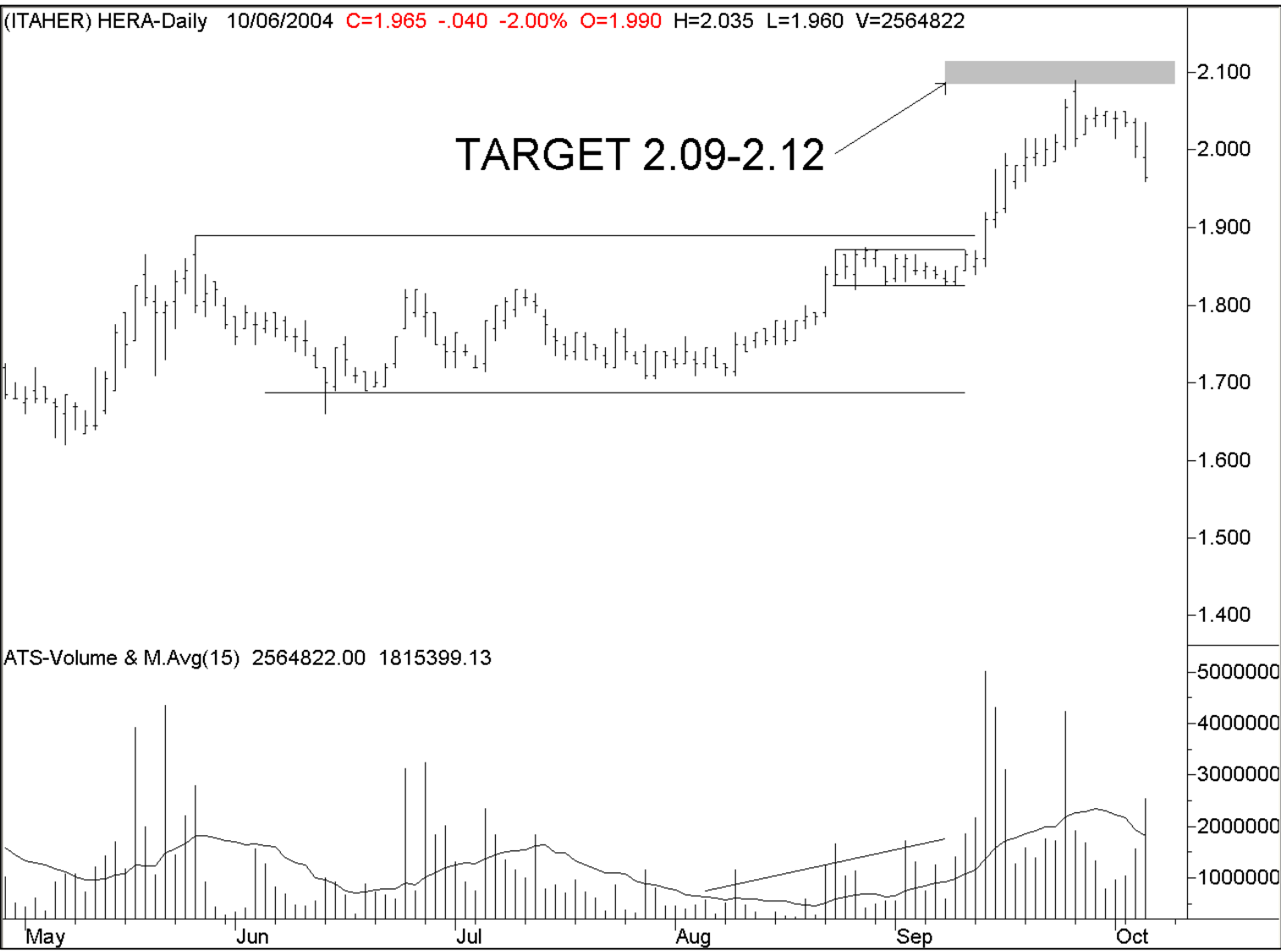


Exhibit: - volatility compression: ACEA

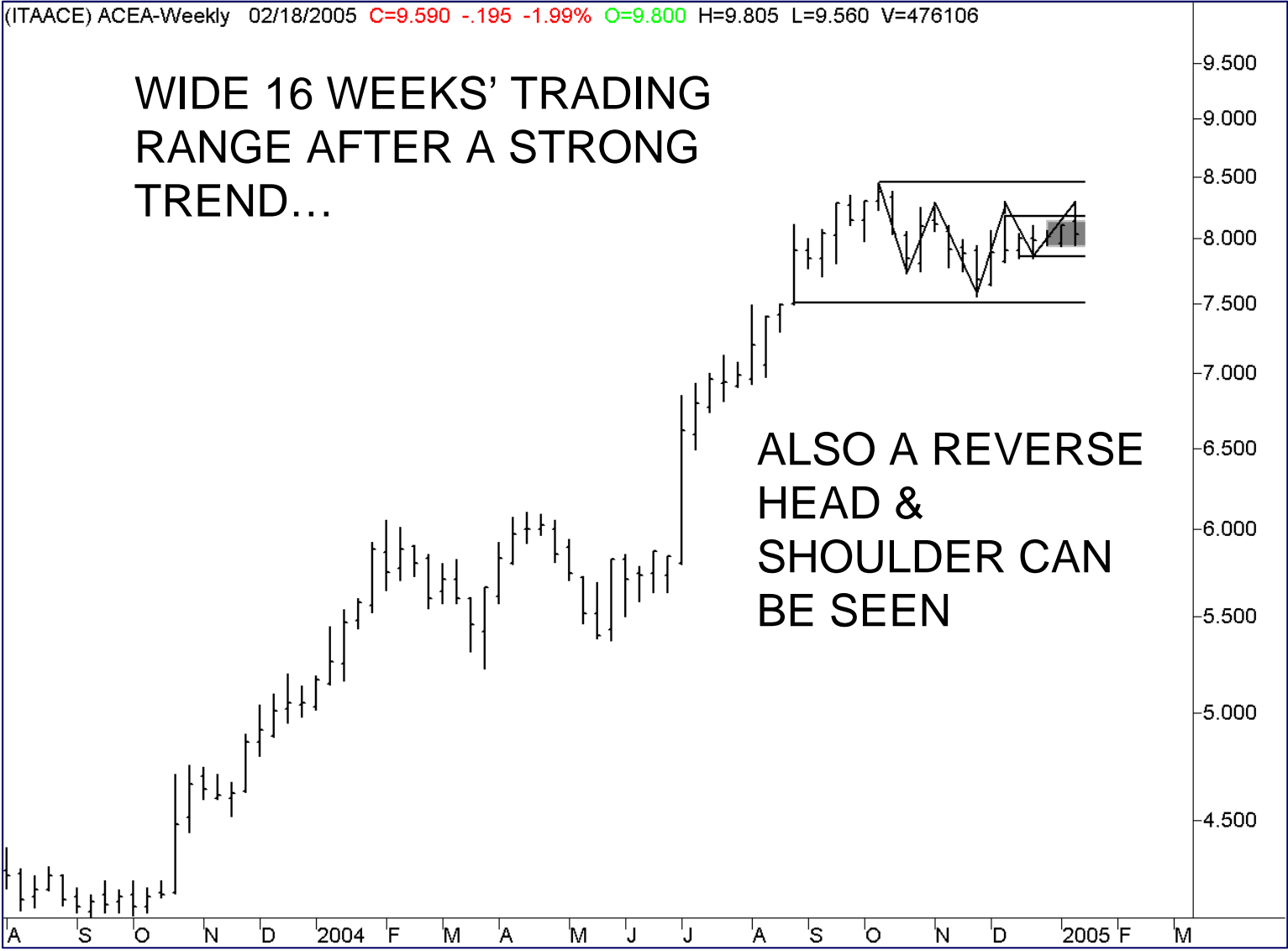


Exhibit: - volatility compression: ACEA

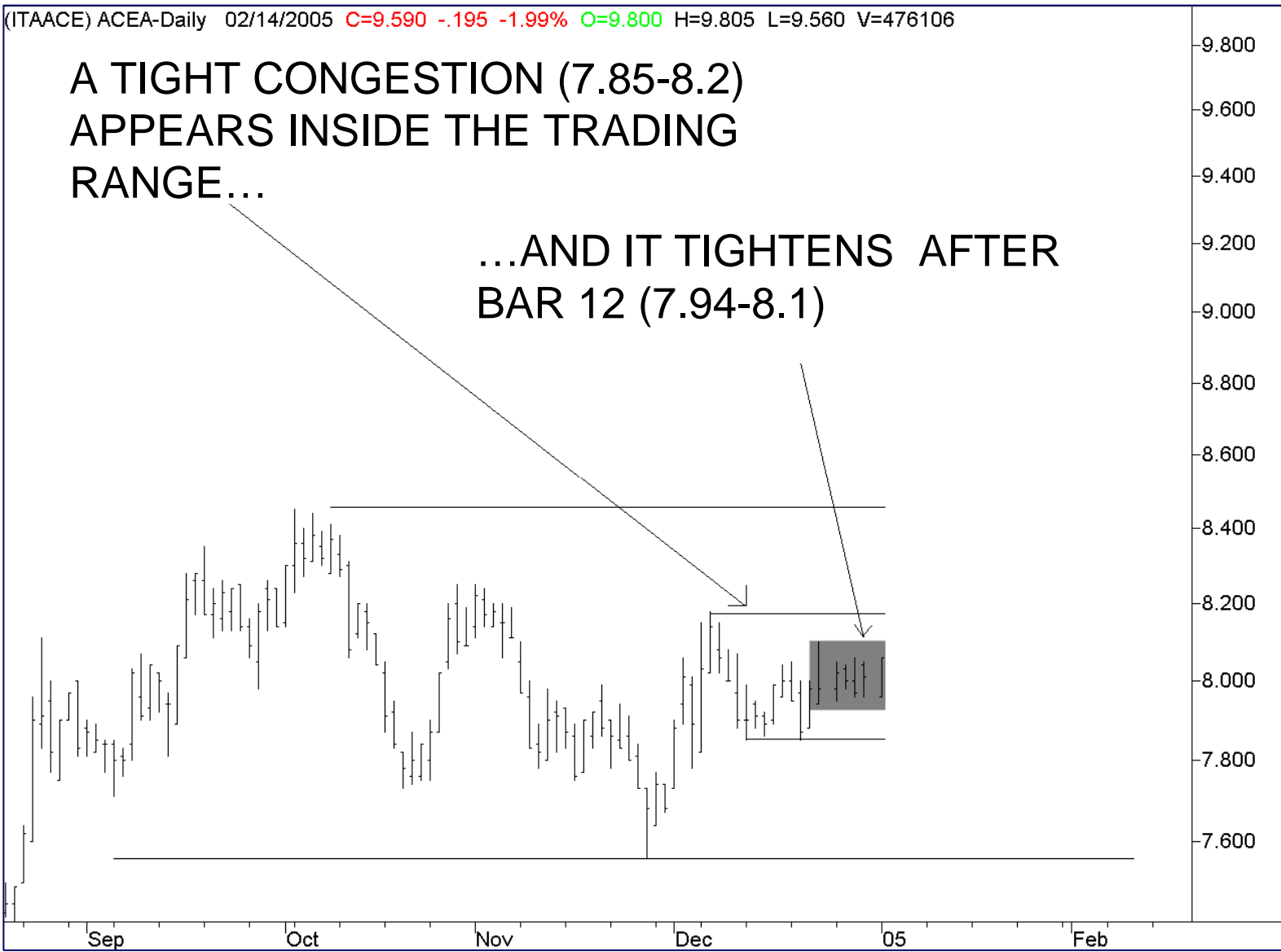
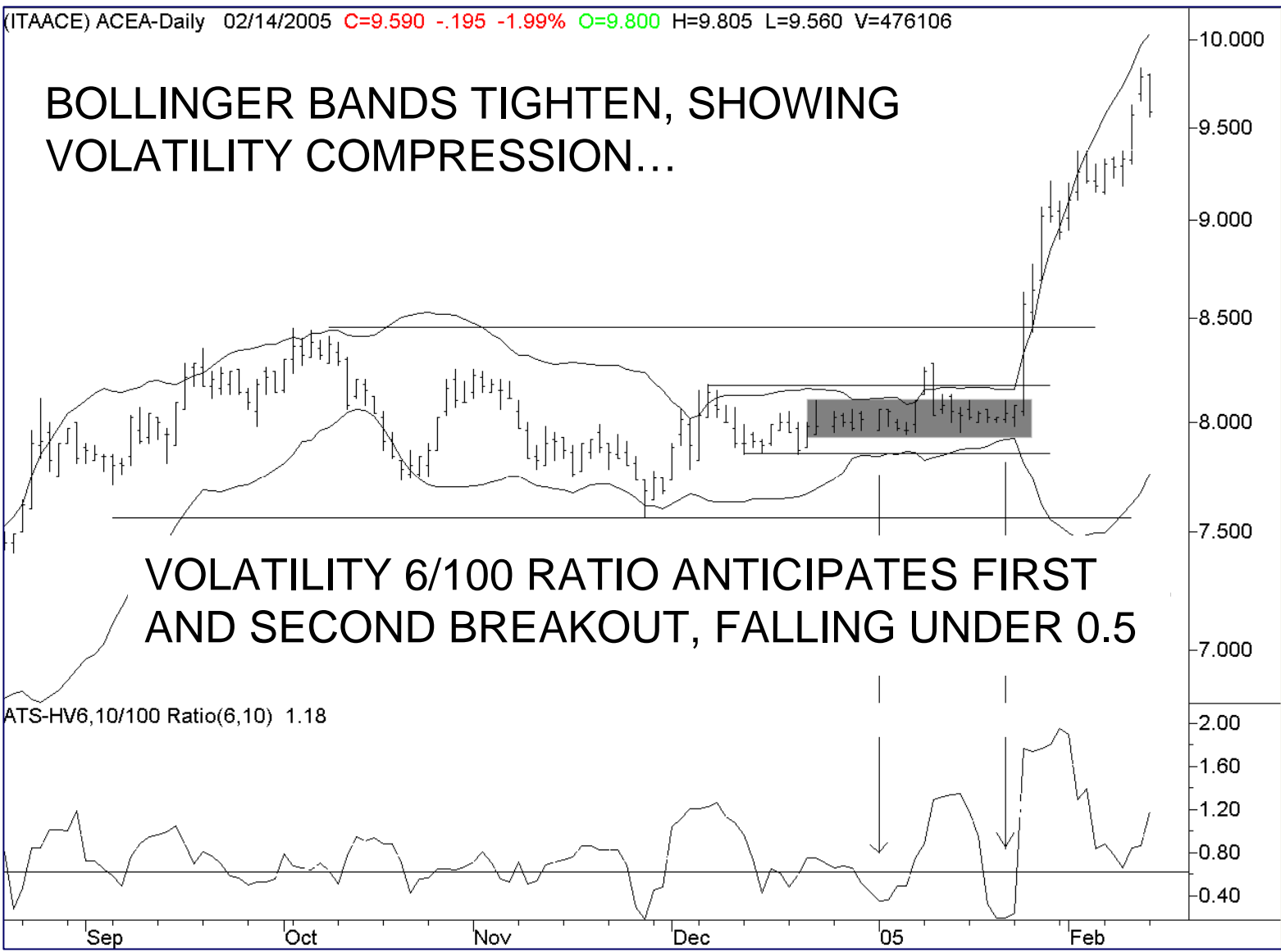


Exhibit: - volatility compression: ACEA



Examples: links

On lombardreport.com I published (unfortunately in Italian) many trades started and managed with the aforementioned techniques. Check these links for a step by step evaluation

SNAI

http://www.lombardreport.com/lr/articolo.asp?id_articolo=8666
http://www.lombardreport.com/lr/articolo.asp?id_articolo=8692
http://www.lombardreport.com/lr/articolo.asp?id_articolo=8728
http://www.lombardreport.com/lr/articolo.asp?id_articolo=8743
http://www.lombardreport.com/lr/articolo.asp?id_articolo=8756
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http://www.lombardreport.com/lr/articolo.asp?id_articolo=8791

HERA

http://www.lombardreport.com/lr/articolo.asp?id_articolo=8202
http://www.lombardreport.com/lr/articolo.asp?id_articolo=8226
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http://www.lombardreport.com/lr/articolo.asp?id_articolo=8380