



TRADING EQUILIBRIUM

TREND TRADING FRAMEWORK FOR SWING AND POSITION TRADERS

STRATEGY:

Trading in alignment with the primary structural price trend, using range contraction / consolidation for entries with the goal of exploiting the meat of the trend. Identifying relative strength in theme / sector / industry / stock and using a mix of swing and position trades based on daily and weekly time frames. Operating aggressively in an environment with strong follow-through, and defensively in an environment lacking follow through.

ABOUT RULES:

Rules are tools to manage YOU – nothing less nothing more. Rules are not “cheat codes” that optimize to perfect outcomes. The rules that are the most impactful are those centered on risk management (to protect you) and those you have tailored specifically to suit you through experimentation.

RISK MANAGEMENT:

SIZING:

Adapting position sizing between 25 and 50bps depending on the strength of follow through in the current environment, and the volatility of the chosen stock.

TOTAL OPEN RISK:

This is effectively a quantitative measurement of progressive exposure; by limiting Total Open Risk and only opening new positions when prior positions are de-risked, we can reasonably ensure that our equity curve will not make lower lows.

OVER-ALLOCATION:

Use proper position sizing to avoid allocating more than 25% of total account value into one single position. This reduces the risk of gap exposure and limits outsized drawdowns as a result.

STOPS:

Use hard stops when entering any and every position. Stop placement is a personalized dynamic based on personal risk tolerance. Understand the dynamics within your control and how they affect outcomes. Tighter stops = greater likelihood of being stopped out, PLUS greater reward / risk proposition. Converse is true for wider stops.

Stops should be placed at a logical level, not a fixed percentage. Logical levels include lows of day, lows of previous day, key SMA, key support etc.

Keeping losses small greatly helps your “trading math”. Trading is not about a high “batting average”, it’s about keeping losses as small as possible while maximizing wins.

TRADING VEHICLE FILTER:

Price > \$10

AVG. 30 Day Volume > 750k

ENVIRONMENT:

Nothing is more impactful to returns as a swing and position trader following a trend trading strategy than operating in a conducive environment and avoiding (limiting exposure) in a poor environment.

Follow Through = Environment.

Key Ingredient – The key driving ingredient of a conducive environment for this simple strategy is demonstrable follow through. Without follow through we cannot make progress holding positions overnight (i.e. daytrader's market)

Identifying conducive environment – Follow through becomes demonstrable through successful breakouts and supported pullbacks, i.e. charts that push higher from and through support; holding key moving averages and pushing through previous highs or daily trading ranges. This is direct evidence of follow through via price action.

Identifying a non-conducive environment – An environment with a lack of follow through can be demonstrably observed through the following four ingredients:

1. Material opening gaps (1%+) on index ETF's in both directions
2. Material intraday reversals (1%+) on index ETF's
3. Weak / Ambiguous mid-term trend structure
4. News-driven price action

Of course there are gradations in terms of strength of the environment per these criteria, and timing is never perfect.

SETUPS the “EASY” Part:

The “setup” is built upon strength of trend / theme / sector / industry. This includes news-driven “setups” like PEAD plays; assets that are repriced on surprise earnings reports.

The “pattern” or entry point is simply a consolidation within this larger phenomenon.

Three main categories of “entries”:

Breakouts – simple horizontal pivot / base breakouts

Pullbacks – trending stocks finding support on key horizontal levels or SMA's / pushing through Downtrend Lines

Failed moves – double tops, failed breakdowns (U&R) etc.

This applies to both long and short trades. Simply reverse when the primary trend is down.

IF X THEN Y TRADING:

This is trading based upon pre-planned entry triggers and stops. This type of trading can successfully be automated by those in different time zones, those with full time jobs, or those that simply prefer to be less involved in intraday decision-making and execution. A logical entry and a logical stop are pre-determined either the night before or in pre-market and the trade either triggers or it doesn't.

OPPORTUNISTIC TRADING:

Just as the word "opportunistic" implies, this is trading that requires being present and on the screen during trading hours. This type of trading is based on the exact same trading logic of the trend trading strategy but often involves executions that cannot be pre-planned or automated. Examples would be opening at or just above a key SMA, or conversely pulling back to test a key SMA and bouncing.

SWING AND POSITION TRADE ALIGNMENT:

Swing trade alignment:

Signal Time Frame: Daily Chart

Duration Expectation: A few days to a few weeks

Return Expectation: 3R – 5R+

Position Trade Alignment:

Signal Time Frame: Weekly Chart

Duration Expectation: A few weeks to a few months

Return Expectations: 10R – 40R

Duration and Return Expectations are completely dependent upon the environment.

TRADE MANAGEMENT:

Two sides of the same coin – sell swings into strength, hold position trades through pullbacks

SWING TRADE MANAGEMENT:

Selling the bulk of the position into strength by identifying a potential target based on resistance or a measured move. As partials are taken INTO strength, raise stops with price structure (recent higher low, etc). In very strong environments a partial can be left to run on a key SMA the name has respected in past moves.

POSITION TRADE MANAGEMENT:

Holding the bulk of the position through inevitable pullbacks and employing a soft stop on a material close below a key SMA the name has respected in past moves.

ADJUSTING TACTICS PER THE ENVIRONMENT – AGGRESSIVE / DEFENSIVE:

Aggressive:

- 1 – Take a partial at a higher R multiple (ex. 3-4R)
- 2 – Take a smaller % initial partial
- 3 – Let a partial run on a key SMA for swings

Defensive:

- 1 – Take a partial at a lower R multiple (ex. 1-2R)
- 2 – Protect break-even aggressively

3 – Take a higher % initial partial

4 – Don’t let swing trades “run” / Not an environment for position trading

DYNAMICS OF GETTING AGGRESSIVE:

Only two ways of getting aggressive and “moving the needle”:

1 – Sizing / leverage

2 – Pressing

MINDSET:

Once you have consistent logic and “believe” in your strategy, the rest is all about mindset.

Ex.

The Certainty Mindset

The Illusion of Control

All or Nothing Thinking Etc Etc Etc

PERSONALIZATION:

Engagement and experimentation are REQUIRED. As long as you have airtight Risk Management then you MUST engage and use your understanding of trading dynamics to suit your own strengths and weaknesses.

There isn’t ONE SINGLE successful trader that hasn’t personalized. This is a MAJOR part of your journey. You will not hide your personality, it will come out in your trading. While you can condition yourself to adapt and get better in many ways, you cannot change who you are at your core. Embrace your unique strengths and mitigate your unique weaknesses. This is what personalization is all about.

SIMPLE TRUTHS

Nothing goes straight up or straight down.

It either works or it doesn't.

You will lose every single argument you have with price.

Know your dance partner.

There is no free lunch.

Environment > Setup

Reaction > Prediction