



TRADING COACH

Build your whole trading system

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« **BUILD YOUR WHOLE TRADING SYSTEM** »

Online TRADING classroom–Saturday 6 November 2021- 3-5 PM (Paris, France, Time)

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FOREWORD



- ✓ Investing versus trading,
- ✓ Trading consists of taking long or short positions over a relatively short period of time by applying a statistical EDGE that includes strict risk management (stop loss),
- ✓ The difficulty of trading comes from the many psychological biases that are very difficult to overcome,
- ✓ The « 4 legs wooden STOOL »
- ✓ Different strategies and time horizon:
 - Scalping , Day trading, Swing trading, Position trading.

I-UNDERSTANDING THE MARKET ECOSYSTEM



- ❖ Virtually no barrier to entry,
- ❖ A negative sum game,
- ❖ A large proportion of losers, a minority of winners
- ❖ A game of probabilities,
- ❖ The only thing we can control: risk
- ❖ Psychology: individual and collective, fear, hope, greed, cognitive and behavioral biases

I-UNDERSTANDING THE MARKET ECOSYSTEM



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II-COMMON CHARACTERISTICS OF WINNING AND LOSING TRADERS



❖ The (BAD) habits of the losing trader

- ❖ He trades too often (overtrading),
- ❖ He trades against the trend,
- ❖ He takes small gains and lets his losses "run",
- ❖ He wants to be right before he wants to make money,
- ❖ He trades with too high positions and risks too much,
- ❖ He watches websites or TV channels looking for trading ideas.

II-COMMON CHARACTERISTICS OF WINNING AND LOSING TRADERS



❖ The habits of the losing trader (continued)

- ❖ He wants stock ideas to buy,
- ❖ He doesn't work on his strategy if he has one,
- ❖ He thinks about how much he will win if he is right, not how much he will lose if he is wrong.

II-COMMON CHARACTERISTICS OF WINNING AND LOSING TRADERS



❖ The (GOOD) habits of the winning trader

- ✓ He defines and applies a statistical edge,
- ✓ He cuts his losses quickly,
- ✓ He lets his winning trades develop,
- ✓ He follows his rules,
- ✓ He follows his trading strategy,

II-COMMON CHARACTERISTICS OF WINNING AND LOSING TRADERS



❖ Habits of the winning trader (CONTINUED)

- ✓ He plans his trading session,
- ✓ He is patient,
- ✓ He is disciplined,
- ✓ He has an exit strategy to take his profits,
- ✓ He processes his entry signals and his exit signals.

II-COMMON CHARACTERISTICS OF WINNING AND LOSING TRADERS



❖ Habits of the winning trader (CONTINUED)

- ✓ He is consistent,
- ✓ He keeps a "trading journal »,
- ✓ He doesn't watch bfm tv looking for trading ideas,
- ✓ He focuses on the process, not the result.

II-COMMON CHARACTERISTICS OF WINNING AND LOSING TRADERS



❖ Habits of the winning trader (CONTINUED)

- ✓ He defines the size of his positions,
- ✓ He backtests his advantage over several years,
- ✓ He analyzes every day, every week, every month his losing trades.

II-COMMON CHARACTERISTICS OF WINNING AND LOSING TRADERS



❖ Habits of the winning trader (CONTINUED)

- ✓ He has no ego and accepts losses as a product of his strategy and not as a personal failure,
- ✓ He knows how to admit when a trade is losing,
- ✓ He puts his ego aside,
- ✓ He follows the trend, not his own opinion.

III-THE WEAKEST LINK IS YOU!



❖ Individual psychology

- ✓ Fear,
- ✓ Hope,
- ✓ Greed,
- ✓ Cognitive and emotional biases.

III-THE WEAKEST LINK IS YOU!



- ❖ **ZOOM on psychological biases: « Loss aversion bias »**
- ✓ Definition: propensity to be more affected by a loss than by a gain of the same magnitude (2.5 times more),
- ✓ Implication in trading: the trader lets his losses run and quickly takes his gains,
- ✓ How can this be remedied? Understand what statistical advantage is.

III-THE WEAKEST LINK IS YOU!



- ❖ **ZOOM on psychological biases: « confirmation bias »**
- ✓ Definition: looking for information that validates an initial decision, no matter how bad or irrational it is.
- ✓ Implication in trading: staying on a losing position,
- ✓ How can we remedy this? Have a systematic and rational approach.

III-THE WEAKEST LINK IS YOU!



- ❖ **ZOOM on psychological biases: « the herding bias »**
- ✓ Definition: tendency to act like the masses,
- ✓ Implication in trading: sheep-like behavior that often ends badly (bubbles),
- ✓ How can we remedy it? Do the work and develop your own advantage based on objective and indisputable facts.

III-THE WEAKEST LINK IS YOU!



❖ The mass psychology

- ✓ The "contrarian" nature of the market,
- ✓ "Not sold not lost" and "maximizing the hit ratio only", two major mistakes to absolutely avoid,
- ✓ The psychology of crowds.

IV-RISK MANAGEMENT



❖ What you should know

- ✓ What you can't control: the outcome of each trade,
- ✓ What you can control: the risk,
- ✓ Stops or how to avoid the risk of ruin,
- ✓ The 1% rule: never bet more than 1% of your capital on each trade
- ✓ 20 « 1 % losing consecutive TRADES» = **-18.21%**

IV-RISK MANAGEMENT



❖ Typology of risks in trading

- ✓ Risk that a trade will lose: the pyranha attack vs white shark attack,
- ✓ Market risk,
- ✓ Volatility risk,
- ✓ Opportunity cost.

IV-RISK MANAGEMENT



Understand the asymmetry between the progression of losses and the variation required to recoup them

LOSS in %	GAIN in % necessary to recoup a former loss
5%	5,26%
10%	11,11%
15%	17,64%
20%	25%
30%	42,85%
40%	66%
50%	100%

IV-RISK MANAGEMENT

Managing drawdown: how to reduce your position size when in a drawdown

DRAWDOWN in %	NOTIONAL CAPITAL VS REAL CAPITAL
-5%	-10%
-10%	-20%
-15%	-30%
-20%	-40%
-25%	-50%
-30%	-60%

IV-RISK MANAGEMENT



DRAWDOWN in %	REDUCTION IN POSITION SIZE ACCORDING TO DD	RISK PER TRADE WITHOUT REDUCTION IN POSITION SIZE	RISK PER TRADE WITH REDUCTION IN POSITION SIZE
-10%	-20%	1%	0.8%
-15%	-30%	1%	0.7%
-20%	-40%	1%	0.6%
-25%	-50%	1%	0.5%
-30%	-60%	1%	0.4%

IV-RISK MANAGEMENT



DRAWDOWN in %	REDUCTION IN POSITION SIZE ACCORDING TO DD	NUMBER OF LOSING TRADES NECESSARY TO REDUCE THE CAPITAL BY ANOTHER -10% WITHOUT REDUCTION IN POSITION SIZE	NUMBER OF LOSING TRADES NECESSARY TO REDUCE THE CAPITAL BY ANOTHER -10% WITH REDUCTION IN POSITION SIZE
-10%	-20%	10,48	13,12
-15%	-30%	10,48	15,00
-20%	-40%	10,48	17,51
-25%	-60%	10,48	21,02
-30%	-80%	10,48	26,29

V-THINKING IN TERMS OF PROBABILITIES



- ✓ We don't know the outcome of every trade,
- ✓ Understand the trading gain expectancy,
- ✓ Formula: $(\% \text{ of winning trades} * \text{average performance as \% of winning trades}) - (\% \text{ of losing trades} * \text{average performance as \% of losing trades})$ adjusted for average position size in %,
- ✓ Risk Reward Ratio: $\text{Average gain} / \text{Average loss}$,
- ✓ Hit Ratio or Win-loss ratio (% of winning trades).

V-THINKING IN TERMS OF PROBABILITIES

EXAMPLE 1



- ❖ Example of a strategy with a **NEGATIVE** gain expectancy:
- ✓ Hit ratio: 70% with a risk-reward ratio of 0.4
- ✓ Expected return for each trade (in dollars terms):

$$+0,7 * 0,4 - 0,3 * 1 =$$

$$0,28 - 0,3 =$$

$$-0,02\$$$

Nota: *a trading gain is not a probability but the average difference between gains and losses respectively weighted by the gains and losses frequency.*

V-THINKING IN TERMS OF PROBABILITIES

EXAMPLE 2



- ❖ Example of a trading strategy with a **POSITIVE** gain expectancy
- ✓ John applies a systematic and purely technical trend following strategy on futures using a simple moving average crossover strategy,
- ✓ After about 100 trades, his trading account has increased.
- ✓ He calculates his gain expectancy and shows it to you.
- ✓ Parameters of his profit expectancy: hit ratio= 30%, Risk-reward ratio: 4

V-THINKING IN TERMS OF PROBABILITIES

EXAMPLE 2



- ❖ Example of a trading strategy with a **POSITIVE** gain expectancy
- ✓ JOHN trading expectancy strategy:

$$+0,3 * 4 - 0,7 * 1 =$$

$$+1,2 - 0,7 =$$

$$+0,5$$

VI- THE TOOLS OF THE WINNING TRADER



- ✓ Choose your screening platform,
- ✓ Keep track of all your trades,
- ✓ Analysis of all the trades (especially the losing ones),
- ✓ The necessity of backtesting (business plan and profit gap reduction),
- ✓ Trading diary : « writing everything down »,
- ✓ The importance of setting up and respecting an efficient routine.

VI- THE TOOLS OF THE WINNING TRADER



❖ ZOOM SUR LE BACKTESTING

❖ Definition of backtesting

- ✓ The necessary components of a rigorous backtesting,

❖ Why backtesting?

- ✓ To determine the existence and quality of its advantage,
- ✓ To reduce the profit gap between the performance of its backtest and its real performance

VII-DEFINE YOUR EDGE...AND APPLY IT



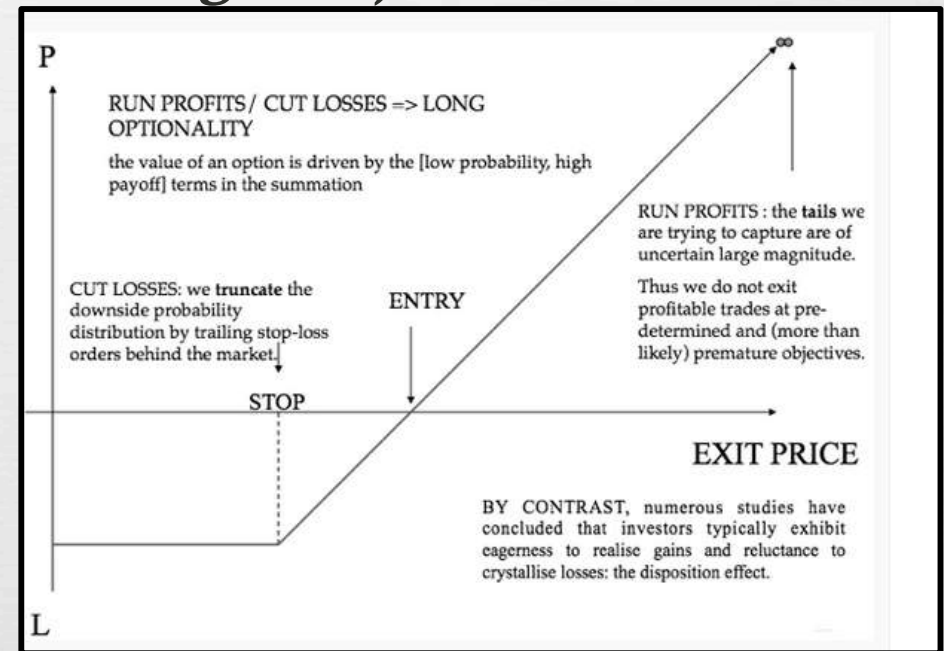
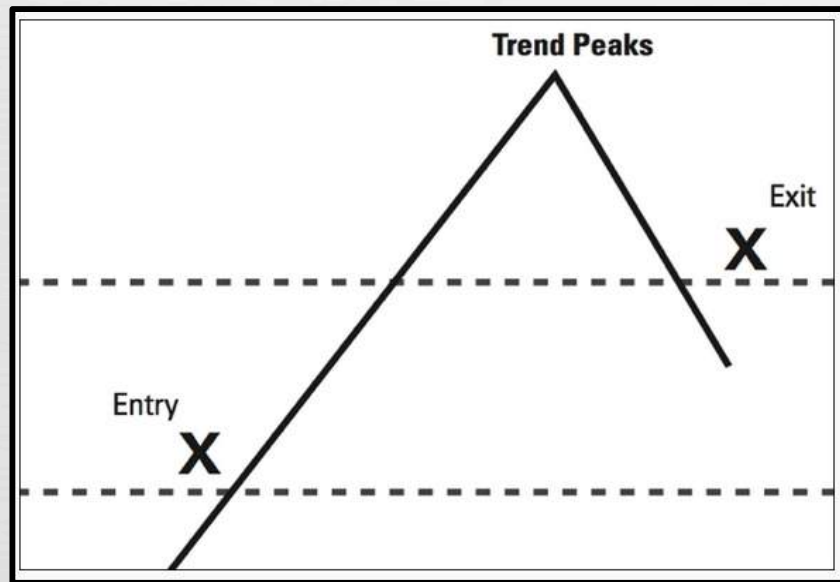
❖ Robust trading strategies

- ✓ Keep it simple,
- ✓ Robustness in trading or how to resist the test of time and market conditions whatever they may be,
- ✓ Price, the only fundamental variable?
- ✓ The other "simple" parameters: volumes, moving averages

VII-DEFINE YOUR EDGE...AND APPLY IT



❖ Trend following (source: trendfollowing.com)



VIII-*SWING TRADING STRATEGY ON US STOCKS*



∞ *MAIN price / volumes patterns*

Source: <https://bigcharts.marketwatch.com>



VIII-*SWING TRADING* STRATEGY ON US STOCKS



MAIN PRICE/VOLUMES PATTERNS

❖ THE CUP WITH HANDLE

The CUP WITH HANDLE

ONCY-DECEMBER 2019



The CUP WITH HANDLE

ENG-DECEMBER 2020



The CUP WITH HANDLE

DARE-FEBRUARY 2021



VIII-*SWING TRADING* STRATEGY ON US STOCKS



MAIN PRICE/VOLUMES PATTERNS

❖ THE FLAT BASE

FLATBASE

ASXC-JANUARY 2021



FLATBASE

ASXC-JANUARY 2021



VIII-*SWING TRADING* STRATEGY ON US STOCKS



MAIN PRICE/VOLUMES PATTERNS

❖ **The DOUBLE BOTTOM**

The DOUBLE BOTTOM TKAT-MARCH 2021



The DOUBLE BOTTOM

TKAT-MARCH 2021



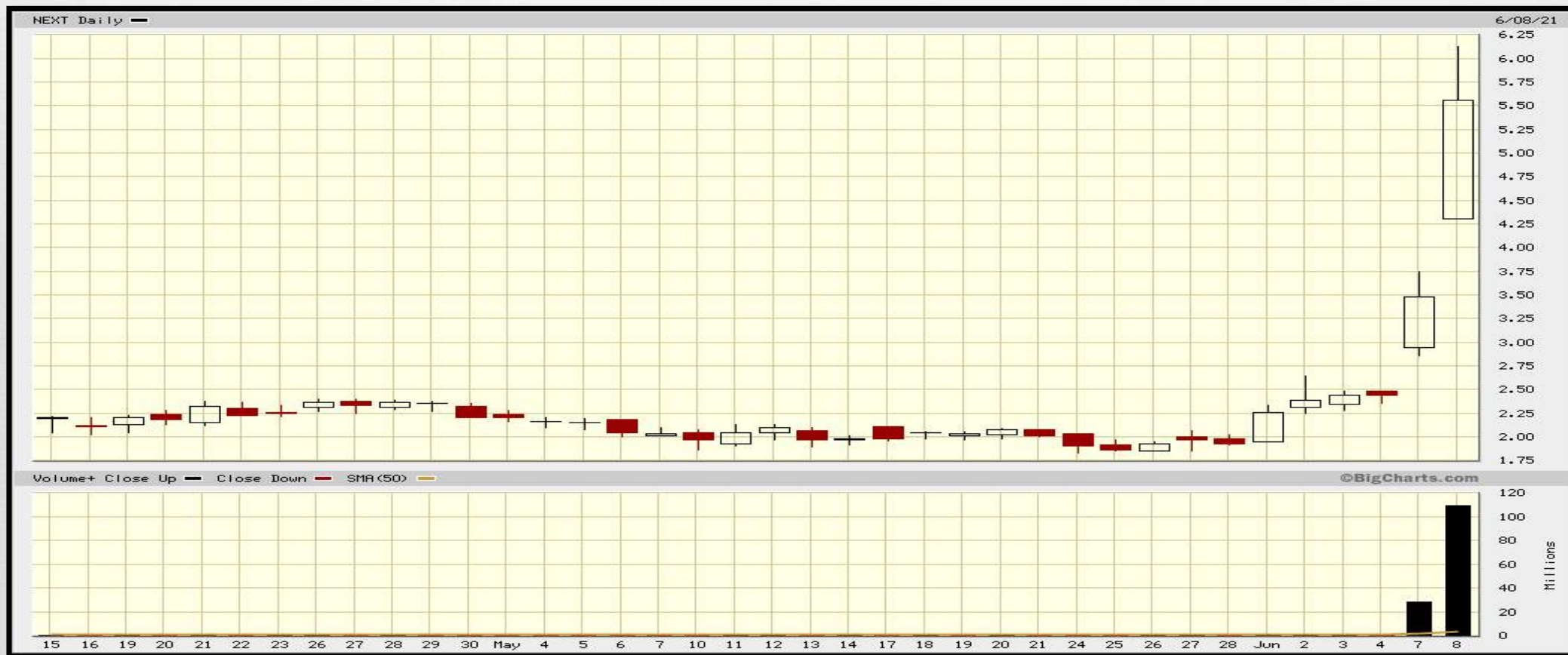
The DOUBLE BOTTOM

NEXT-JUNE 2021



The DOUBLE BOTTOM

NEXT-JUNE 2021



VIII-*SWING TRADING* STRATEGY ON US STOCKS

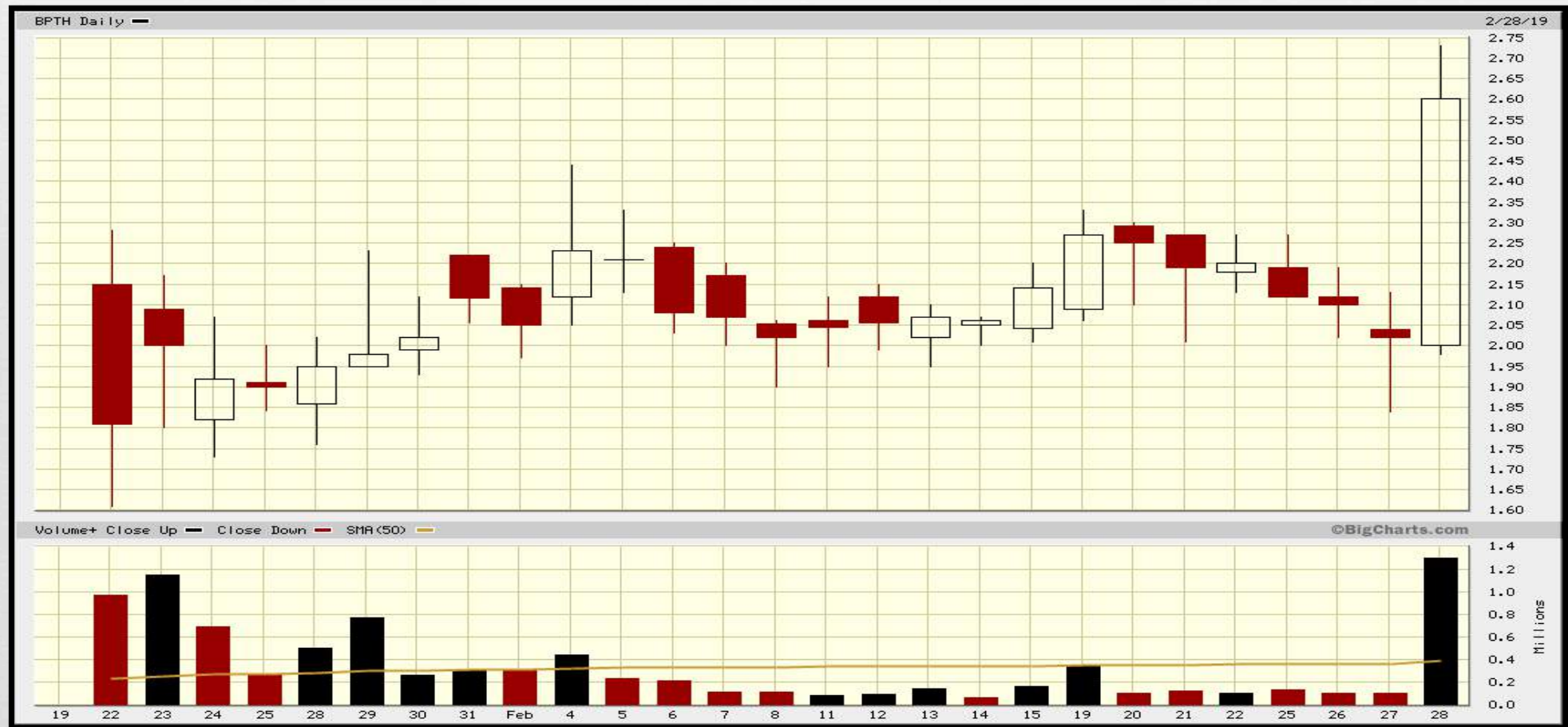


MAIN PRICE/VOLUMES PATTERNS

❖ **The FALLING WEDGE**

The FALLING WEDGE

BPTH-FÉVRIER 2019



The FALLING WEDGE

BPTH-FEBRUARY 2019



The FALLING WEDGE

KODK-JULY 2020



The FALLING WEGDE

KODK-JULY 2020



VIII-*SWING TRADING* STRATEGY ON US STOCKS



MAIN PRICE/VOLUMES PATTERNS

❖ **The CUP WITHOUT HANDLE**

The CUP WITHOUT HANDLE

LAIX-FEBRUARY 2021



LA CUP WITHOUT HANDLE

LAIX-FEBRUARY 2021



VIII-*SWING TRADING* STRATEGY ON US STOCKS



MAIN PRICE/VOLUMES PATTERNS

❖ The RESISTANCE LINE BREAKOUT

The RESISTANCE LINE BREAKOUT

LIZI-FEBRUARY 2021



TO LEARN MORE



◆ BIBLIOGRAPHIE (*non exhaustive*)

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- ✧ « **Vivre du trading** » de Alexander ELDER
- ✧ « **Comment gagner avec les actions** » de William, J O' NEIL
- ✧ « **Trade like a stock market wizard** » de Mark MINERVINI
- ✧ « **Le trading directionnel** » de Michael COVEL

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