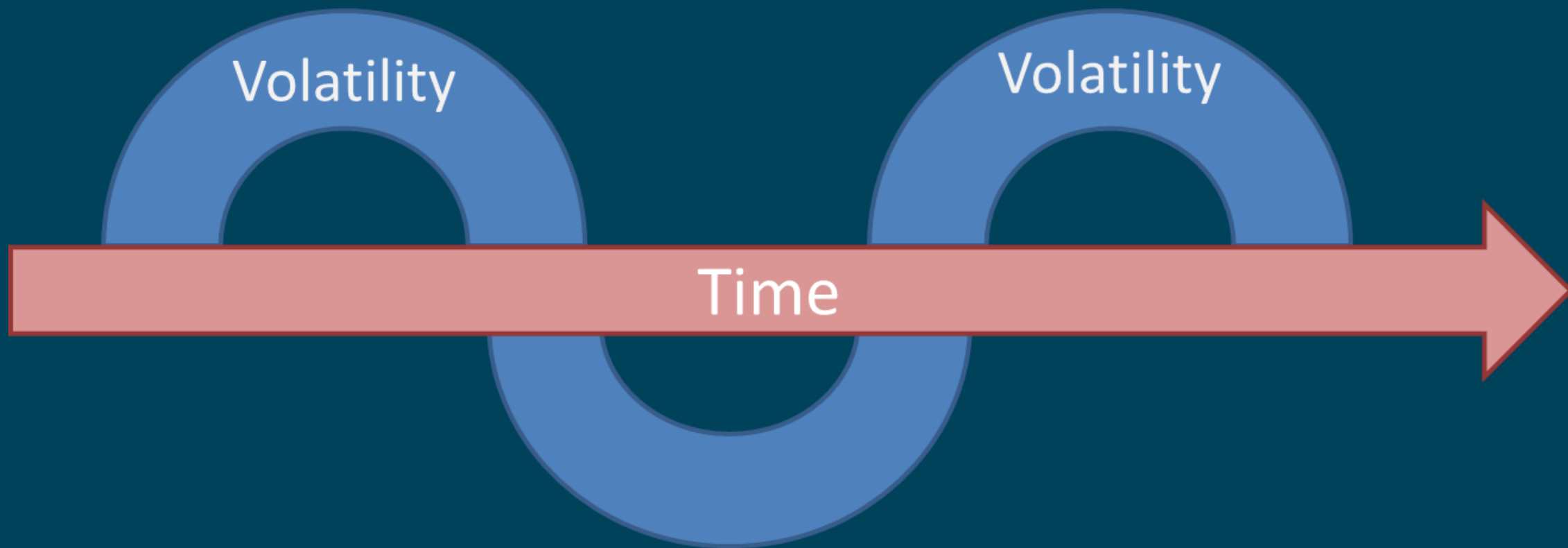




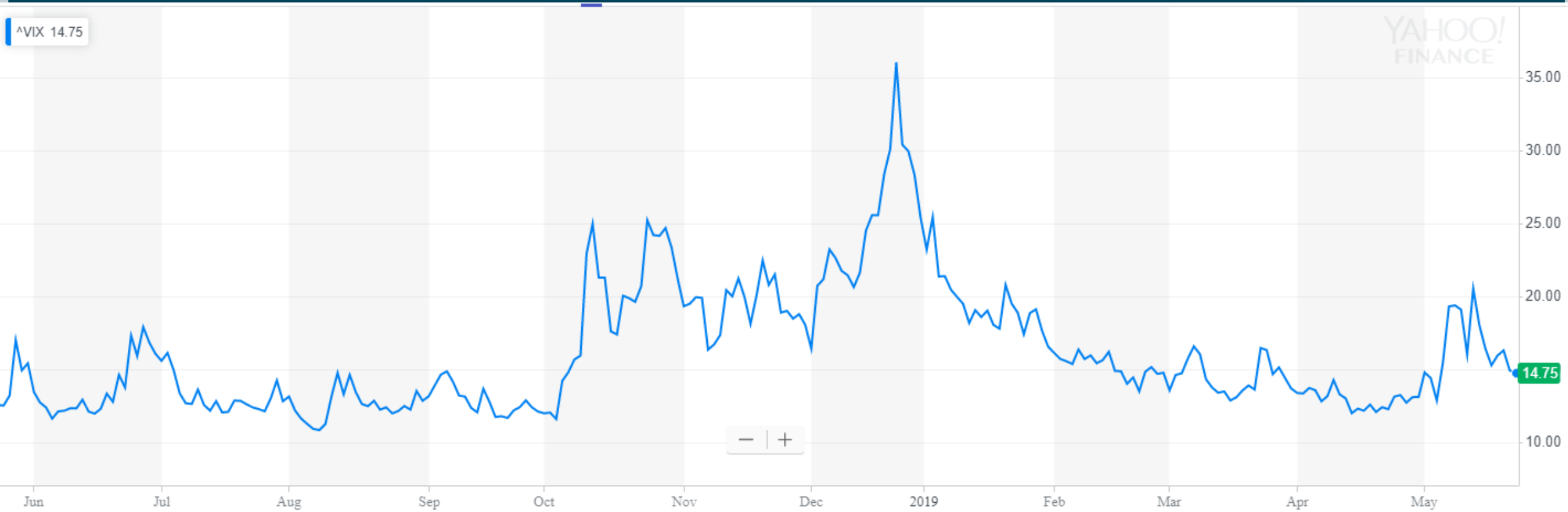
Trading The Idiot Zone

Trading Futures, Options on Futures, and retail off-exchange foreign currency transactions involves substantial risk of loss and is not suitable for all investors. You should carefully consider whether trading is suitable for you in light of your circumstances, knowledge, and financial resources. You may lose all or more of your initial investment. Opinions, market data, and recommendations are subject to change at any time. Past performance is not indicative of future results.

Trading is Difficult



Trading is Difficult



Volatility Assessment



Regular
Volatility



Extreme
Volatility

The Idiot Zone



OK to Trade?



Good
Conditions



Bad
Conditions

The Idiot Zone



Current Move

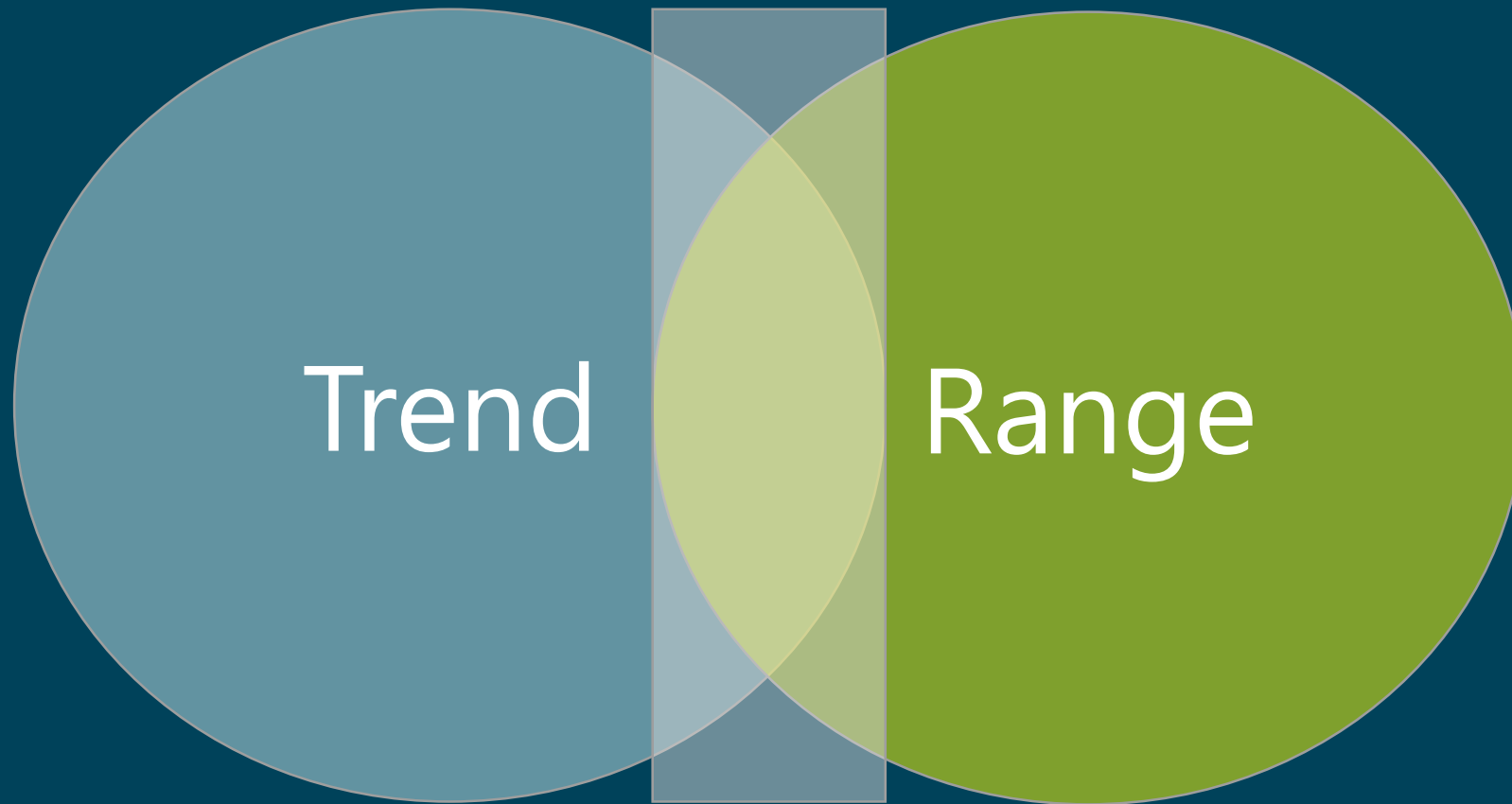


Trend



Range

The Idiot Zone



Why is Pete making this so complex?



- Trading education is generally focused on classifying activity
 - Day Types, Profile Shapes, Chart Types, Indicators, Market States
- Classifications, types – all finite and well defined
 - Unlike the market itself
- We try to create a box for everything so we can put any type of action inside that box
- We rarely see boxes/classifications of “unkown”, “none”, “overlap”, “stay away”
- Tendency is to put action in the closest/most recent classification
 - And beat yourself up for playing it wrong

Make room to lose money & stop

- If grey areas exist – then sometimes you will have to lose money to find them
 - 3 consecutive loss rules are good
 - Playing catch up is bad
 - Feeling good about losing 3 trades and stopping
- This is a cost of doing business
 - The opposing strategy could be leveraging early wins to trade more size
- You might stop after a winner too...

Once you get comfortable with this

- Winners can also tip your hand that all is not right....

Closed Trades											
Time	Acc Name	Acc Type	Symbol	Trade Type	Buy Sell	Qty	Avg Price	Net PnL	Run PnL	Note	Fill
09:46	[REDACTED]	29	Live	ES 06-19	Momo	Buy	5.00	2842.38	\$629.80	\$629.80	 
Comment: Momentum Trade, Scaled in, a little heat at first - really jumpy action & no clean moves - so ex...											
HashTag: exit-early, correlationweak, vol-extreme											

Don't be so 'rigid'



The individual who no longer has a rigid mind has found freedom. Life can be so easy. Refuse to let go and you are a person drowning; the more you struggle, the faster you sink.

— *George Ohsawa* —

AZ QUOTES

Scaling Increased Volatility

- Right now China Trade/Iran issues are driving the markets
- Big moves – but hard to nail a precise entry
 - e.g. absorption on pullback will often just blow through
- It makes more sense to enter AFTER a hold – which means larger stops
- Go in with small size, add as it moves your way
 - Manage average price
 - Be ready to cut moves against after early scales
 - You need to interact rather than look for someone to tell you exactly how frequently to scale

Scaling Pros & Cons

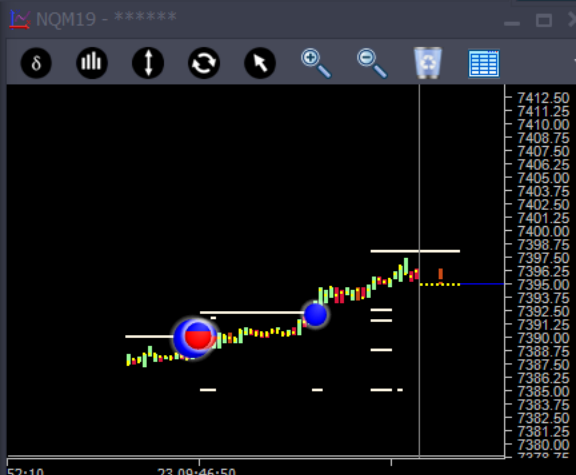
- Can be mathematically proven to be less efficient
- Can be mathematically proven to be more efficient
 - Ignore the noise – people start with a position and then come up with a formula to prove that position
- Is not for beginners
 - Scaling into losers is not smart
 - Does require you to be nimble
 - Needs you to get out of the way when it goes against you
- Is not for all trades/conditions
 - If it's a 3 tick target

Managing Average Price

- You obviously don't want your average price to follow the market too closely
 - Option 1: enter 2/3 units, then add at intervals of 1 unit
 - Option 2: enter in 1 unit, then add 1st scale at 8 ticks, then at 4 ticks
 - NOTE: This is NOT mathematically efficient in hindsight – it's just good for flexibility at the time
- There's most likely other ways to do this that I don't use
- This is where 'deer in the headlights' syndrome can hit – you scale in 1 or 2 times, & have market come back hard – you need to get out

Scaling Up & Down

- Scaling does not have to be just building a big position and scaling out of it
 - You can work a position – for example – buying as it goes your way, peeling some off when it comes back, scaling back in when it resumes up



2854.00					
2853.75					
2853.50					
2853.25					
2853.00					
2852.75					
2852.50					
2852.25					
2852.00					
2851.75					

1750.00	569	2854.00			
1700.00	448	2853.75			
1650.00	489	2853.50			
1600.00	863	2853.25			
1550.00	1025	2853.00			
1500.00	1174	2852.75			
1450.00	1594	2852.50			
1400.00	1348	2852.25			
1350.00	1347	2852.00			
1300.00	1136	2851.75			
1250.00	548	2851.50			
1200.00	506	2851.25			
1150.00	454	2851.00			
4S	1015	2850.75			
1050.00	802	2850.50			
1000.00	282	2850.25			
950.00	321	2850.00			
4S	187	2849.75	0		
850.00	277	2849.50	0		
800.00	304	2849.25	0		
750.00	517	2849.00	2	9	219
700.00	485	2848.75	18	82	28
650.00	1240	2848.50	-20	57	3
600.00	1259	2848.25	-3	71	30
550.00	958	2848.00	5	77	77
500.00	1093	2847.75	0	75	3
450.00	1942	2847.50	-1	79	64
400.00	1415	2847.25		70	1
350.00	1267	2847.00		86	
300.00	2006	2846.75		65	
250.00	1799	2846.50		59	
200.00	895	2846.25		50	
150.00	1123	2846.00		689	
100.00	856	2845.75			
50.00	1015	2845.50			
0.00	1442	2845.25			
-50.00	3405	2845.00			
-100.00	2063	2844.75			
-150.00	2838	2844.50			
-200.00	1534	2844.25			
-250.00	2125	2844.00			
-300.00	742	2843.75			
-350.00	132	2843.50			
-400.00		2843.25			
-450.00		2843.00			
-500.00		2842.75			
-550.00		2842.50			
-600.00		2842.25			
-650.00		2842.00			
-700.00		2841.75			
-750.00		2841.50			
-800.00		2841.25			
-850.00		2841.00			
-900.00		2840.75			
-950.00		2840.50			
-1000.00		2840.25			

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Depth & Sales Settings

Parameters Appearance Shortcut Keys Trading Power Meters JSS Load Levels Auction Vista

Font: Microsoft Sans Serif, 11, Bold

Bid Depth	Current At Bid	Current At Ask	Ask Depth	Ask Snapshot	Total At Bid	Total At Ask
Misc	Trade Window	Alert	Trade Column	Volume Profile	Price	Bid Snapshot

Background Color: ff002b36 Show PnL Include Closed PnL

Highlight Color: ff586e75

Buy Order Background: ff268bd2

Buy Order Foreground: fff2f2f2

Sell Order Background: ffd3322f

Sell Order Foreground: fff2f2f2

In Profit Background: ff002b36

In Profit Foreground: ff268bd2

Loss Background: ff002b36

Loss Foreground: ffd3322f

Break-even Background: ff002b36

Break-even Foreground: fff2f2f0

52:10 23 09:46:50

ES 06-19 - *****



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49.25	35
49.00	18
49.00	70
48.75	36
48.75	11
48.50	11
48.50	14



QOM – Quality of Move

- Scaling in shouldn't just be a mechanical process
 - Has it popped yet?
 - Is it wiggling?
 - Are Bidders supporting a move up?
 - Have we stalled?

Expectations – Lumpy Returns

Time	Acc Name	Acc Type	Symbol	Trade Type	Buy Sell	Qty	Avg Price	Net PnL	Run PnL	Note	Fill
12:42		Live	ES 06-19	Momo	Buy	6.00	2868.75	\$1871.72	\$1871.72		
<p>Comment: #vol-extreme #exit-perfect #scale-in</p> <p>HashTag: vol-extreme, exit-perfect, scale-in</p>											
12:43		Live	ES 06-19	Momo	Sell	1.00	2870.00	\$108.46	\$1980.18		
<p>Comment: #vol-extreme #pln-nofollow #exit-perfect #scale-in</p> <p>HashTag: vol-extreme, pln-nofollow, exit-perfect, scale-in</p>											
12:50		Live	ES 06-19	Momo	Buy	1.00	2864.75	-\$41.54	\$1938.64		
<p>Comment: #exit-late #vol-extreme #scale-in</p> <p>HashTag: exit-late, vol-extreme, scale-in</p>											
13:06	N	Live	ES 06-19	Momo	Buy	3.00	2868.50	\$196.34	\$2134.98		
<p>Comment: #vol-extreme #exit-perfect #scale-in</p> <p>HashTag: vol-extreme, exit-perfect, scale-in</p>											
13:49	N	Live	ES 06-19	Momo	Buy	3.00	2870.88	\$375.38	\$2510.36		
<p>Comment: #vol-extreme #scale-in #exit-perfect</p> <p>HashTag: vol-extreme, scale-in, exit-perfect</p>											

12:33	NT	Live	ES 06-19	Momo	Buy	5.00	2854.00	\$1259.22	\$1284.98		
<p>Comment: #vol-extreme #pln-follow #exit-perfect #scale-in</p> <p>HashTag: vol-extreme, pln-follow, exit-perfect, scale-in</p>											

Buy Sell	Qty	Avg Price	Net PnL	Run PnL	Note	Fill
Buy	2.00	2837.13	-\$245.58	-\$245.58		
Buy	1.00	2835.75	-\$54.04	-\$299.62		
Sell	3.00	2834.00	\$325.38	\$25.76		

Questions?