



# Investor Centre

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## Day Traders Blog June 2017

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### August

August is often a difficult month to trade with spasmodic volatility changes and a divergence with the S&P during this period due to rising commodity prices that adversely affects the US market but powers our market. However, factoring this in with volatility behaviour, August is normally a good month for Open Trades, Informed Drift's and Midday Straddles. Daily Chases perform exceptionally in an increased volatility period where the market has gapped or over-reacted but otherwise has poor results for August.

August in the last seven-year cycle is typically flat with volatile gaps that historically retrace quickly (within 4 days). Only 1 gap was not retraced in the last seven years compared to 15 August gaps that were retraced within a few days. August traditionally gaps at least twice in the month.

August traditionally ranges 140 pts from the beginning to end of August except for 2015 (Flash Crashes).

August almost always goes down in the first week in the last 15 years. The 2<sup>nd</sup> and 3<sup>rd</sup> week of August commencing - 14<sup>th</sup> this year are traditionally up weeks, driven by rising commodity prices. This period traditionally lasts from 12<sup>th</sup> to 22<sup>nd</sup> of August. Base commodities tend to grow into September and Oil normally has a good run in the August-October 3 month period.

The first week of September which includes the week starting 28<sup>th</sup> August is almost always an up week for the Australian market and tends to mark the end of the S&P divergence period after that period.

*Market stats extracted from Day Trading Stats 2010 to 2017.*

*Seasonality modelling extracted from Trading Tigers M7 Models 2000-2017.*

### The 3 Failures of Day Trading

1) The Inability to Execute the Trades.

Day Trading only really requires 10-20 minutes a day and potentially provides a full time income from a small capital start-up. However, it does require you to be FREE and FOCUSED at 9.49am-9.51am, 10.29am through 10.31am, 10.59am through 11.01 am, 11.59am through 12.01pm, 1.29pm through 1.31pm, 2.29 pm through 2.31 pm, 2.59pm through 3.01 pm. 3.59pm through 4.05pm. A total of 20 minutes per day to execute the trades IF all trades for the day are deployed (1 day in 5 on average). The market is unforgiving about missing the timing by even a minute.

Analysis of our Day trading patterns indicates 85% of Day Traders attend the Open trade and or the Daily Chase making them the most attended trades.

If the Open trade wins 69% of traders attend the mid-morning trades 10.30 attack and/or Informed Drift. However, if the Open trade fails 56% of traders attend the mid-morning trades. This is indicative of day traders being totally dependent on psychology. Yet a failure of the Open trade increases the likelihood of the Informed Drift success by 5.5% (annually).

## 2) Poor Positioning of Trades

The margin of error on a 14/14 Trade is 4 pts. This means that you need to be within 4 pts of the target price to be within the business model profile. The margin of error on a 10/10 Trade is 2 pts. Whilst it is hard to quantify here, we believe that about 40% of trades are placed outside the margin of error for a trade. This dramatically effects the business model if the 4 pts or more is varied against the limit. This occurs very commonly for traders at the OPEN and the Midday Straddle.

The Open is a skill set and it has been hampered with slow fills from City Index and the larger trade sizes (over 80 contracts) with City Index. Now the MOBILE DEVICE apps and internet platform will NOT allow you to place orders out of market. We do all our Trading School trades on the AT Pro system that is downloaded on to the PC and is not compatible with Mac interfaces. If you are running a Mac with Windows you still do not have the mouse click functionality of the AT PRO system in a genuine windows environment.

The Open estimate given in the TWB is very useful to place an order with no stop or limit prior to market open at 9.50am. If the market passes through the order to open – City Index will fill you at open (mostly). The other day I had two such orders on 2 accounts 1 on the DT account for 25 contracts that filled at open and 1 at 100 contracts that filled at 2 pts better than open because it was delayed slightly (over 80 contracts).

If the market gaps substantially on open then you can place an order quickly at 9.50am but this may result in you being more than 4 pts from the open price. It is often better to place an order at the Open and more often than not the market will retrace back to open towards 10.00am. This is not very useful on days where we come out prior to 10.00am but quite often the retracement comes in the 10.00-10.10 period and can be useful.

The Double or Nothing principle: if the trade comes to fruition in the first 7 minutes from market opens and then retraces by 10.10 it can be useful to do the open trade again. If you have won on the first trade you will get the double or nothing on the second trade and the averages are in your favour for most months of the year.

## 3) Bad Timing

We estimate that 50% of traders miss the trade because of undisciplined timing. You have every intention of doing the ID at 11.00am but you don't set an alarm on your SMART PHONE and you remember at 11.05 and try to catch the trade. We have a number of traders who forget to set ambushes at 9.50am and then see the market trade through the ambush point and then take the trade. Doing this from a better position than the ambush has NO DOWNSIDE. Doing this from a worse position than the ambush is not viable. I spoke to a trader the other day who had missed the ambush and saw it winning and so went 14 pts below the ambush on a short trade. This is well outside the business model and has to be considered a discretionary trade.

Solutions to these 3 problems

### 1) Discipline Discipline Discipline

The use of a Smart phone for timing is critical. I have my trade times all set in my phone and tick them off every day. Apart from the Open trade we can execute on a mobile device with little issue. The Open trade is best executed on the AT Pro platform loaded on your PC with ONE CLICK Trading selected. Even if I am trading with more than 25 contracts I will often enter lots of 25 contracts looking for better than open positions – especially if the market has gapped in the direction trade by more than 4 pts from close 7.00am. Speaking to a trader the other day he was successfully deploying 30 contracts in 3 lots of 10 where he would get 2 lots of 10 at or very near open and seek a better position for the 3<sup>rd</sup> 10. It is impossible to model the outcome of this strategy but the trader maintained that he was able to mitigate losses on low volatility markets whilst getting full trades (30 contracts) across the line in high volatility situations (using the one click trade function on the AT Pro system).

## July Performance

The Day Trading Results are now available from the Investor Centre Web site under the Day Trading Menu.

<http://www.investorcentre.com.au/dtresults.php?id=25>

July

Open Trades returned to us in force with a 67% accuracy after our May, June, July slump. Total for the month was \$2825.00.

Fades changed shape subtly in July with the seasonal tendency to Fade late for defensive positions while we diverge from the US market. This was highly effective at 78%, generating \$1650 for the account. Close out of the late Fade did require some skill in interpreting the Express but it was mostly closed out at 4.00pm.

Daily Chases statistically perform poorly in July with limited attempts and negative results for July in 2014, 2015, & 2016. Despite only attempting 4 – all 4 lost with 3 full stop-outs resulting in a loss of -\$2,550 literally erasing the Open trade profit. August has a much happier outcome for Daily Chases and we are looking forward to a better outcome for August.

The small return is still 17.5% return for the month and has the account moving in the right direction again after our harsh June results.

## September Courses

After an education break for the last few months, courses will resume in September.

### Trading Tigers:

Trading Tigers is returning to form and is a legitimate alternative to Day Trading – making only 20-30 trades in a year with a target of 100% return. The S.G.C. broker assisted trading will be available to current Tigers members.

### Day Trading Course:

This is great as a refresher course and the minimum requirement to subscribe to the TWB. Completing this course makes you eligible for the S.G.C. broker assisted trading.

### Day Trading School:

The week long course is still the recommended course for clients wanting to be professional traders.

### Introduction to Day Trading.

For those who have not experienced trading in a derivatives market – this is an ideal way to get started. The course allows you to get a taste for what is involved in Day Trading as a career. It covers 3 trades that can be deployed with a high statistical outcome on any standard day.

### 2017/2018 Forecasts

Join Jody Ellis as he discusses his market predictions followed by a catch up with drinks and canapés.

Institutional Insurance is at a Record high.

Derivatives Market Makers are increasing Margins in anticipation of a sudden increase in volatility?

An **urgent Seminar** has been prepared to address some alarming factors that are becoming visible in our market. These factors will affect us for the last part of 2017 and into 2018. Our market has been trapped in a sideways movement from January this year and the clock is ticking.

We will take a look at the seasonal nature of Gold and its effect on the \$AUD. We look at what happens when the \$AUD goes through \$0.80 USD and what factors will influence investment in our market. This could even carry over to the property market and the potential for a Real Estate depreciation/ revaluation across the East coast.

We look at the conservative behaviour of institutions and their sudden and dramatic increase in insurance levels since April. We look at how to read daily insurance and what it means for short term trading and long-term investing in our market.