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The Top 5 Lessons For Trading Anything

By *Tyler Durden*
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by Tyler Durden [1]
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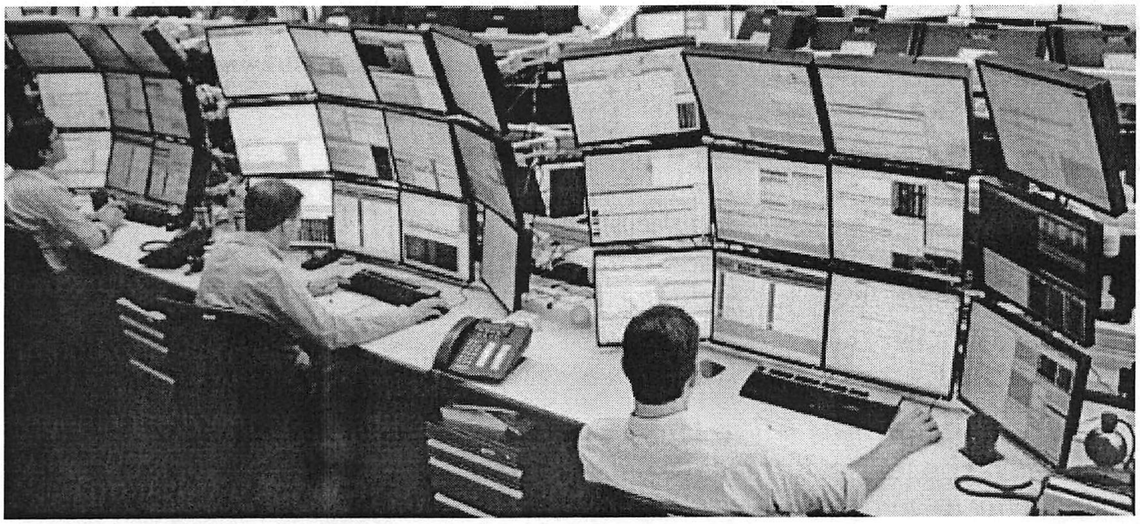
Authored by Nicholas Colas via DataTrekResearch, [4]

"How did you feel when you bought that position?"

An odd question, perhaps, but I heard it every week during my first year at SAC Capital in the late 1990s. My inquisitor was Ari Kiev, who was the in-house psychologist there. He met with every trader in the room on a regular basis. For new guys like me, it was the toughest hour of the week.

We'd go down a list of every position I had traded and discuss each one in minute detail. What was my logic? What catalysts did I expect? Who had I spoken to?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But there was one question I hated the most...

"Why didn't you get bigger?"

That question, in a nutshell, is the essence of trading. You make most of your gains from a handful of names where you owned enough to really generate an outsized return. Put on 20 ideas a week, and 1-2 really work. The trick is to identify those early enough and then buy or short as much as you can stomach. The rest of your ideas usually just net out to zero.

I bring all this up because I have noticed something strange in my conversations about bitcoin with many savvy Wall Street types: they don't know/remember many old-school rules of trading. Perhaps the last +5 years of low volatility US equity markets have made those skills rusty. Or maybe they think crypto currencies are different from equities – more volatile, different fundamentals, whatever…

Fortunately for this discussion, I have the memory of an old embittered elephant – I remember everything, including plenty of things I should probably forget in order to live a happier life. Bad for me, but good for you. Because I remember those sessions with Ari like they were yesterday.

Here's what I know about trading anything, from bitcoin to stocks and everything in between:

> ***#1: Respect the trend.*** *No one is bigger than the market. Early is the same thing as wrong. Don't short new highs or buy new lows. Don't buy or sell based purely on valuation.*
>
> ***Sorry for all the clichés, but they are all 100% correct.*** *Trading means admitting you aren't the smartest person in the market. Someone always knows more than you, and chances are good they are acting on knowledge you don't have.*
>
> ***This is especially true with crypto currencies.*** *They are – and will continue to be – extremely leaky in terms of information flow. You will never, ever, be the first to know anything.*
>
> ***#2: Plan your trade, then trade your plan.*** *One thing I learned at SAC is to document everything I thought was important prior to entering a trade. Catalysts – events like earnings announcements, management presentations, trade shows – were on the list in minute detail. So were macro events that might move the stock, as well as market events like rebalances and options expiration.*
>
> ***Case in point: the bitcoin futures set to launch next week****. I've heard plenty of people say these will be beneficial to bitcoin's price. And with bitcoin ramping to new highs today, that seems to be right. But will that trend continue once the futures start to trade? That is an entirely different calculus. And I doubt anyone really knows what will happen.*
>
> ***#3: Set targets, stops, and time frames and write them all down before you buy your first share.*** *This sounds simple, but the process is extremely helpful. You*

pair up your expected catalysts with price targets and time frames.

Remember the "Why didn't you get bigger?" question… This is where it makes its appearance. You won't always know how "right" or "wrong" you are until events start to unfold. But sometimes you really have it right, and that's when you add to a position instead of just taking profits and moving on. You were right about something, but didn't see just how powerful your observation was.

***Writing everything down before you start eliminates some of the selective memory bias we all have, and keeps today's "You" honest relative to "you" before you entered the trade.** Those are two different people, and they need to be able to communicate honestly with each other.*

***#4: Don't ever turn a trade into an investment.** In the words of Bob Dylan, "If something's not right, it's wrong." Even for a small position, if it is a loser you sell it. We're not managing P&L here; we're managing your time. Once you sell something you will spend no further time worrying about it. You can make more money – you can't make more time.*

***#5: Know yourself.** Everyone has different risk tolerances, so no two trading styles are exactly the same. Some traders can carry 10 positions and maxed out leverage and happily live with the resultant volatility. Others (myself included), like to limit drawdowns and always have gas in the tank in the form of unused capital.*

In the end, that last point should inform all the others. Trading and investing are both manifestations of how we make decisions. That process is a function of our personality, risk tolerance and experience.

So when somebody asks me if they should trade/own bitcoin, my first answer back is "I don't know… Tell me about yourself."

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