Bag of tricks, bag of tricks … what’s in the Factor’s bag of tricks?

I have traded for more years than many of you have been on this planet. Over a span covering five decades and seven different U.S. presidents I have tried many different approaches to market analysis and trading techniques. A number of these approaches and techniques were quickly scrapped as either ineffective or too complicated to execute. A number of these approaches and techniques worked but are not currently being employed in my trading operations. These approaches and techniques remain in the Factor’s bag of tricks. In fact, I think I can state with a fair amount of certainty that I could completely scrap what I do now and build a profitable trading operation out of techniques residing in the waiting area. I believe this is probably true of most people who have made their living from trading. Full-time traders are seldom one-trick ponies. While professional traders all have their own style, they do have a few things in common – they think out of the box, are dedicated, detail-oriented, disciplined and view themselves more as risk managers than as traders.

Some of the approaches and techniques currently in retirement deal with such things as:

- Anticipatory trading – building a position during the anticipated late stages of pattern development prior to pattern completion
- Sizing variations based on the anticipated probability a pattern will be successful
- Use of Commitment of Traders data as trading filters
- Use of moving averages to manage a portion of certain trades
- Pyramiding strategies of different variations
- Use of selected indicators to either filter trades or to expand leverage
- Analyzing inter-delivery spreads to increase trading leverage in selected trades
- Use of point and figure charting techniques
- Use of seasonal tendencies as an overlay

This list could go on for at least another page, but you get the idea.

I am bringing back one of the techniques in retirement – the use of moving averages to manage a portion of certain trades. Why am I resurrecting the use of moving averages to manage certain trades? To be truthful, I should have done so nine months ago. The futures markets entered a period of prolonged choppiness in late 2009, as shown on the graph on the next page. This period of choppiness ended in late summer 2014. It is my belief that the trending characteristic of futures markets is the new norm, although perhaps not to the same extent as in years prior to 2009. Of course, shorter periods of choppiness will continue to exit.

I take the modification of my trading plan as very serious stuff and do not treat change lightly. But, there is a time and place for all variations of a trading plan. For example, the Quick Profit Unit was my response to the period of choppiness from 2009 through 2014. While this tactic has left a substantial sum of money on the table during the past nine months, it kept me sane from 2009 through mid-2014. The Quick Profit Unit will continue to play the role of moderating asset volatility in my proprietary trading.
Using a moving average protocol to manage approximately 35% of the risk exposure in Factor’s proprietary trading model does create a dilemma for me with respect to the Factor service. The Factor’s proprietary account incorporates multiple time frames and tactical variations. Factor’s execution and trade management routines (in addition to performance and metric tracking) have evolved over the years. I understand the nuances of my trading – but I do not want to make following the Factor a difficult task for members of this community.

In effect, the Factor’s proprietary model now includes four different time frames/tactics:

- Holding Unit (patterns at least 13 to 16 weeks in duration) – trades are managed with a moving average system
- Position Unit (patterns at least 11 to 13 weeks in duration) – protective stop is advanced slowly, profits are taken at a target
- Swing Unit (patterns at least six or so weeks in duration) – protective stops are advanced routinely, profits are taken at a target
- Quick Profit Unit (traded in conjunction with the Position Unit) – profits are taken quickly, protective stops are moved aggressively

I will not subject members of the Factor service to this much complication. For now the Factor Tracking Account will continue as has been the case as I think through ways to simplify performance reporting. Simplification will be my goal. Please grant me and Factor staff grace while we work out the details of simplifying how we comment on the markets while at the same time we are adding complexity to our actual proprietary trading.

plb

April 2015