Learning from trades that do not work 06/10/2015

I am assuming that most of you have subscribed to services that went out of their way to crow about their big winners.

- **XYZ** — up 74% in 6 weeks
- **ZYX** — up 17% in 3 days
- *Etc., etc., etc.*

If I ever start honking my own horn like this, please lock me up and throw away the key.

My goal is to share with you the good, the bad and the ugly learned by making every mistake in the book over a time span covering five different decades. There is as much to learn, if not more, by looking at trades that did not perform as expected.

Trading is a marathon, not a sprint. A significant trading account is built when **reasonable consistency meets up with longevity**. The payoff comes by compounding reasonable rates-of-return over time, avoiding big drawdowns and excessive capital volatility along the way. In many respects, a successful multi-decade trading career is about survival.

Bringing to your attention trades that did not work out can provide you with more insight than thumping on my chest about trades that were highly successful.

With the above in mind, following are post mortems on a string of recent trades. It is NOT my intent to suggest that my trade management rules are the gold standard. They work for me, and that is what counts. It is imperative for you to develop your own trade management guidelines -- and to follow them. What your rules are is less important than that they exist and are followed.

**Mexican Peso**

I shorted the Peso on May 26, adding on the Jun 5 breakout. The orthodox LDR (see "dairy," pgs. 42-44) was above the Jun 5 high at 6437. However, as I point out in "Diary," when the range of the breakout day is mostly outside the boundary, I will use the last day within the boundary as a modified LDR (pg. 43). Thus, my stops were above the June 4 high at 6451. I had high hopes for the trade, especially in view of the weekly graph (not shown). But, the trade did not work. I will monitor the market for another opportunity.
USD/JPY

In the Jun 7 Update I stated that the 3-day trailing stop was in force because the cross had reached 70% of its expected move. The 3-day rule has been triggered -- see chart below. Might the market simply be retesting the upper boundary of its major ascending triangle at 121.70? I think this is a real possibility. So, I would have an interest in re-entering the long side if I see something that suggests a retest will hold. Otherwise, there will always be another well-developed pattern in another market on another day.
High day Jun 5  
Set up day Jun 9  
123.858  
Trigger Jun 10 under Jun 9 low
USD/SGD

The weekly and monthly graphs (not shown) suggest that the dominant longer-term trend in this cross is up. I was long for six months during the Sep 2014 through Mar 2015 advance. I viewed the Mar 2015 through May 2015 decline as a retest of underlying support. I was looking for an excuse to be long. I bought on May 25 based on the completion of a small double bottom. While mainly focused on patterns at least 12 or so weeks in duration, I will use shorter-duration patterns when they are supportive of a significant longer-term theme. The 3-day trailing stop rule was triggered today. I have no idea what might cause me to get long again.
Hang Seng Index

The decline today completed a top pattern on the daily chart -- stopping me out of my existing 50% long position. I believe that the Hang Seng is in a big bull trend, but I have no desire to fight the tape. Price is king.
Summary

All of these trades share some common denominators:

1 I strongly believed in every one of these trades under the theme of "strong opinions, weakly held"
2 All of these trades were based on legitimate chart configurations
3 I followed my trade management rules to exit each trade
4 I walk away from these trades in peace without the feeling that these markets owe me something. Markets never you us anything!!!!
5 I am not introspectively second-guessing my trading plan just because some trades did not work out

In short, I followed my trading plan in these markets, and that is all I can do.
I have control over the orders I place, not over the outcome of trades. This is not an concept that is accepted naturally by novice and aspiring traders. This is a mind-set must be cultivated over time.

Other items

If you have read this email to this point, allow me to bring a couple of charts to your attention.

**CNX Nifty Index SGX** -- The chart is putting in a possible WBB up day after testing support. I am monitoring this market closely. I was hoping the chart would spring a bear trap -- it still may. There are two ways to look at this chart -- as a potential sale or as a low-risk buy.

![CNX Nifty Index Chart](image)

**S&Ps** -- There is something big afoot in the U.S. stock market, but I am not sure what it is. The Dow Utilities and Transports are negative. The S&Ps are experiencing a WBB up day following a doji day on Tuesday. One day (or week, or month) does not make a signal for me, but I must say the action as of this moment is impressive.
plb

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