December 6, 2023

Managing the Factor Position Unit

One of the burdens I feel obligated to meet during the next 18 months is to clarify and standardize the rules developed over almost five decades for entering and managing trades.

In recent years the Factor Prop Account has settled into "tranche" trading. Trades entered into (usually on stop orders) are split into two tranches.
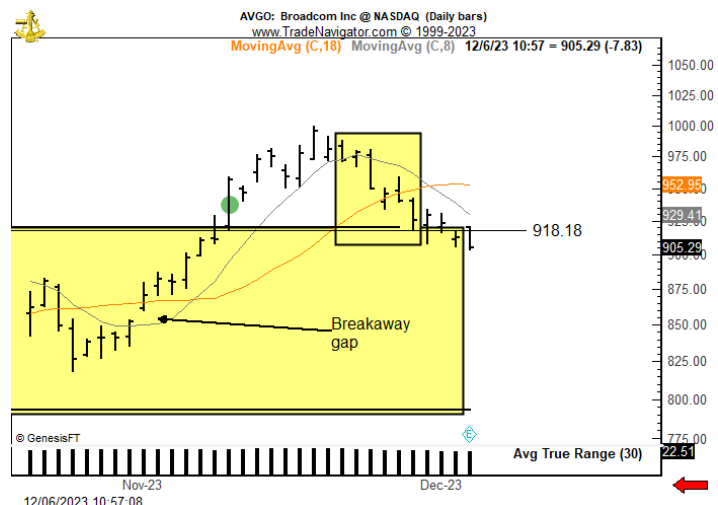
Trading tranche
A. Initial protective stop is based on Last Day Rule (LDR) or even an intraday bar of the breakout day.
B. Stop protection advanced to breakeven as soon as feasible.
C. Stops can be advanced in the direction of the trade using minor correction lows/highs.
D. If multiple targets are established, profits on Trading tranche are taken at the nearest target.
E. The 3-day trailing stop rule is applied immediately.

Position tranche
A. Initial protective stop is based on low (long trade) or high (short trade) of the last FULL day within a pattern prior to the breakout.
B. Stop is advanced to the LDR as quickly as feasible.
C. The 3-day trailing stop rule is used if the triggering of the rule would result in trading loss.
D. If multiple targets are established, profits on Position tranche are taken at the furthest established target (V1). As alternative (V2), the Position tranche is held until either E (below) or a 3-day trailing rule is triggered.
E. If a profitable Position tranche has not yet reached its target the protective stop is based on the 8-day moving average. More specifically.
   1. 8-DMA trend turns against the direction of the trade.
   2. A full bar forms below (long) or above (short) the 8 DMA with additional follow through against the trade.

It is important to note that the above rules can be applied to daily or weekly bars.

Let's look at a recent trade in AVGO as a case study. Factor bought AVGO on Nov 10 at 931.12. The 8 DMA had a downtick on Nov 27. Nov 27 was also the set-up day for the 3DTSR (having closed below the low of the high day on Nov 20. The Trading tranche was stopped on Nov 28 when the Nov 27 low was penetrated. Nov 28 was the first full bar below the 8 DMA. The Position tranche was stopped on Nov 30 when the Nov 28 low as penetrated.

AVGO: Broadcom Inc @ NASDAQ (Daily bars)
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MovingAvg (C,18) MovingAvg (C,8) 12/6/23 10:57 = 905.29 (-7.83)

Next let's review a recent long trade in the Topix index. The 8 DMA down ticked on Nov 29, which also served as a full day below the 8 DMA and a set-up day for the 3DTSR. I over-rode the 3DTSR on Nov 30 and stayed with the entire trade, moving my stop to below the Nov 30 low. I was stopped out of both tranches on Dec 4.
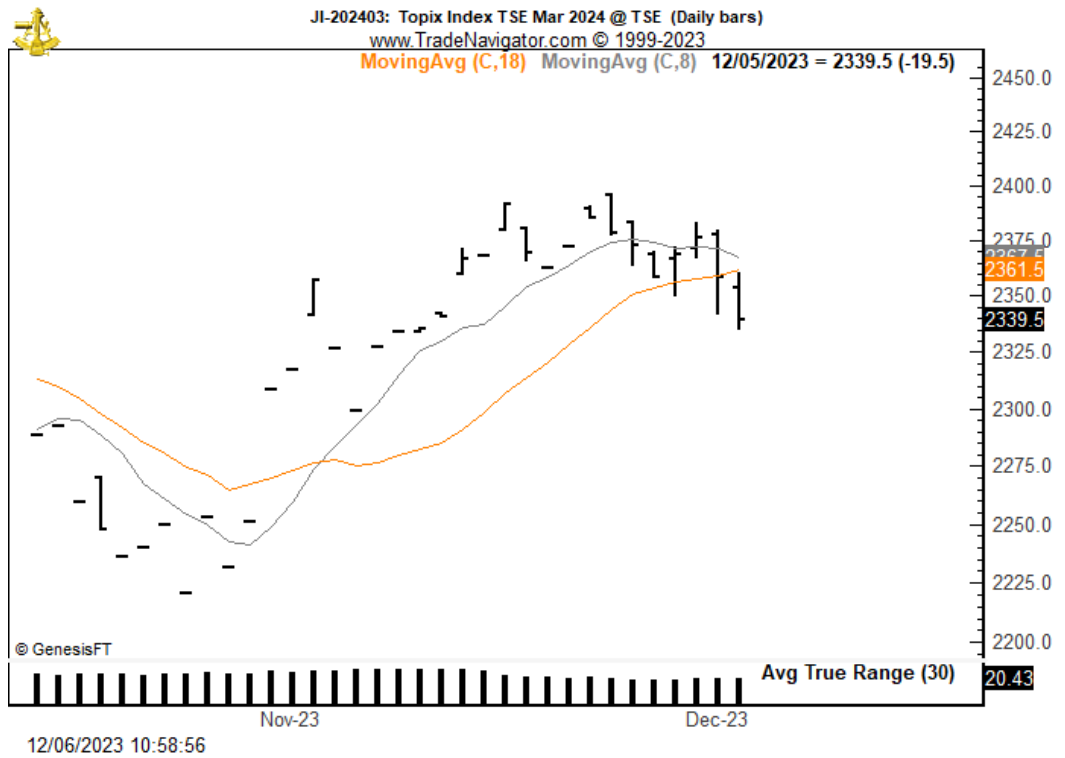
Finally, let's look at a current trade in the Canadian Dollars (long Mar at .7344. The 8 DMA remains up – no problem here, although I will be alert for a downtick. Price has moved more than 70% to the target, so the 3DTSR is now in effect with the high day being Dec 4 and the set-up day now being Dec 5.
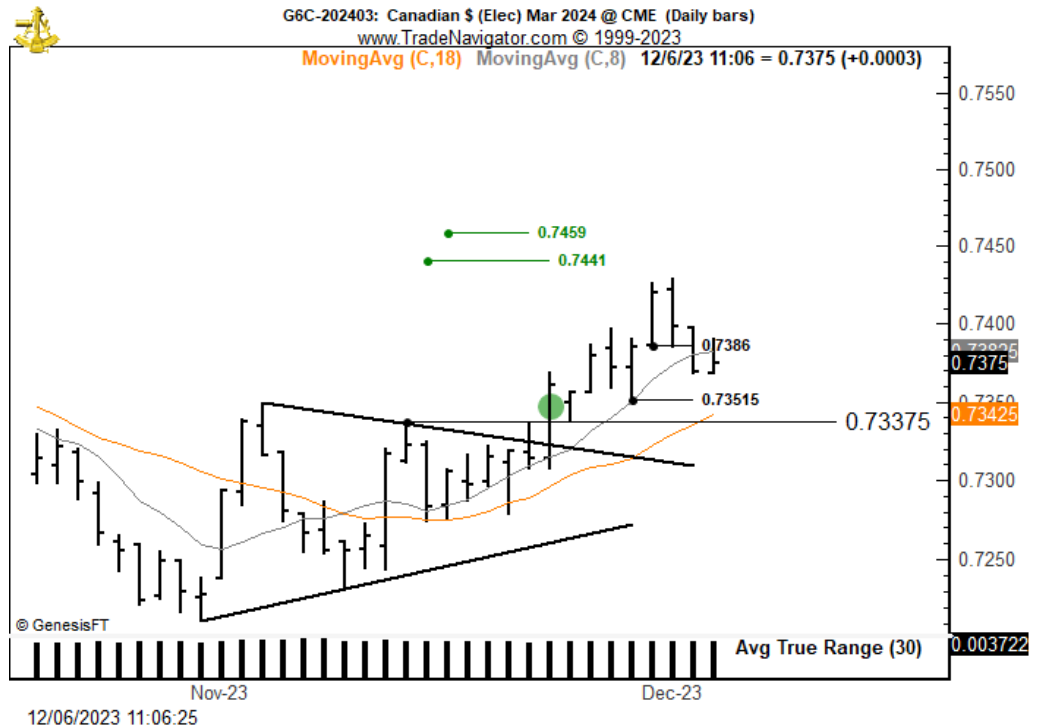
One final note. The exact details of a rules-based approach are far less important than the consistent adherence to the rules, realizing that optimization is an unachievable dream.

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