Enrico Racioppi' speech at Peter Brandt webinar 21 November 2024

Good morning to everyone, and thank you Peter to have invited me in your webinar.

The main point of discussion will be risk and emotional balance.

2% to 3% bet size highly correlated with emotional DDs.

More than 2-3%, let say the 5%/10% range in highly correlated with account destruction and with big EDD.

The starting point of my discussion is the following:

There is an inverse correlation between risk and emotional balance, and I could do two example from two masters of trading like PTJ and SD. There are 2 major example of the EDD.

1-first example on PTJ:

during an interview if I am not wrong it was Paul Tudor Jones talks to former Goldman Sachs' CEO Lloyd Blankfein, it was last 18th june 2018;

I remember that during an interview PTJ said "you have to do at least 100%", now what 100% means?

Back on the envelop calculation, let say that Peter Brandt, best in class in his sector, produce an average of 50% with a 1% risk on those trades that deserve the 1% risk (or even less 0.07 and 0.08).

Do the math and 100%/150% means 2%/3% range fo risk.

On the 2%, 3% range it is only a question of time then you will have problem (and he had problem).

He described his investment style like a street fighter style, and his is referring on how aggressive you have to be in all the trading process.

Tony Robbins (eb coach) Has Coached Paul Tudor Jones for 24 Years and PTJ pays over $1m a year plus a % on performances and PTJ emails him (TR) every day.

Now this is clear on how much pressure PTJ is still having in his investment process, and how from my experience the EB routine should be an in house process.

2-second example is SD last interview:

during last interview SD talks to Nicolai Tangen CEO of Norges Bank Investment Management, it was last 5th November 2024;

First point - SD discussed how he took a sabatican year (travelling South Africa with his family and cutting to zero the interactions with the markets), when he was having a partnership with GS; due to his EDD.

Second point – SD compared himself to GS "In baseball terms I had a very high batting average, he had a much higher slugging %.

However he carry on saying exactly the opposite, describing GBP 1992 trade he said:

After that Duquesne Capital fund was 100% GBP short, SD he moved to NY to discuss with GS.

GS was described as a bold trader, GS said it is one way bet, GS said when you have conviction you should bet really big. So GS advice was to move the funds to 200% short GBP (for example for $1bn fund it means $2bn nominal value of futures trade for each $1bn nav of the fund), that actually never happened.

According to my humble opinion if you have 2 funds 1 at 100% and the other at 200% leverage on a concentraded bet, same win rate, on l/t (also s/t and m/t) the 100% fund will have a higher profit factor, thus the 100% fund will be the best in term of risk adjusted return, no mather what the size ego says.

Conclusion:

Each of you can do his own sensitivity, in reality we are trading a specific mathematical law that could mean -3% of notional, small pause, and another -3%, thus on a 30% marginated account means -20%, on a 20% marginated account means -30%, and here you are your EDD is served.

Bear in mind that the trust arrive when you are already -3% on the notional.

We are into a marathon environment, and maybe you could need 4/6yrs for tuition fees, 1/2yr for the yes I can do it and its fine tunning and 6/10 yrs in order to reach the professional level (net of taxes and family budget) that will put you in the professional field. Once you are luckily there the aim should be close to the 1% or less in term of risk, and try to improve your slugging percentage.

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